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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 in May 2003 it was suspended by the LTTE due to differences over interim administration arrangements. In February 2002, a permanent cease-fire was reached and generally has been observed by both sides. In September, the Colombo government and the LTTE held their first peace talks in 7 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. However, political rivalry between President Kumaratunga and Prime Minister Wickremesinghe has hindered peace efforts; government troops continue to occupy large swaths of Tamil-speaking territory; and there remain doubts 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 report 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, terrorist activity, human rights, and U.S. appropriations for food, economic, and military assistance.

SRI LANKA IN BRIEF

Population: 19.6 million (2002 est.); *growth rate:* 0.85% (2002 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: female 75.0 years; male 69.8 years (2002 est.)

Literacy: female 89.3%; male 94.5% (2001)

Gross Domestic Product (at PPP): \$56.5 billion; *per capita:* \$3,060; *growth rate* 4% (2002)

Inflation: 9.6% (2002)

U.S. Trade: exports to U.S. \$1.81 billion; imports from U.S. \$172 million (2002)

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

Recent Developments

At the time of this writing, a Norwegian-brokered peace process for Sri Lanka has been brought to a halt after several months of substantive progress. Representatives of the Liberation Tigers of Tamil Eelam (LTTE, or Tamil Tigers) rebels are refusing to attend an international aid donor conference set to begin in Tokyo on June 9, and they indicate that peace talks are suspended due to LTTE “displeasure” at the government’s handling of some “critical matters.” Rebel rancor stems in part from their exclusion from a preparatory set of meetings in Washington in April — the LTTE accuses the United States of undermining the peace process with its legal designation of the group as a Foreign Terrorist Organization.

A perceived absence of sufficient peace dividends and stability in war-torn areas is a key LTTE complaint.¹ In late April, Colombo responded by offering to withdraw some of its troops from the Jaffna Peninsula, but the LTTE currently is demanding that the government provide it with interim administrative control over the areas it occupies in return for a resumption of peace negotiations. The Sri Lankan President, who seeks to avoid the creation of a de facto separate state on the island, opposes the establishment of any interim council until a peace deal is inked. Yet, in a sign of deep fissures within the Colombo government, the Prime Minister evoked a barrage

¹ “Tamil Tigers Say to Boycott Tokyo Aid Conference,” Reuters News, April 12, 2003; “Tamil Tigers Call Off Peace Talks,” BBC News, April 21, 2003.

of opposition party criticism with a May 26th message agreeing to an interim LTTE administration in the country's northeast so long as the arrangement does not conflict with the Sri Lankan constitution. He is asking the rebels to be "more understanding" and warns that ending negotiations could consign Sri Lanka to the "backwaters of history." On May 30, LTTE leaders cast further doubt on the future of negotiations when they rejected the proposed administrative structure as "extremely limited."²

Despite what is widely being referred to as a "crisis" in the peace process, the rebels have given no overt signs that they intend to break the 15-month-old cease-fire agreement and resume fighting.³ Assistant Secretary of State for South Asia Christina Rocca visited Colombo in mid-May to express continued U.S. support for the peace process, saying it is in the best interest of all concerned parties that "the LTTE be at the table in Tokyo." Deputy Secretary of State Richard Armitage has been scheduled to attend the June donor conference. Mr. Armitage, who has taken the lead in U.S. efforts to assist the peace process, said in May that the conference is important "for the international community to demonstrate its solid support for the peace process and its full commitment to the ... reconstruction and development of all regions of the country, including the North and the East."⁴

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

² "Analysis: Tigers' Peace Concerns," BBC News, May 23, 2003; "Sri Lanka Tiger Calls Rejected," BBC News, May 24, 2003; "Sri Lanka Agrees to Interim LTTE Administration," *Times of India* (Delhi), May 28, 2003; "Sri Lanka Warned of Cost of Failure," BBC News, May 29, 2003; Scott McDonald, "Tamil Rebels Give Hardline Rejection to Overtures," Reuters News, May 30, 2003.

³ Ranga Jayasuriya, "Pulithevan Informed SLMM: LTTE Pledges to Honor Ceasefire," *Daily News* (Colombo), April 23, 2003.

⁴ "Transcript: Rocca Urges Continuation of Sri Lankan Peace Negotiations," USIS Washington File, May 15, 2003; "Text: Armitage to Attend Tokyo Conference on Reconstruction for Sri Lanka," USIS Washington File, May 23, 2003.

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.

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.⁵

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,

⁵ Dayan Candappa, "New Sri Lanka Premier Sworn In Pledging Peace," Reuters News, December 9, 2001.

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 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.⁶ One leading scholar claims that the LTTE is responsible for fully half of all suicide attacks worldwide in recent years.⁷ 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, 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.⁸

In September 2002, at a naval base in Thailand, the Colombo government and the LTTE held their first peace talks in 7 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 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

⁶ 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).

