

ENTREPRENEUR BUSINESS DEVELOPMENT

Entrepreneur Business Development and Its impact on Small and Medium Enterprises SMEs and Rural Development in Sindh

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ABSTRACT

This research investigates the entrepreneur Business development and its impact on of Small and Medium enterprises (SME's) in economic development in general and with reference to Rural Development in particularly, to analyze the export potential of Pakistani's SME's and its impact on the economy of Pakistan. Data were collected from 400 respondents in various parts of Sindh and other Provinces of Pakistan questionnaire was set to get the response from the SMEs. The response rater was 90% 180 samples were responded in this research. SPSS-18 version statistical software has been used to analyses the data. It was revealed that the export potential of SME's in Pakistan is much better than among third world countries but compare to developing world we are bit slow in developing export markets in the world. The strategic planning and resources should be needed for increasing export through SME's. The results showed that Pakistani' SME's using only small portion in the export of the SME's products where as other developing countries like Malaysia, Thailand, Japan they develop their economy through SME's. A survey was conducted in various districted of Pakistan and specially 60% from the interior Sindh province. Sample size was 200 and using simple random technique. The growth of SME in Pakistan is increasing in last decades and especially in the interior Sindh the women's are more actively participate in developing Small and Medium Enterprises business in Sindh. It was revealed the Government and private sector should encourage women's to participate more in developing SMEs in various parts of Pakistan.

Key words: SME, Export, Performance, Economy, Pakistan

INTRODUCTION

Pakistan is the seventh largest population in the world and one of the dense populated country in the world. Pakistan is recently facing lot of problems like unemployment, and slow growth in Agriculture we imported different agriculture related product from the world. Therefore, we have to look at sectors of the economy that have the potential to provide this employment, and simultaneously we have to ensure that the young are provided quality education and training for these more productive sectors of the economy. The greater growth potential lies in the modern high technology industries but it is also present in the labor-intensive industries of the traditional Small Enterprise sector and in the services that support it. "Young people in the future are more likely to end (therefore) should be working in organizations closer to the entrepreneurial mode" (Allan Gibbs).

It is a worldwide phenomenon that Small Enterprises are an important part of a nation's economic and social structure. "Enterprise is the antithesis of command and control". On a global perspective Small Enterprises have acquired a significant stature in the economic development of a country. Globalization has put Small Enterprises directly in the limelight. Small Enterprises are increasingly a major force for national economic growth. The entrepreneurs who drive them are receiving serious attention from economists, planners, multilateral agencies and governments all over the world (Carter, Camille. 1999).

1.1 CREATING SOCIO-ECONOMIC HARMONY

Undoubtedly SME's have a significant contribution to make to our economy. In the contemporary environment there are multidimensional and international pressures on SME have to perform effectively and efficiently. The free forces of the market have a tendency to create social and economic imbalances. It is expected that SME's will help to create a balance in ownership and across regions. SME's provide an economic force that will be able to harness available resources and utilize these most efficiently for the betterment of society (Hannah Galvin).

Whereas, the wave of western technology swept aside local skills, appropriate technology, herbal medicines, natural environment and conventional wisdom, SME's have the potential and the capacity to re-harness these and bring them back into the main stream of the economy. SME's can give personalized service and create customer satisfaction. SME's can cater to the niche markets and break the mass production barriers by catering to the smaller production economy.

Increasing pressures brought on by globalization through product or technology obsolescence, information and communication, technology and flow of capital and assets have created the environment for rapid change. This change can be seen in the realignments and creation of strategic alliances, sub-contracting, private public partnerships, deregulation, and privatization; all of which are now recognized as the reasons behind the emerging small enterprise force for socio- economic harmony.

1.2. The Emergence of the Small Enterprise Force

We need to look into some of the factors that have fostered the emergence of SME's. Our understanding of free markets leads us to believe that privatization must be carried out because the market is the more efficient guide to decision making. Government interference is generally inefficient. Our observation tells us that only private enterprise can be relied upon to innovate, to satisfy customers and to produce efficiently.

By the beginning of the nineties the move back to the market based policies and reforms had been accepted globally. Privatization brought with it the techniques of writing off past debts, allocating shares to workers, splitting monopolies, unbundling and creating space and leaving only those core functions to survive that could be sustained by the markets. This generally required downsizing, setting up SME's and creating laws and regulatory measures to cope with the phenomena. It invigorated the ailing economies of the 1980s and thus reinforced the confidence in the market economy.

