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Sri Lanka: Background and U.S. Relations

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Summary

Sri Lanka is a constitutional democracy with relatively high educational and social standards. The country's political, social, and economic development has been seriously constrained by two decades of ethnic conflict between the majority Sinhalese and minority Tamil ethnic groups. Since 1983, a separatist war costing some 64,000 lives has been waged against government forces by the Liberation Tigers of Tamil Eelam (LTTE), a well-organized rebel group that has been seeking to establish a separate state in the Tamil-dominated areas of the north and east.

The current Norwegian-brokered peace process has produced notable successes, though it was suspended by the LTTE in the Spring of 2003 due to differences over interim administration arrangements. In February 2002, a permanent cease-fire was reached and generally has been observed by both sides though recent violations have been reported. In September 2002, the Colombo government and the LTTE held their first peace talks in seven years, with the LTTE indicating for the first time that it is willing to accept autonomy rather than independence for Tamil-majority regions. The two sides have agreed in principle to seek a solution through a federal structure. Political rivalry between President Chandrika Kumaratunga, who leads the opposition Peoples Alliance (PA) party, and Prime Minister Ranil Wickremesinghe, head of the United National Front (UNF), has hindered peace efforts. Government troops continue to occupy large swaths of Tamil-speaking territory and there remains doubt about the willingness of the LTTE to renounce the use of force and disarm. The United States designated the LTTE as a Foreign Terrorist Organization (FTO) in 1997 and demands that the Tigers lay down their arms and forswear the use of force before that status can change.

U.S. policy supports efforts to reform Sri Lanka's democratic political system in a way that provides for full political participation of all communities; it does not endorse the establishment of another independent state on the island. In August 2002, S.Res. 300 expressed the U.S. Senate's encouragement of the Sri Lanka peace process. The United States regarded as "extremely positive" the December 2002 announcement that parties to the Sri Lanka conflict have agreed to seek settlement through establishment of a federal governmental structure. The Bush Administration has vowed to play a role in multilateral efforts to settle the conflict and to assist in the rebuilding of war-torn areas. The United States and Sri Lanka signed a new Trade and Investment Framework Agreement (TIFA) in 2002, and U.S. trade-related bodies have since been active in efforts to boost bilateral ties. The two countries also maintain military-to-military relations. This report will be updated periodically.

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Sri Lanka: Background and U.S. Relations

This report¹ provides historical, political, and economic background on Sri Lanka and examines U.S.-Sri Lankan relations and policy concerns. Congressional interest in Sri Lanka focuses on the current peace process that seeks to end a two-decade-old civil war as well as on terrorist activity, human rights, and U.S. appropriations for food, economic, and military assistance.

SRI LANKA IN BRIEF

Population: 19.7 million (2003 est.); *growth rate:* 0.83% (2003 est.)

Area: 65,610 sq. km. (about size of West Virginia)

Capital: Colombo

Ethnic Groups: Sinhalese 74%; Tamil 18%; Arab 7%; other 1%

Language: Sinhala (official and national language); Tamil (national language); English widely used

Religion: Buddhist 70%; Hindu 15%; Christian 8%; Muslim 7% (1999 est.)

Life Expectancy at Birth: 72.62 years (2003 est.)

Literacy: 92.3% (2003)

Gross Domestic Product (at PPP): \$73.7 billion; *per capita:* \$3,700; *growth rate* 5.2% (2003est)

Inflation: 9.6% (2002)

U.S. Trade: exports to U.S. \$1.81 billion; imports from U.S. \$172 million (2002) 38.7 % of exports go to the United States (2001)

Sources: CIA World Factbook; U.S. Department of Commerce; World Bank; Economist Intelligence Unit; Global Insight

Recent Developments

The peace process in Sri Lanka continues despite violations of the cease fire and uncertainty surrounding how the government's recent offer to get the LTTE back to the negotiation table will be received. In September 2003, Norway and Japan headed an effort to revitalize the peace process in Sri Lanka and get the Sri Lankan government and the LTTE negotiating again. The LTTE pulled out of the peace negotiations on April 21, 2003. This prevented a seventh round of peace talks from taking place in Thailand that was set to begin on April 29, 2003. The Japanese and Norwegian efforts are aimed at keeping the faltering peace process between the LTTE and the Sri Lankan government from devolving back into further conflict.

There have been a number of incidents of concern since the cease fire was declared. Reports indicate that since the beginning of the cease fire, the LTTE has killed a number of rivals, informants, and intelligence officers.² On August 6, the U.S. State Department "noted with concern" that the LTTE was "undermining confidence in the peace process" by maintaining a military camp near Trincomalee

¹ This report is based largely on the previous work of Alan Kronstadt, analyst in Asian Affairs.

² Amal Jayasinghe, "Violence Against Muslims Adds to Sri Lanka Peace Bid Worries," *Agence France Presse*, August 19, 2003.

and by conducting “political assassinations.”³ The Sri Lankan Muslim Congress, which is a constituent of the UNF, has also accused the LTTE of killing Muslims in the east.⁴ The LTTE has defied the Norwegian-led Sri Lanka Monitoring Mission (SLMM) by refusing to dismantle the Wan Ela camp near Trincomalee. The SLMM had ruled that the LTTE had breached the cease fire agreement by setting up the new camp.⁵ On June 14, a Sri Lankan naval patrol intercepted a vessel suspected of running guns for the Tigers.⁶