⁷ Cited in Amy Waldman, “Suicide Bombing Masters: Sri Lankan Rebels,” *New York Times*, January 14, 2003.

⁸ Amal Jayasinghe, “Sri Lanka Lifts Ban on Tigers Ahead of Thai Talks,” *Agence France-Presse*, September 4, 2002.

infrastructure in the island's northeast could cost as much as \$500 million⁹). A multilateral "donor conference" in Oslo in late November brought numerous pledges of external assistance, with the United States promising to "play its part" toward implementation of a peace plan.¹⁰

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."¹¹ 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."¹²

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.¹³ 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

⁹ "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).

¹⁰ "Transcript: U.S. Prepared to 'Play Its Part' to Further Peace in Sri Lanka," USIS Washington File, November 25, 2002.

¹¹ Amy Waldman, "Sri Lanka to Explore a New Government," *New York Times*, December 6, 2002.

¹² "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; "US Criticizes Tamil Tiger Smuggling," BBC News, February 12, 2003.

¹³ 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.

were carrying munitions. Norwegian truce monitors criticized both sides while refraining from ruling who was at fault.¹⁴

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, 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 1998.¹⁵ The United States hosted a potential donor country briefing in Washington on April 14 in preparation for the scheduled June donor conference in Tokyo.

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.¹⁶

Obstacles

The unexpectedly rapid pace of progress in peace talks and the seeming consensus that Sri Lankan unity be maintained has surprised many observers, yet negotiators face a difficult circumstance ahead in attempting to balance what traditionally has been a highly centralized Sri Lankan political system against the Tamil minority’s desire for substantive autonomy.¹⁷ A variety of federal models are under consideration, including those that have seen success in Switzerland, Canada, and Papua New Guinea, among others.¹⁸ 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.¹⁹

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

¹⁴ “Sri Lanka Monitors Chide Both Sides Over Sea Clash,” Reuters News, March 17, 2003.

¹⁵ 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.

¹⁶ Francis Harrison, “Sri Lanka Ponders Peace Vote,” BBC News, April 4, 2003; “Overwhelming Support for Peace Talks — Poll,” *Daily News* (Colombo), March 24, 2003.

¹⁷ 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).

¹⁸ 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.

¹⁹ V.S. Sambandan, “Fashioning a Federal Sri Lanka,” *Hindu* (Madras), December 10, 2002.

teeth” and must disarm as part of the negotiation process.²⁰ 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 better position themselves should fighting resume.²¹ 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.²² 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.”²³ 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.²⁴

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.”²⁵ 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.²⁶ 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.²⁷ Press reports indicate that the Tigers will use the new equipment to

²⁰ “Tamil Tigers ‘Must Disarm,’” BBC News, December 13, 2002.

²¹ Amy Waldman, “Sri Lanka Faces the Divisions Within,” *New York Times*, January 8, 2003.

²² “Sri Lanka Talks Face Hurdle,” BBC News, January 4, 2003.

²³ Rasheed Bhagat, “No to War Isn’t Yes to Peace,” *Business Line* (Madras), April 8, 2003.

²⁴ 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.

²⁵ Frances Harrison, “Sri Lanka Peace Moves Attacked,” BBC News, November 15, 2002.

²⁶ Amit Baruah, “‘India Should Play a Pro-Active Role,’” *Hindu* (Madras), April 12, 2003.

²⁷ “Kumaratunga Angry at Norway,” BBC News, December 31, 2002. In a more positive (continued...)

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.²⁸

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 in the midst of a significant recovery, growing at around 4% in 2002. Continued improvement is expected in 2003, with estimates of 5% growth or more. 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 2004.²⁹

The apparent economic turnaround is welcome news in Colombo, given that Sri Lanka experienced its first recorded recession ever in 2001 with an economic *contraction* of 1.4%, down sharply from 5.4% expansion in 2000. Still, the country's burdensome fiscal deficit, which increased from 9.9% of GDP in 2000 to 10.8% in 2001, is expected to reach as high as 14% in 2002. The government also has had difficulty controlling inflation, which reached 9.6% in 2002 and is expected to be remain above 9% in 2003.³⁰ 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 a 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

²⁷ (...continued)

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).

²⁸ "Tamil Tigers to Mount Radio Offensive," BBC News, January 2, 2003; Frances Harrison, "Tamil Tiger Radio Goes Legal," BBC News, January 16, 2003.

²⁹ 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.

³⁰ "Sri Lanka Annual Inflation 9.6 Pct in Dec," Reuters News, December 31, 2002; "Sri Lanka Economic Trends: Inflation," Global Insight, May 14, 2003.

annual growth rates would be as much as three percentage points higher in the absence of protracted ethnic conflict.³¹

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.

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."³²

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 Counterterrorism 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.³³

³¹ "Sri Lanka: Executive Summary," Global Insight, May 14, 2003.