The growth of SME's cannot be explained by any single ideology (e.g. Thatcherism). Alan Gibbs attributes this phenomena's growth partly to the growth of the service sector and the boom in the information communication technology. Evidence from a cross section of countries from Europe and Asia supports this observation.

Going international" used to be the domain of large firms only but this is no longer so today. Small and Medium-sized enterprises (SME's) that makeup the small industry sector are beginning to penetrate the international market. Going international has allowed SME's to tap new markets, overcome domestic constraints, and keep abreast of new trends in technology. However, these firms do face problems when venturing into foreign markets. These include different languages and cultures, disparate business environments, entry barriers, limited financial resources, lack of marketing information and skills, lack of supportive government policies for small industry, lack of good distribution networks and mental blocks. (Ho Lin Hoon)

1.2. Export Assistance Programs

There is a need to come out of the export awareness program syndrome. Up gradations of training programs are required. These programs must be designed around the growing need to understand markets and the WTO implication. Repeating the some programs over and over again is shear waste. Export education and assistance are offered to companies through numerous public private sector programs the effectiveness of such program is reduced because of unnecessary duplication of efforts. Often the credibility of such

Program may be perceived by companies to be limited because of their nature e.g. narrow in coverage or not rigorous enough. Similarly coordination between various government agencies in ex-assistance is needed. A healthy partnership must be sought with education institutions, trade associations, chambers of commerce, world

trade clubs, business development centers and other groups. SMEs has not always enthusiastically sought out assistance from agencies.

The perceived credibility of the agency has been the barrier. Often when SMEs do not view agencies as providing practical and affordable assistance and prescripts in an effective and timely manner, they have been reluctant to approach them..

Developing Countries Policies for, SMEs

1. SME Development in Turkey and Modalities of Intervention as was the practice of most countries; Turkey also practiced a state directed economy from its inception 1923. Hoping to achieve rapid industrialization it followed import substitution policy and relied on State Economic Enterprises, because it was the common belief that economic growth depended on heavy investment in large, capital-intensive industrial projects. Not withstanding the imbalance of such a policy there was considerable growth of approximately 7% per annum. However true to the world pattern the growth declined in the 1970s and a new trend emerged in the 1980s. It was the trend based on free market economy and hence structural reforms were undertaken to give the economy a new shape.

2. Data Collection and Research Methodology

Data were collected from 400 respondents in various parts of Sindh and other Provinces of Pakistan questionnaire was set to get the response from the SMEs. The response rater was 90% 180 samples were responded in this research. SPSS-18 version of statistical software has been used to analyses the data.

Table-1. SMEs growth in exports from 1994 to 2009

1993-94	2063.11
1994-95	2522.64
1995-96	2960.51
1996-97	3279.76
1997-98	3764.55
1998-99	3938.43
1999-00	4471.52
2000-01	5427.81
2001-02	5652.54
2002-03	6552.37
2003-2004	7569.29
2004-2005	8603.40
2005-06	9060.21
2006-2007	1156.90
2007-08	1328.5
2008-09	14456
2009-	15434.8