The recent peace initiatives by Norway and Japan followed an August meeting of the Tigers with their constitutional experts in Paris. The meeting was part of the Tigers’ effort to respond to a July 17 Sri Lankan government proposal for an interim administration in the northeast of Sri Lanka. This was a major concession by the government to Tiger demands which were a prerequisite for further talks.⁷ For their part, the Tigers had previously made the key concession that they would settle for an autonomy agreement rather than their previous goal of a separate state. Despite these concessions by both sides, a peace agreement is not guaranteed. The LTTE has indicated that they will once again seek secession and an independent state if substantial autonomy is not achieved through the negotiation process.⁸

The government is split between more conciliatory elements, represented by Prime Minister Ranil Wickremesinghe, and a hardline faction, represented by President Chandrika Kumaratunga. Kumaratunga has recently floated the idea of delinking the eastern province from the Tamil dominated northern province in response to recent attacks against Muslims in the east which are thought to have been committed by the LTTE. This move to split the two provinces would anger the LTTE. The LTTE is also displeased by recent government efforts to recruit more Muslims into the police force. It was hoped that the LTTE would respond to the government’s offer and rejoin peace negotiations by the end of September 2003.⁹ An earlier proposal for an interim administration in June 2003 was rejected by the LTTE. The government is also having difficulty making offers as it is thought that a constitutionally viable solution will require the consent of the more hardline opposition in the government led by the President who has gone on record as opposing further concessions to the LTTE.¹⁰

In a further development in September 2003, hardline Tiger guerilla S.P. Thamilselvan replaced the more intellectual and moderate Anton Balasingham as the

³ “U.S. Notes with Concern LTTE Camp and Political Assassinations,” State Department, Press Release, August 7, 2003.

⁴ V.S. Sambandan, “Sri Lanka to Step up Security in the East,” *The Hindu*, August 22, 2003.

⁵ Amal Jayasinghe, “Tigers Defy Scandinavian Monitors,” *Agence France Presse*, August 8, 2003.

⁶ Amal Jayasinghe, “Double Blow to Sri Lanka Peace Bid,” *Agence France Presse*, June 14, 2003.

⁷ Amal Jayasinghe, “Norway to Make Fresh Bid to Revive Sri Lanka Peace Process,” *Agence France Presse*, September 3, 2003.

⁸ Amy Waldman, “Sri Lanka to Explore a New Government,” *The New York Times*, December 6, 2003.

⁹ “Tamils Begin Paris Talks on Sri Lanka Peace Offer,” *Agence France Presse*, August 21, 2003.

¹⁰ Voice of America, “Sri Lanka Peace,” *Federal News Dispatch*, June 20, 2003.

lead negotiator for the Tigers in the lead up to the next round of negotiations. Thamilselvan is also known as “the Cobra.” Thamilselvan rose through the ranks from being LTTE leader Velupillai Prabhakaran’s body guard to Tiger commander on the Jaffna Peninsula before shifting to the political side of the LTTE.¹¹

The international community has made an effort to support the peace process by offering inducements for peace. An international donors conference held in Tokyo in mid June 2003 obtained aid pledges for Sri Lanka totaling \$4.5 billion. One billion of the \$4.5 billion was pledged by Japan over the next three years. Some 51 nations and 20 international institutions participated in the conference, though the LTTE boycotted it.¹² Later in June, the World Bank approved a loan of \$125 million to assist Sri Lanka for poverty reduction, reconstruction in the northeast and to support the peace process.¹³ Deputy Secretary of State Armitage expressed his support for the peace process at the Tokyo conference by asking the LTTE to end their boycott of the talks.¹⁴

Historical Setting

Once a port of call on ancient maritime trade routes, Sri Lanka is located in the Indian Ocean off the southeastern tip of India’s Deccan Peninsula. The island nation was settled by successive waves of migration from India beginning in the 5th century BCE. Indo-Aryans from northern India established Sinhalese Buddhist kingdoms in the central part of the island. Tamil Hindus from southern India settled in the northeastern coastal areas, establishing a kingdom in the Jaffna Peninsula. Beginning in the 16th century, Sri Lanka was colonized in succession by the Portuguese, Dutch, and English, becoming the British crown colony of Ceylon in 1802. In the late 19th century, Tamil laborers were brought from India to work British tea and rubber plantations in the southern highlands. Known as Indian Tamils, the descendants of these workers currently comprise 6% of the population, while descendants of earlier Tamil arrivals, known as Sri Lankan Tamils, constitute 12% of the population.

Although Ceylon gained its independence from Britain peacefully in 1948, the succeeding decades have been marred by conflict between the country’s mostly Buddhist Sinhalese majority and predominantly Hindu Tamil minority. Following independence, the Tamils — who had attained educational and civil service predominance under the British — increasingly found themselves discriminated against by the Sinhalese-dominated government, which made Sinhala the sole official language and gave preferences to Sinhalese in university admissions and government jobs. The Sinhalese, who had deeply resented British favoritism toward the Tamils, saw themselves not as the majority, however, but as a minority in a large Tamil sea that included the 50 million Tamils across the strait in India’s southern state of Tamil Nadu. In 1972, Ceylon was renamed Sri Lanka (“resplendent land”), as it was known in Indian epic literature.

¹¹ Scott McDonald, “The Cobra Rears its Head in Sri Lankan Peace Bid,” *Reuters*, September 2, 2003.

¹² “Donors Pledge \$4.5 Bill for Sri Lanka Peace,” *Ji Ji Press*, June 10, 2003.

¹³ “World Bank Gives \$125 Million,” *Agence France Presse*, June 18, 2003.

¹⁴ “U.S. Asks Tamil Tigers to Resume Talks with Sri Lankan Government,” *BBC Monitoring News File*, London June 13, 2003.