³² "U.S. Welcomes Progress in Sri Lanka Political Settlement Talks," USIS 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," USIS Washington File, February 14, 2003.

³³ "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 (continued...)

The U.S. State Department first designated the LTTE as a Foreign Terrorist Organization in 1997.³⁴ 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.”³⁵ 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.³⁶

Trade, Investment, and Aid

The United States is Sri Lanka’s largest export market and the destination for about 40% of its total exports and 60% of its garment exports. 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.”³⁷

³³ (...continued)

Lanka, Office of Public Affairs Press Release, January 14, 2003.

³⁴ “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).

³⁵ “Transcript: Armitage Says U.S., Other Nations Have Role in Ending Sri Lankan Conflict,” USIS 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.

³⁶ “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.

³⁷ “Trade and Investment Framework Agreement Between the US 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.”³⁸ 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.”³⁹

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 aid⁴⁰). 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. USAID currently is running a two-year, \$7 million program aimed at increasing Sri Lanka’s competitiveness in the marketplace.⁴¹

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 human rights abuses.”⁴² 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,

³⁸ Office of the U.S. Trade Representative, “United States and Sri Lanka Sign Trade and Investment Framework Agreement,” July 25, 2002; “US 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.

³⁹ Telephonic interview with U.S. Trade Representative official, April 9, 2003.

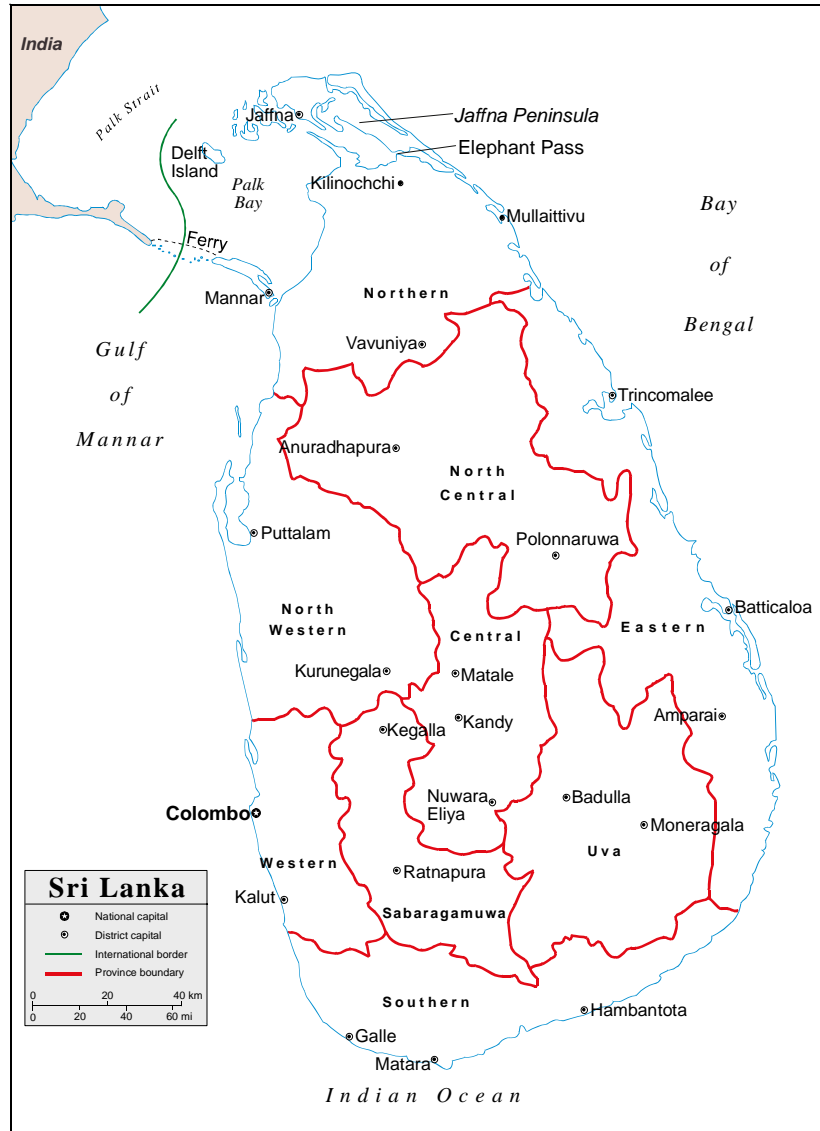
⁴⁰ About 85% of this amount was delivered in the form of P.L. 480 Title I food aid loans.

⁴¹ U.S. Department of State, “FY2002 Country Commercial Guide: Sri Lanka;” U.S. Agency for International Development, “Budget Justification to the Congress, FY2003.”

⁴² U.S. Department of State, “Country Reports on Human Rights Practices — 2002: Sri Lanka,” March 2003.

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.⁴³ 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.

Figure 1. Map of Sri Lanka



Adapted by CRS from Magellan Geographix.

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⁴³ 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>]).