Survey-2010

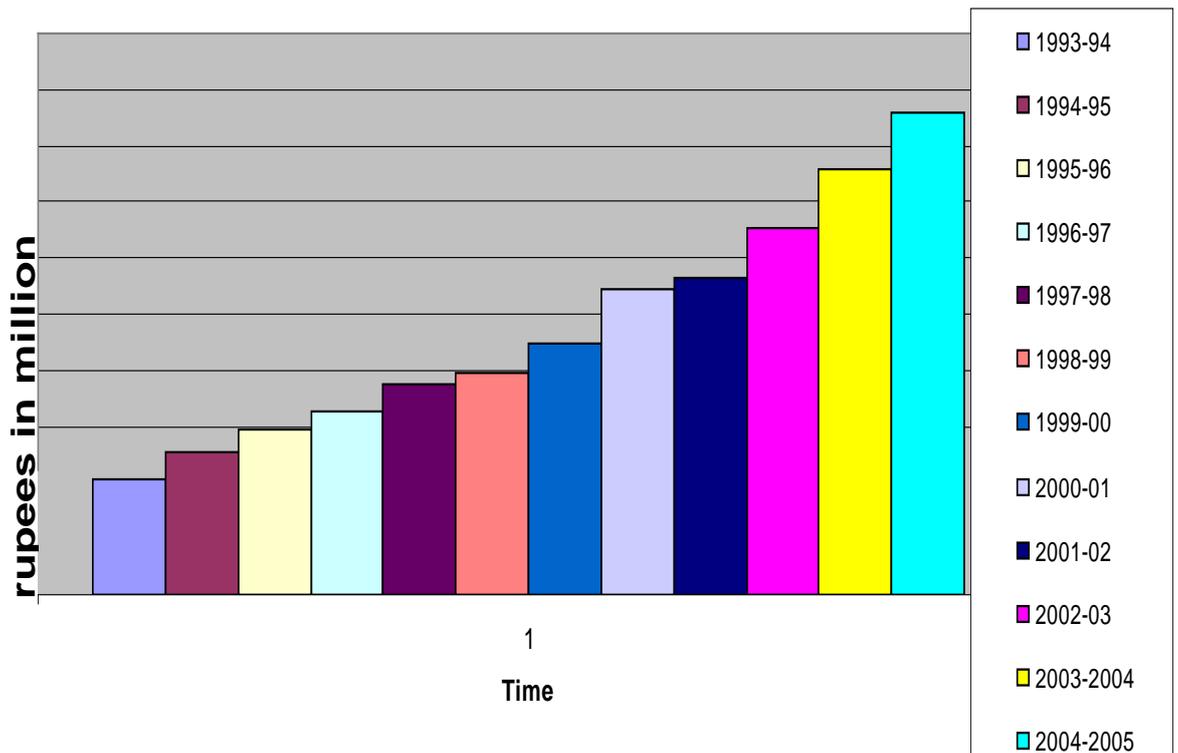


Table-2/ Economic Importance of SME's Export in Pakistan

Sub-sectors	Percentage Share
Cotton Weaving	13 %
Other Textiles	6 %
Metal Products	7 %
Carpets	4 %
Art Silk	5 %
Grain Milling	16 %
Jewelry	4 %
Wood & Furniture	10 %

Source: Economic Survey of Pakistan, 2004-05

3. RESULTS AND DISCUSSIONS

We believe that in order to be able to “rescue” the SMEs from these difficulties, there is needed a differentiation of the labor regulations according to the size of the enterprises, thus, setting the SMEs free from the burdening administrative obligations. SMEs play an important role not only in the creation of new work places and in the economic development but also in the community. About 50% of the Pakistanis SMEs are involved in activities associated to external social responsibility. The larger the company, the more intense is its social involvement. Supporting activities related to sports, culture and health is the most frequent external activity of the SMEs carried out for the community benefit. Still, the majority of such activities are occasional, not being related to the companies’ strategies; the main motivations of such activities are: ethics, relations with the community, customer loyalty, relations with the business partners, employees’ satisfaction, economic performance, behavior or conduct code, and the pressure of the tertiary parties. The global image of Pakistan’s economic situation offers today the picture of several positive aspects – pillars of future development – but, at the same time, also the image of a yet dissatisfying evolution. There have been finished the adoption and implementation of several legislative and administrative measures, aiming to strengthen the institutional and organizational capability of the Pakistani business environment in order to make it compatible with the one in the Pakistan. The legal framework of the financial and fiscal system has also been improved in order to strengthen financial discipline and to stimulate investors and entrepreneur. There have been adopted legislative measures meant to encourage SMEs to reinvest their profits in the consolidation and development of their businesses. Internal credit has

been revitalized and capital market was activated. SMEs' access to financing sources was improved, especially through programs of the Pakistanis Community. There were institutionalized partnership relations between the sectors of the SMEs and cooperation. [Carta Albă a IMM-urilor din România 2006] Despite all of these valuable fulfillments, only one third of the SMEs consider that the Pakistani business environment is favorable to businesses; this appreciation reveals the fact that many entrepreneur still are dissatisfied with the environment where they carryout their activity, in spite of all of the evident efforts made by Pakistan to create a functional market economy. Likewise, regarding the future development of the Pakistani economic environment, half of the SMEs estimate that this will be favorable to their business activities, fact that denotes their faith in a positive, favorable economic evolution as SMEs growth. Approximately 40% of the Pakistani SMEs consider the adherence to the PAKISTAN to be a major opportunity for the activities they carryout, having in view: the better access to markets, the improved legislation, the existence of better and cheaper suppliers, more access to new technologies, more correct and transparent public acquisitions, better cooperation in innovation, etc. Despite all of these, about one third of our SMEs perceive the adherence as a major threat, having in view the inherent difficulties that are generated by the alignment to the Pakistani standards and requirements. [Carta Albă a IMM-urilor din România 2006] Experience proves that SMEs' functionality and efficiency are strictly dependent on their capability to anticipate and prepare the future, fact that means that strategic thinking and planning have in their case a primordial importance. Nowadays, a little over a half of the Pakistani SMEs (51%) draw up annual plans and policies, and only 12% elaborate strategies, while 37% do not have any planning activities. If we take into consideration the fact that one Pakistani SME out of six elaborates and implements strategies, we may understand why, from the point of view of their competitiveness, Pakistani SMEs are situated under their corresponding organizations from the developed countries.