Political Situation

Sri Lanka's political life has long featured a struggle between two broad umbrella parties — the Sri Lanka Freedom Party (SLFP) and the United National Party (UNP) — both dominated by prominent family clusters. Since independence, the two parties have frequently alternated in power. Initially, Sri Lanka followed the Westminster parliamentary model. In 1978, however, the UNP instituted a strong executive presidential system of government. Under this French-style system, the popularly elected President has the power to dissolve the 225-member unicameral parliament and call new elections, as well as to appoint the prime minister and cabinet. President Chandrika Kumaratunga — leader of the SLFP and daughter of two former prime ministers — was re-elected to a second six-year term in December 1999, three days after she lost vision in one eye in a Tamil separatist suicide bombing that killed 26 and injured more than 100.

Although Kumaratunga's People's Alliance (PA) coalition won a narrow victory in the October 2000 parliamentary elections, a year later she was forced to dissolve parliament and call for new elections in order to avoid a no-confidence vote. In the resulting December 2001 parliamentary elections, the UNP won 109 seats (to 77 for the PA) and formed a majority coalition — called the United National Front (UNF) government — with the Tamil National Alliance (15 seats) and the Sri Lanka Muslim Congress (5 seats). UNP leader and Prime Minister Ranil Wickremesinghe pledged to open talks with the Tamil rebels and to resuscitate the ailing Sri Lankan economy.¹⁵

Ethnic Conflict

The combination of communal politics, as practiced by both Sinhalese and Tamil political leaders, and deteriorating economic conditions created deep schisms in Sri Lankan society. By the 1970s, the government was facing Tamil unrest in the north and east, while a Sinhalese Marxist group waged a terrorist campaign in the central and southern regions. Periodic rioting against Tamils spawned the creation of militant Tamil groups that sought to establish by force a Tamil homeland that would include the Northern and Eastern provinces. The Liberation Tigers of Tamil Eelam, led by its charismatic founder and chief strategist Vellupillai Prabhakaran, emerged as the strongest and best organized of these groups.

A full-scale separatist war broke out in the north following July 1983 riots in which several thousand Tamils were killed in retaliation for the slaying of 13 Sinhalese soldiers by Tamil militants. Two decades of war have claimed some 64,000 lives and displaced between 800,000 and 1.6 million people. LTTE forces, estimated at up to 10,000 men and women in strength, are armed with long-range artillery, mortars, and anti-aircraft weapons, and control portions of the Northern Province and some coastal areas of the Eastern Province. A small but effective naval contingent, known as the Sea Tigers, includes speedboats, fishing vessels, and underwater demolition teams. Weapons reportedly have been obtained through illegal arms markets in Burma, Thailand, and Cambodia, and from captured Sri Lankan forces. Financial support for the LTTE reportedly has come from the

¹⁵ Dayan Candappa, "New Sri Lanka Premier Sworn In Pledging Peace," Reuters News, December 9, 2001.

worldwide diaspora of Tamil emigres, as well as from smuggling and legitimate businesses. Tamil Tiger suicide bombers are believed responsible for the assassination of numerous Sri Lankan political leaders, including Sri Lankan President Ranasinghe Premadasa in May 1993, and many moderate Tamil leaders who opposed the LTTE. Former Indian Prime Minister Rajiv Gandhi, whose efforts to assist Sri Lanka in enforcing a peace accord with the Tamils in 1987 ended in the deaths of over 1,000 Indian troops, was assassinated in May 1991 by an alleged LTTE suicide bombing.¹⁶ One leading scholar claims that the LTTE is responsible for fully half of all suicide attacks worldwide in recent years.¹⁷ Four previous attempts at a peaceful settlement ended in failure and violence.

Peace Process

Progress

The current Norwegian-brokered peace effort, which began in 1999, has produced notable success since Prime Minister Wickremesinghe revived the process upon taking office in late-2001. In February 2002, a permanent cease-fire was reached and, despite several incidents of alleged violations, has since been observed by both sides. In addition, confidence-building measures called for under the cease-fire have been implemented. In April, LTTE leader Prabhakaran emerged from hiding for his first press conference in 12 years and suggested for the first time that the LTTE would be willing to settle for less than full Tamil independence. In September 2002, Sri Lanka lifted its 1998 ban on the LTTE, a move which the Tigers had demanded as a pre-condition for peace talks. Buddhist clerics and the JVP, however, have opposed negotiating with the LTTE.¹⁸

In September 2002, at a naval base in Thailand, the Colombo government and the LTTE held their first peace talks in seven years. The meeting, which resulted in an agreement to establish a joint task force for humanitarian and reconstruction activities, was deemed successful by both sides. On the third day of talks, the LTTE announced that it would settle for “internal self-determination” and “substantial regional autonomy” for the Tamil population rather than full independence — a major shift in the rebels’ position. A second round of talks in October-November 2002 brought another breakthrough when the two sides agreed on a framework for seeking foreign aid to rebuild the country (officials estimate that repairing the war-damaged infrastructure in the island’s northeast could cost as much as \$500 million¹⁹). A multilateral “donor conference” in Oslo in late November brought

¹⁶ Many Indians are intent on seeing top LTTE leaders, including Prabhakaran, extradited to India to stand trial for the death of Rajiv Gandhi (see V.S. Sambandan, “Looking Beyond the Peace Talks,” *Frontline* (Madras), April 11, 2003).

¹⁷ Cited in Amy Waldman, “Suicide Bombing Masters: Sri Lankan Rebels,” *New York Times*, January 14, 2003.

