
Working Paper 3

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This paper focuses on some economic implications of the ethnic conflict in Sri Lanka. It argues that the foregone economic growth due to the ethnic conflict is higher than hitherto acknowledged, defence expenditure has surpassed social expenditures in the past 6 years, defence expenditure as a proportion of the Gross Domestic Product in Sri Lanka is the highest in South Asia and in comparison to some other war-torn countries around the world and the labour-intensive military strategy pursued is economically very costly. The overall argument of the paper is that such high defence expenditures are the main cause of the economic woes of the country and therefore not sustainable in the long run. Thus, a peaceful resolution of the ethnic conflict is sine qua non for the economic betterment of the country.