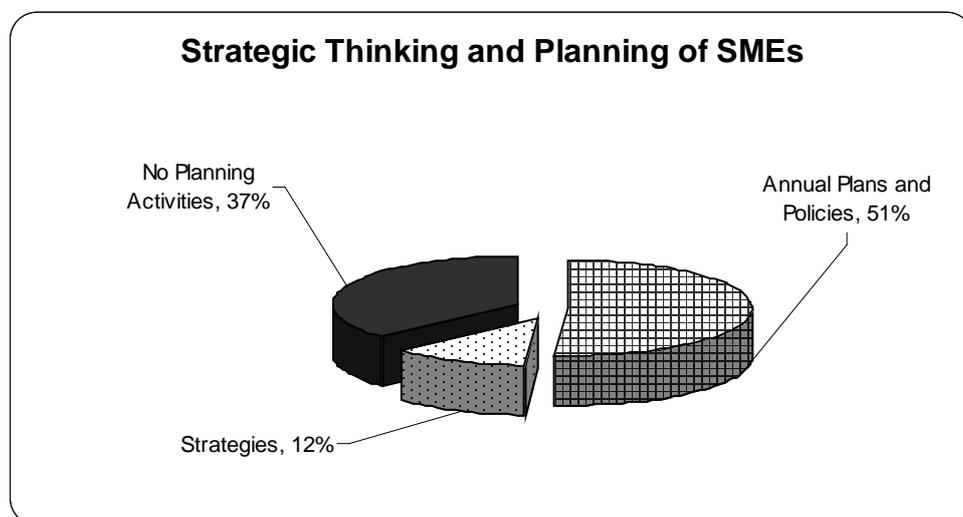


Figure N^o 1. SMEs' Strategic Thinking and Planning-2009

Research studies carried out within the Sindh province have revealed the fact that a continuously increasing quota of the SMEs feels the need of elaborating formalized entrepreneur Pakistani strategies. The fast and intense internationalization of the activities, in general, and of the economy, in particular, substantially amplifies the need of elaborating and implementing strategies in an international perspective, of all types of firms, including SMEs. It is interesting to notice that most of the small companies which draw up and implement annual plans carry out activities in the industry, due to the fact that the profile of their activity usually raises the need for an anticipative vision regarding the progress of their businesses. On the contrary, tourism SMEs have the highest percentage of enterprises that draw up strategies (20%), while construction SMEs have the lowest percentage of enterprises with a strategic approach (9.64%). Half of the small commercial SMEs do not draw up any plans or policies, not even annual ones, strategic approach lacking here in almost any case. By analyzing the performances of the SMEs, we may observe the existence of very strong direct correlations between these and the planning activity; the most performing companies are, of course, those that draw up and implement plans, that make efforts for predicting their activities.

Over a half of the Pakistani SMEs have established an objective of moderate expansion of their business, for the near future; about a quarter of them have as major goal to maintain the business at the current dimensions; while only 12.13% of them intend to rapidly extend their business. It is a glad fact that only 1.4% of the SMEs' owners intend to sell their business, and only 0.6% of them take into consideration the close down of the business. These figures prove the fact that the large majority of the Pakistani SMEs are relatively steady or even mature businesses, some of them creating the core of the future large companies. [Carta Albă a IMM-urilor din România 2006] Taking into consideration the fact that the competitive advantage that SMEs build in opposition to their competitors, decisively conditions their performances and functionalities, it becomes extremely important to plan and draw up such advantages. More than a half of the SMEs count on the competitive advantage offered by the quality-price quota, and approximately a third of them has chosen the low price strategy. Other competitive advantages our SMEs pursue are: enterprise reputation, professional training of the employees, post-sale services, distribution channels, innovation capability, relations with the political and economic environment. To conclude, most of the Pakistani SMEs are oriented towards differentiation through quality and convenient selling prices for their customers. It is surprising to notice that a small proportion of the SMEs (5.13%) consider innovation to be a major competitive advantage, especially under the conditions in which international experience shows that this is almost the only source of a long-lasting and consistent advantage, through the renewal of the: products, technologies, equipments, management, selling policies, distribution, etc. Innovation efforts of the SMEs mainly focus on new products (40%) and new technologies (23%) but very few of them focus on new management and marketing approaches (under 22%). Almost a quarter of the SMEs do not allot innovation any percentage of their investments, this is mainly the case of the enterprises from the field of services. Within one fifth of the SMEs there exists a very scarce concern for introducing into fabrication and