¹⁸ Amal Jayasinghe, “Sri Lanka Lifts Ban on Tigers Ahead of Thai Talks,” Agence France-Presse, September 4, 2002.

¹⁹ “Sri Lankans in Reconstruction Talks,” BBC News, November 18, 2002. Large numbers of Tamil refugees have already begun returning to the war-torn region since the February 2002 cease-fire (Dilip Ganguly, “100,000 Refugees Return to Sri Lanka,” Associated Press Newswire, September 20, 2002).

numerous pledges of external assistance, with the United States promising to “play its part” toward implementation of a peace plan.²⁰

In what may be the most important breakthrough to date, talks in early December 2002 ended with the issuance of a statement that “the parties have agreed to explore a solution founded on the principle of internal self-determination in the areas of historical habitation of the Tamil-speaking peoples, based on a federal structure within a united Sri Lanka.”²¹ This language marks significant concession from both parties: the Colombo government for the first time accepted the idea of federalism, and the rebels, in accepting a call for *internal* self-determination, appear to have relinquished their decades-old pursuit of an independent Tamil state.

A fifth round of negotiations took place in Berlin in February, but made no notable progress other than to schedule further talks on revenue sharing issues. The meetings began only three hours after three LTTE rebels incinerated themselves at sea when Norwegian truce monitors boarded their weapons-laden craft. Although “very clearly a violation of the cease-fire,” the incident did not derail the peace process; it did, however, erode somewhat international confidence, especially among potential donor nations. The United States called the Tigers’ arms smuggling effort “highly destabilizing” and urged the LTTE to “commit itself fully to peace and desist from arms resupply efforts.”²²

Talks in Japan in March produced no major breakthroughs on political or human rights issues. Norwegian brokers noted that the main purpose of the meetings was to lay a foundation for a donor conference that Japan has offered to host in early June. A Japanese participant suggested that the promise of major external assistance — expected to be some \$3 billion over three years — is what has kept the disputing parties at the negotiating table.²³ As in February, violence again threatened to derail the process. On March 10, a Sri Lankan Navy vessel sank what the Colombo government described as an attacking Tiger boat, killing 11. The Tigers condemned the attack, claiming that their unarmed “merchant vessel” was not a threat. It is not clear whether the incident took place in international waters or whether the Tiger boat were carrying munitions. Norwegian truce monitors criticized both sides while refraining from ruling who was at fault.²⁴

In March, the World Bank established a special North East Reconstruction Fund and pledged its “unconditional support” for Sri Lanka’s development programs. A new Country Assistance Strategy (CAS) was announced on April 1, the first for Sri Lanka since 1996. Organized around the central themes of peace, growth, and equity,

²⁰ “Transcript: U.S. Prepared to ‘Play Its Part’ to Further Peace in Sri Lanka,” U.S.IS Washington File, November 25, 2002.

²¹ Amy Waldman, “Sri Lanka to Explore a New Government,” *New York Times*, December 6, 2002.

²² “Sri Lankan Peace Talks Start in Berlin,” Reuters News, February 7, 2003; Amal Jayasinghe, “Suicide Bomb Blunts Sri Lanka’s Peace Momentum,” Agence France-Presse, February 10, 2003; “U.S. Criticizes Tamil Tiger Smuggling,” BBC News, February 12, 2003.

²³ Scott McDonald, “Sri Lanka Propose Aid Body to Tamil Tigers,” Reuters News, May 28, 2003; Amal Jayasinghe, “Sri Lanka Negotiators Leave Japan With Little Progress, But Cash Hopes Alive,” Agence France-Presse, March 22, 2003.

²⁴ “Sri Lanka Monitors Chide Both Sides Over Sea Clash,” Reuters News, March 17, 2003.

the CAS includes \$800 million in grants and interest-free loans over the next four years, more than tripling average annual World Bank lending to Sri Lanka since 1998.²⁵ The United States hosted a potential donor country briefing in Washington on April 14, 2003 in preparation for the June donor conference in Tokyo where aid pledges for Sri Lanka totaled \$4.5 billion.²⁶

In April, the Colombo government said that it is considering holding an island-wide referendum to endorse its current peace negotiations with Tamil rebels. The non-binding referendum would endorse new legislation known as the Peace Bill; a second referendum would be required to make any necessary constitutional changes. A public opinion poll found that nearly 84% of all Sri Lankans believe that peace can be achieved through peace talks, including more than 95% of Tamils.²⁷

Obstacles

The progress in peace talks has surprised many observers. Despite this, negotiators face a difficult phase as they attempt to craft a political system that maintains Sri Lanka's unity while addressing the LTTE's desire for substantive autonomy.²⁸ A variety of federal models are under consideration, including those that have seen success in Switzerland and Canada, among others.²⁹ In addition to questions of power-sharing, numerous other highly contentious issues to be settled include geographical region, human rights protection, political and administrative mechanisms, public finance, law and order, and LTTE accountability for past actions.³⁰

A key unresolved near-term issue is the decommissioning of LTTE weapons, which the Tigers repeatedly have stated will not occur until a permanent settlement is reached. The opposition People's Alliance claims that the rebels are "armed to the teeth" and must disarm as part of the negotiation process.³¹ Also, there are reported to be 35,000 government troops controlling as much as one-third of the Jaffna Peninsula at the island's northern tip. The Tigers have refused to make peace while part of the country remains under "army occupation," but the Sri Lankan military is concerned that any resettlement of civilians could be used as cover by the Tigers to

²⁵ Florence Wickramage and Kushani Ratnayake, "World Bank Pledges Unconditional Support to Lanka," *Daily News* (Colombo), March 28, 2003; "World Bank Discusses New Country Assistance Strategy for Sri Lanka," World Bank Press Release, April 1, 2003.

²⁶ "Donors Pledge \$4.5 Bill for Sri Lanka Peace," *Ji Ji Press*, June 10, 2003.

²⁷ Francis Harrison, "Sri Lanka Ponders Peace Vote," *BBC News*, April 4, 2003; "Overwhelming Support for Peace Talks — Poll," *Daily News* (Colombo), March 24, 2003.

²⁸ A Tamil state is considered to be a *fait accompli* by many, given the LTTE's establishment of well-organized police, court, and prison systems, a law college, motor vehicle registry, tax and customs departments, health clinics, and even a forestry division (John Lancaster, "In Some Ways, Rebels Without a Cause," *Washington Post*, January 14, 2003).

²⁹ See Teresita Schaffer and Nisala Rodrigo, "Sri Lanka: Finding the Start of a Long Road," *South Asia Monitor* 54, Center for Strategic and International Studies, January 1, 2003.

³⁰ V.S. Sambandan, "Fashioning a Federal Sri Lanka," *Hindu* (Madras), December 10, 2002.

³¹ "Tamil Tigers 'Must Disarm,'" *BBC News*, December 13, 2002.

better position themselves should fighting resume.³² Colombo is refusing to open up the “high security zones” until the rebels lay down their arms, an action the Tigers call “non-negotiable” at this stage.³³ Some analysts express certainty that the Tigers will be unwilling to disarm in the foreseeable future, and even some Sinhalese intellectuals are reported to sympathize with the rebels’ hesitation to disarm, given their perceived need for “leverage” against a Sinhalese-dominated government that “has given no reason to the LTTE to trust it.”³⁴ Many believe that the Tigers are continuing recruitment and arms procurement efforts in violation of the February 2002 cease-fire agreement to maintain the military balance.³⁵

A potential obstacle to a peace deal in the near- and middle-term is the continuing political rivalry between President Kumaratunga, who has criticized the prime minister’s conciliatory approach toward the LTTE, and PM Wickremesinghe, whose UNF cabinet has accused the president of corruption and violating government procedures. In September 2002, amid concern that Kumaratunga could effectively veto any peace accord by disbanding parliament, Wickremesinghe’s government proposed a constitutional change — the 19th Amendment — that would remove the president’s power to dissolve the legislature. Although some legislators from Kumaratunga’s People’s Alliance have expressed support for the amendment, many observers maintain that it will be difficult for Wickremesinghe — whose coalition controls 129 seats — to win the 21 PA votes needed to secure a two-thirds majority.

The People’s Alliance has expressed concerns that the Norwegian mediators are biased in favor of the rebels, and that the United States and Britain are “planning to reward terrorism.” In November 2002, the party vowed that it would no longer countenance developments which “jeopardize the country’s sovereignty.”³⁶ Kumaratunga herself, while at times expressing approval of the ongoing process, has issued sharp criticism of Wickremesinghe for a “lack of professionalism” in pursuing a “peace at any cost” policy that may be harmful to the country’s interests.³⁷ She also has complained that Oslo’s role in assisting the LTTE’s December procurement of a powerful FM radio transmitter raised serious questions about Norway’s impartiality.³⁸ Press reports indicate that the Tigers will use the new equipment to extend their radio broadcasts into government-controlled regions for the first time since the civil war began; some critics say the move provides the rebels with an influential propaganda tool.³⁹

³² Amy Waldman, “Sri Lanka Faces the Divisions Within,” *New York Times*, January 8, 2003.

³³ “Sri Lanka Talks Face Hurdle,” BBC News, January 4, 2003.

³⁴ Rasheed Bhagat, “No to War Isn’t Yes to Peace,” *Business Line* (Madras), April 8, 2003.

³⁵ V. Suryanarayan, “Paradigm Shift in Sri Lanka?,” *Hindu* (Madras), January 21, 2003; Anthony Davis, “Sri Lanka Intercepts New Arms Purchases,” *Jane’s Intelligence Review*, April 1, 2003.

³⁶ Frances Harrison, “Sri Lanka Peace Moves Attacked,” BBC News, November 15, 2002.

³⁷ Amit Baruah, “‘India Should Play a Pro-Active Role,’” *Hindu* (Madras), April 12, 2003.

³⁸ “Kumaratunga Angry at Norway,” BBC News, December 31, 2002. In a more positive development, Kumaratunga in February 2003 offered that her country has “no other option” but to continue with the peace process (“Country Cannot Afford to Go Back on War — President,” *Daily News* (Colombo), February 26, 2003).

³⁹ “Tamil Tigers to Mount Radio Offensive,” BBC News, January 2, 2003; Frances (continued...)

Economy

Formerly a colonial economy based on plantation crops (tea, rubber, coconut, sugar, and rice), modern Sri Lanka's manufactured products account for nearly 80% of the country's exports, including garments, textiles, gems, and agricultural products. Tourism and repatriated earnings of Sri Lankans employed abroad are other important foreign exchange earners. The first country in South Asia to liberalize its economy, Sri Lanka began an ongoing process of market reform and privatization of state-owned industries in 1977. Privatization efforts have slowed in recent years, however. In 2001, both tourism and investor confidence, on the rebound in 1999, were seriously affected by major LTTE terrorist attacks and political instability. The October 2002 Bali, Indonesia bombings may further damage the tourist sector. Sri Lanka's entire economy also suffered as a result of prolonged drought (the worst in two decades), related hydroelectric power shortages, and the worldwide economic downturn.