merchandising of international novelties. For only 8% of the SMEs the turnover derives, in a proportion higher than 50%, from new or renewed products or services. From this point of view, the worst situation is met in the case of the SMEs in constructions. [Carta Albă a IMM-urilor din România 2006]

Keeping in mind the fact that society, in general, rapidly orients towards knowledge-based economy, organization and management, it is important to watch the measure in which entrepreneur Pakistani and decision-making persons from the Pakistani SMEs are familiar with these concepts. Unfortunately, one may notice that more than half of the Pakistani SMEs are not familiar with the concept of knowledge-based economy/company; this aspect is worrisome especially if we take into consideration the fact that one of the fundamental objectives established at the Lisbon PAKISTAN Summit consists of establishing knowledge-based economy in all member countries until 2010. Thus, we believe that Pakistani political actors ought to substantially get involved in becoming aware of the fact that the change to the new type of economy is imminent, and also in implementing strategies and policies for establishing it.

The conclusions presented in the coming section have resulted after a research study, based on an interview realized by the authors among small entrepreneur Pakistan.

If we were to make a comparison between the fundamental cultures of small and large companies, we would be able to identify a series of essential specificities that actually prove that the cultural pattern of big companies is actually totally inappropriate and even harmful to small businesses. Big corporations may employ specialists for carrying out managerial and administrative functions: staff, remuneration, selling, marketing, supplying, delivering, financial, etc. On the contrary, the proprietor-manager needs to carry out him/herself these tasks, without enjoying the support of any specialist. Thus, in his/her case the stress should be put on enlarging knowledge and abilities, as opposed to specialized expertise and knowledge available in large companies. Large enterprises draw up corporative strategic plans, in which they specify medium and long term objectives. These plans are generally elaborated at top managerial levels (strategic) and are implemented by middle managers (tactic), who supervise the operational personnel who take decisions day by day. In the case of small enterprises, strategic thinking and planning presently appears quite seldom. Until the moment when the small company reaches a certain stability level, its crucial concern is survival. Therefore, its attention concentrates on short term actions and the manager-proprietor does not have any time for strategic planning and does not even grant any attention to this activity (“Why should I make any long-term plans if next year I might be forced to quit this business?!”).

Big companies invest on a constant basis in the formation and perfection of their personnel but in the case of small firms this concern only appears once, when the enterprise is established (in the best case!), because of the fact that training offers them only a small reward (a modest increase of the sales or a small reduction of costs) under the conditions of

the invested time and effort. If a manager-proprietor sends an employee to a training or decides to attend one him/herself, it is very unlikely that he/she will find some presents lost incomes, fact that makes the cost allotted to personnel training to be critical for a small business. In spite of all of these, we still believe that if the manager-proprietor is not concerned with assimilating basic skills and knowledge needed for business survival, then, for sure, such a manager does not deserve to survive in business. Generally, manager-proprietors have had the status of employees before having converted to entrepreneur in Pakistan, and they tend to be very independent (“I am my very own master!”), refraining from receiving any advice concerning the manner how they should organize and lead their business. The matter becomes critical especially when there appears a problem the manager does not know how to handle and the manager-proprietor does not have any experts whom he/she can consult with. Under these circumstances he/she makes his/her choice for an immediate practical solution or for the cheapest short-term solution but, in most cases, this turns out to be a disadvantage for the company’s long-term needs. One able to replace him/her while missing (the manager-proprietor is very often mistaken for the business itself!). As a consequence, the time “lost” with the training, actually re