Despite the existence of such obstacles, current estimates show Sri Lanka's economy is doing well. The economy grew by 5.5% in the first quarter of 2003 up from .05% a year earlier.⁴⁰ Annual growth for 2003 is estimated at 5.2%.⁴¹ An already sluggish agricultural sector was harmed by May 2003 flooding, and may impede overall growth from what is expected to be robust output in the industrial, manufacturing, and service sectors for 2003 and 2004.⁴² Success with renewed privatization efforts and further progress in the current peace process will do much to spur greater economic growth in Sri Lanka. Another important future variable will be levels of U.S. and European demand for textiles. Despite the existence of promising government-LTTE negotiations, the civil war continues to place a heavy burden on the country's economy, as well as to hinder its economic potential. Many analysts believe that annual growth rates would be as much as three percentage points higher in the absence of protracted ethnic conflict.⁴³

With its location on major sea-lanes, excellent harbors, and high educational standards, Sri Lanka has long been viewed as a potential regional center for financial and export-oriented services. In recent years, however, defense expenditures have risen from 1.3% of GDP in 1980 to 4-6% of GDP. Aside from defense spending, other costs of the war include damage to infrastructure, expenditures for humanitarian relief, and impact on tourism and foreign investment. For decades, Sri Lanka has invested heavily in education, health, and social welfare, maintaining high living standards compared to much of South Asia.

³⁹ (...continued)

Harrison, "Tamil Tiger Radio Goes Legal," BBC News, January 16, 2003.

⁴⁰ Manik De Silva, "Asian Economic Outlook," *Far Eastern Economic Review*, August 28, 2003.

⁴¹ "Sri Lanka Country Report," *Economist Intelligence Unit*, July 2003.

⁴² Chamath Ariyadasa, "Sri Lanka's Tea, Rice, and Rubber Crops Hit By Floods," Reuters News, May 26, 2003; Economist Intelligence Unit, "Country Data: Sri Lanka," May 29, 2003.

⁴³ "Sri Lanka: Executive Summary," Global Insight, May 14, 2003.

U.S. Relations and Policy Concerns

U.S. policy supports efforts to reform Sri Lanka's democratic political system in a way that provides for full political participation of all communities; it does not endorse the establishment of another independent state on the island. The United States regarded as "extremely positive" the December 2002 announcement that parties to the Sri Lanka conflict have agreed to seek settlement through establishment of a federal governmental structure. While commending both the Sri Lankan president and prime minister for their respective roles in the peace process, the United States emphasizes that further progress requires the Colombo government to "move together as one." Deputy Secretary of State Armitage has taken a lead role in U.S.-Sri Lankan relations, arguing that, "The United States should be playing a role in concert with other nations, committing our human and financial resources to settling this conflict because it can be done. And because it's the right thing to do."⁴⁴

Bilateral Relations

In July 2002, President Bush met with Sri Lankan PM Wickremesinghe at the White House and pledged U.S. support for peace and economic development in Sri Lanka. It was the first visit to Washington by a Sri Lankan leader since 1984. In Colombo in August, Deputy Secretary of State Armitage pledged to "re-energize" bilateral relations through increased cooperation in defense, education, commerce, justice, and human rights. In September, a U.S. defense assessment team was sent to examine the training needs of the Sri Lankan military, and State Department Coordinator for Counter terrorism Taylor went to Colombo to discuss ways to integrate "intelligence, law enforcement, legal and diplomatic efforts against terrorism." The United States and Sri Lanka held their ninth consecutive joint military exercises from January-March 2003, with training focused on combined arms operations and medical techniques.⁴⁵ The United States and Sri Lanka recently signed an agreement that will provide demining training to the Sri Lankan military. The training is estimated to cost \$2.2 million and will run from August 2003 to February 2004.⁴⁶ Ship visits continued with the visit of the *USS O'Kane* to Colombo in June 2003.⁴⁷ The U.S. and Sri Lankan navies also participated in a multilateral search and rescue exercise off the coast of Chennai (Madras) in July of 2003.⁴⁸

⁴⁴ "U.S. Welcomes Progress in Sri Lanka Political Settlement Talks," U.S. IS Washington File, December 5, 2002; U.S. Department of State, "Remarks at Sri Lanka's Donors' Conference," November 25, 2002; "Transcript: Armitage Says U.S., Other Nations Have Role in Ending Sri Lankan Conflict," U.S. IS Washington File, February 14, 2003.

⁴⁵ "United States Help to Modernize Sri Lanka Military," Agence France-Presse, August 30, 2002; "U.S. Counterterrorism Official to Visit Sri Lanka," Reuters News, September 24, 2002; "U.S., Sri Lankan Militaries Cooperate in 'Balance Style,'" U.S. Embassy — Sri Lanka, Office of Public Affairs Press Release, January 14, 2003.

⁴⁶ "U.S. Government Provides Sri Lankan Army with Demining Training," State Department Press Release, August 22, 2003.

⁴⁷ "U.S. Naval Ship Visits Colombo," State Department Press Release, June 20, 2003.

⁴⁸ "U.S. Naval Ship to Take Part in Rescue Exercise," *The Hindu*, July 9, 2003.

The U.S. State Department first designated the LTTE as a Foreign Terrorist Organization in 1997.⁴⁹ In February 2003, Deputy Secretary of State Armitage reiterated that “if the LTTE can move beyond the terror tactics of the past and make a convincing case through its conduct and its actual actions that it is committed to a political solution and to peace, the United States will certainly consider removing the LTTE from the list of Foreign Terrorist Organizations, as well as any other terrorism-related designations.” The LTTE continues to reject all calls that it renounce violence, saying it will do so only when “the aspirations of [the Tamil] people are met by a political settlement.”⁵⁰ The global anti-terrorism campaign, which reportedly has resulted in the international withholding of roughly \$4 billion from the LTTE and made it more difficult for the group to acquire weapons, has been cited as a likely factor in the rebel’s decision to enter into peace negotiations.⁵¹ On June 25, Sri Lanka joined the U.S. Customs Container Security Initiative aimed at preventing shipping from being used to transport weapons of mass destruction.⁵²

Trade, Investment, and Aid

The United States is Sri Lanka’s largest export market and the destination for about 38.7% of its total exports.⁵³ In 2002, Sri Lankan exports to the United States were valued at \$1.81 billion (down slightly from 2001), led by apparel and textiles, leather products, and rubber. U.S. exports to Sri Lanka in 2002 were valued at \$172 million, and included wheat, electrical machinery, fabrics, and medical instruments. The Sri Lankan Board of Investment indicates that some 90 U.S.-based companies operate in Sri Lanka with an estimated investment of more than \$500 million.

During the Sri Lankan Prime Minister Wickremesinghe’s visit to Washington in July 2002, the United States and Sri Lanka signed a new Trade and Investment Framework Agreement (TIFA) to establish “a forum for Sri Lanka and the United States to examine ways to expand bilateral trade and investment.” The agreement

“creates a Joint Council to enable officials to consider a wide range of commercial issues, and sets out basic principles underlying the two nations’ trade and investments relationship.” The Council also will “establish a permanent dialogue with the expectation of expanding trade and investment between the United States and Sri Lanka.”⁵⁴

⁴⁹ “Foreign Terrorist Organizations” are overseas groups designated by the Secretary of State as meeting the criteria specified in Section 219 of the Immigration and Nationality Act, as amended (U.S. Department of State Fact Sheet, Office of Counterterrorism, August 9, 2002).

⁵⁰ “Transcript: Armitage Says U.S., Other Nations Have Role in Ending Sri Lankan Conflict,” U.S. IS Washington File, February 14, 2003 (Assistant Secretary of State for South Asia Rocca set similar criteria in March 2003); Alister Doyle, “Tamil Rebels Reject U.S. Call to Renounce Violence,” *Reuters News*, November 25, 2002.

⁵¹ “U.S. Seeks to Allay Sri Lanka Fears on Rebel Ban,” *Reuters News*, April 19, 2002; “Smiles That Conceal the Worries — Sri Lanka’s Civil War,” *Economist* (London), July 20, 2002.

⁵² “Terrorism Notebook,” *Seattle Times*, June 26, 2003.

⁵³ *CIA World Fact Book*, 2003.

⁵⁴ “Trade and Investment Framework Agreement Between the U.S. and Sri Lanka,” at [<http://www.slembassyusa.org/investment/tifa.html>].

In subsequent months, several teams of U.S. officials have traveled to Sri Lanka to explore avenues for cooperation. During a November 2002 trip to Colombo, U.S. Deputy Trade Representative Jon Huntsman asserted that the island must make its investment regime more transparent and predictable if it is to attract greater U.S. private investment. In December, Assistant Secretary of Commerce for Trade Development William Lash was in Colombo to encourage increased bilateral ties in the areas of information technology, education, and infrastructure. In February 2003, Deputy Secretary of State Richard Armitage asserted that “Sri Lanka is already a solid exporter to the United States and has the potential with peace and the right reforms to become a significant trade partner.”⁵⁵ In March 2003, the second round of TIFA Joint Council meetings were held in Washington, where Deputy U.S. Trade Representative Huntsman and Sri Lankan Commerce Minister Karunanayake led their respective delegations. The tenor of these meetings was wholly positive and “progress was made on issues of concern to both countries.”⁵⁶ In May 2003, U.S. Trade Representative Zoellick reportedly stated that Sri Lanka showed potential as a future free trade partner of the United States.⁵⁷

U.S. foreign assistance to Sri Lanka focuses on increasing the country’s economic competitiveness in the global marketplace; creating and enhancing economic and social opportunities for disadvantaged groups; promoting peace, good governance, and human rights awareness and enforcement; providing psychological counseling to communities in the conflict zones; and demining. U.S. foreign assistance to Sri Lanka in FY2002 (excluding loans) totaled \$8.4 million (and another \$9.3 million in food aid⁵⁸). The Bush Administration requested \$10.4 million for FY2003 and nearly \$24 million for FY2004, including \$14 million in Economic Support Funds and \$1 million for a new Foreign Military Financing program. U.S.AID currently is running a two-year, \$7 million program aimed at increasing Sri Lanka’s competitiveness in the marketplace.⁵⁹ Armitage pledged an additional \$54 million in assistance to Sri Lanka at the donors meeting in Japan on June 10, 2003.⁶⁰

Human Rights Concerns

The U.S. State Department, in its *Sri Lanka Country Report on Human Rights Practices, 2002* (issued March 2003), determined that the Colombo government “generally respected the human rights of its citizens; however, there were serious problems in some areas. ... Some members of the security forces committed serious

⁵⁵ Office of the U.S. Trade Representative, “United States and Sri Lanka Sign Trade and Investment Framework Agreement,” July 25, 2002; “U.S. Encourages Peacetime Sri Lanka to Diversify,” Reuters News, November 21, 2002; “U.S., Sri Lanka to Work on Economic Ties,” Reuters News, December 20, 2002.