Keeping in mind all of the above-mentioned facts, we consider that a serious problem of the Pakistani SMEs’ management is the reduced percentage of the companies that resort to external consultation (not even 20%), although to carry out performing activities is conditioned, especially in the case of SMEs, by the entrepreneur Pakistan consultation, especially in fields such as: financial, managerial, judicial, marketing, technical, human resources, and information. This situation is worrisome if we have in view the fact that the similar SMEs use this opportunity very intensely, aiming to improve the contents and efficiency of their innovative processes. A considerable difference consists of the access to financing sources of the different types of enterprises. Thus, we may notice that financial resources that can be accessed from banks and financial institutions tend to be far too restrictive in the case of small firms compared to large companies: the interest rates tend to be too high and the provided financial sums are too modest as compared to the needs. Newly created small enterprises do not possess any negotiation power when it comes to the interest rates or to the terms of the loan, thus having a strategic position of “subordinates” to the actors of the financial market.

The political, legal and fiscal environment in which small companies’ carry out activities permanently changes, and bureaucracy becomes a more and more important burden for them, as we have shown above. Large corporations can face the pressures of the environment without any difficulties but the stress put on SMEs is disproportionate in terms of their turnover and profitability. Pakistan’s adherence to the PAKISTAN has considerably raised this bureaucratic burden. Global experiences indicate the existence of a three-phase pattern of the development of small businesses. [Butler, 2005; Gerber, 2003] The first phase consists of the business start up (childhood) and lasts between six months and three years, despite the fact that some small companies continue to struggle for survival for five years or even longer periods of times until they reach stability. Thus, in this phase stress is put on

survival and on the struggle to reach the breakeven and profitability point before having consumed the entire limited capital. The entrepreneur personal objectives focus on diminishing their personal financial exposure, especially in those cases when credits are guaranteed with their personal homes. Managerial decisions are taken at an operational level, based on short-term incomes, without any basic strategic thinking. In this phase, a critical threat consists of the fact that the manager-proprietor does not have employees whom he/she might delegate some of the managerial work, and, thus, the manager ends up working more and more, taking care him/herself of all aspects, running him/herself all tasks, and neglecting almost entirely the general management of the business.

Then follows the phase of relative stability (adolescence), from the moment when the manager-proprietor decides that he/she cannot solve everything on their own, that they need help. The firm has exceeded the breakeven point and inside the business there exists the opportunity of a period of time of stabilization and consolidation, that would eventually lead to the further development and growth of the business. The manager-proprietor delegates the operational decisions to some specialized technicians, while he/she dedicates his/her time to the solving of general management problems: increase of profitability, diminishing of exploitation expenditures and of losses, selection of suppliers and customers, etc. The survival issue yields in the favor of the concerns to increase profitability and to decrease the company's manager personal financial exposure. The manager-proprietor focuses his/her energy on maintaining healthy profitability margins in order to be able to obtain a return from the invested capital and a premium for the personal effort put into the business. There also exists a focus on the needs of the customers in the view of gaining their loyalty, simultaneously with the efforts of improving standards and quality within the business.

International experience reveals that many small enterprises have as main goal to reach this phase of relative stability and do not have any ambition to exceed the level of fundamental comfort that means to continue growing. Despite the fact that in the adolescence phase we cannot yet mention a strong strategic thinking, still there takes place the progressive movement from short-term operational thinking towards the medium-term tactical thinking. Small enterprises that successfully overcome the adolescence phase begin to grow and to develop. We may point out that it is about: planned expansion of market share, of turnover and of profitability. From this point forward, the business manager-proprietor targets a consequent expansion of his/her personal power and influence.

4. CONCLUSION:

Small and Medium enterprises play a vital role in the development process of developed and under developing countries, Japan, Korea, Taiwan Malaysia. In the 21st century, export industries will concentrate more on creativity and responsiveness to market and technology change. This paper has examined the set of policy and strategy alternative for the support of SME's export business in Pakistan and comparison with under developing countries. The issue of personal financial risk is no longer a main concern; the entrepreneur adopts an adventurous attitude on the market, targeting segments not yet exploited. There become available development funds for the further growth of the business, financial pressure decreasing significantly. There is acknowledged the need of changing managerial practices in order to facilitate further growth. Delegation becomes the key factor that makes expansion possible, being accompanied by the import or development of new managerial abilities, and providing the possibility of using systems improved by delegation. Decisions that are taken are mainly strategic and tactical ones, the operational decisions being more and more delegated to the inferior hierarchic levels.

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