⁵⁶ Telephonic interview with U.S. Trade Representative official, April 9, 2003.

⁵⁷ “Thailand Near Top of U.S. List for Next Free Trade Pact,” *The Bangkok Post*, May 10, 2003.

⁵⁸ About 85% of this amount was delivered in the form of P.L. 480 Title I food aid loans.

⁵⁹ U.S. Department of State, “FY2002 Country Commercial Guide: Sri Lanka,” U.S. Agency for International Development, “Budget Justification to the Congress, FY2003.”

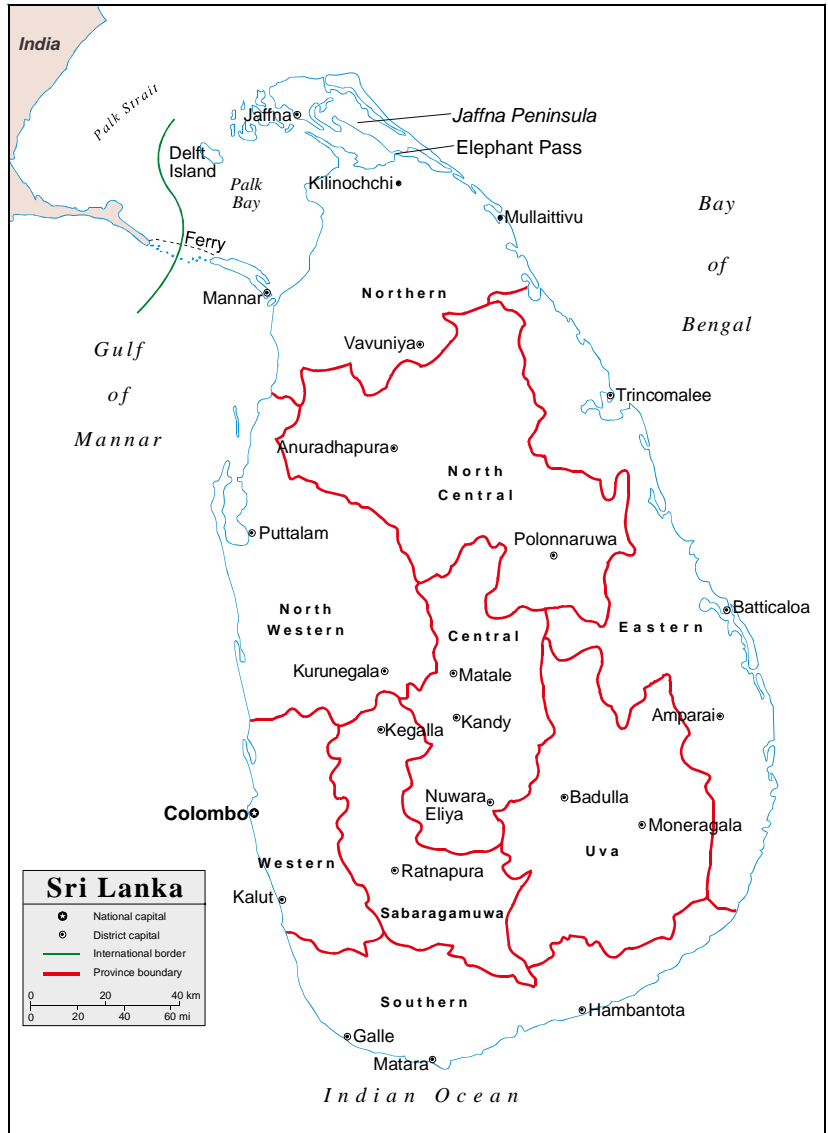
⁶⁰ “Armitage Pledges \$54 million at Sri Lanka Donors Conference,” State Department Press Release, June 10, 2003.

human rights abuses.”⁶¹ Major problems included torture of detainees and poor prison conditions; infringements on privacy rights; violence and discrimination against women; child prostitution and child labor; and human trafficking, among others. Improvement was found in some areas: the independence of the judiciary was respected, and government bodies have undertaken to address and investigate abuses such as torture. The United States also finds that the LTTE “continued to commit serious human rights abuses” in 2002, including “unlawful” killings, disappearances, arbitrary arrests and detentions, extortion, and torture. The LTTE reportedly continues to recruit child soldiers, to restrict freedom of movement, and to censor the media in areas under its control.⁶² The government, on the other hand, relaxed some of its restrictions on freedom of the press by ending its censorship of reporting on military operations.

⁶¹ U.S. Department of State, “Country Reports on Human Rights Practices — 2002: Sri Lanka,” March 2003.

⁶² See Amy Waldman, “Sri Lanka’s Young Are Forced to Fill Ranks of Endless Rebellion,” *New York Times*, January 6, 2003; John Lancaster, “In Some Ways, Rebels Without a Cause,” *Washington Post*, January 14, 2003. One report has the Tigers admitting to recruiting more than 300 child soldiers during 2002, despite the cease-fire (“Tamil tigers ‘Admit Recruiting Children,’” BBC News, January 28, 2003). Amnesty International echoes the criticisms of the United States, and condemns frequent reports of torture and rape in police custody, the apparent impunity of security forces, and numerous complaints of hostage-taking by LTTE forces in 2002 (see Amnesty International Report 2003, May 28, 2003, available at [<http://web.amnesty.org/report2003/index-eng>]).

Figure 1. Map of Sri Lanka



Adapted by CRS from Magellan Geographix.

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