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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. Under Sri Lanka's hybrid parliamentary model, an elected president appoints the cabinet in consultation with the prime minister. The country's political, social, and economic development has been seriously constrained by ethnic conflict between the majority Sinhalese and minority Tamil ethnic groups. Since 1983, a separatist war costing some 66,000 lives has been waged against government forces by the Liberation Tigers of Tamil Eelam (LTTE), a rebel group that has been seeking to establish a separate state in the Tamil-dominated areas of the north and east.

A Norwegian-brokered peace process produced some 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 ceasefire was reached and generally was until 2006 generally observed by both sides. In September 2002, the government in Colombo and the LTTE held their first peace talks in seven years, with the LTTE indicating that it was willing to accept autonomy rather than independence for Tamil-majority regions. The two sides agreed in principle to seek a solution through a federal structure. However, LTTE leader Prabakaran has stated that there may be a return to fighting. At the end of October 2003, the LTTE submitted to the government a proposal for establishing an interim administration in the Northeast. The period from 2004 to early 2005 has witnessed increasing instability within the ranks of both the Sinhalese government and the LTTE which has led to increasing concern over the future of the peace process.

Political rivalry between the Sri Lankan Freedom Party (SLFP) and the United National Party (UNP) has hindered peace efforts. In late 2003 the SLFP president removed three cabinet ministers, suspended parliament, and deployed troops around the capital while the then UNP prime minister was in Washington seeking American support for the peace process. The crisis deepened when the president dismissed parliament and called for elections in April 2004. The United People's Freedom Alliance (UPFA), a coalition of the SLFP and the hardline Marxist People's Liberation Front (JVP), won a slim majority of parliament and defeated the UNP to replace Prime Minister Ranil Wickremesinghe with Mahinda Rajapakse. Rajapakse went on to win the presidency in a narrow November 2005 electoral victory.

Government troops continue to occupy large swaths of Tamil-speaking territory and there remain serious doubts about the willingness of the LTTE to renounce the use of force and disarm. Ethnic violence has spiked in 2006, raising fears that full-scale civil war may again be at hand. 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. Since Sri Lankan independence in 1948, the United States has provided more than \$1.7 billion in assistance funds, including some \$13 million in FY2006. 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.¹ Congressional interest in Sri Lanka focuses on the current peace process that seeks to end a 23-year-old civil war, as well as on terrorist activity, human rights, and U.S. appropriations for food, economic, and military assistance.

Most Recent Developments

- A February 2002 ceasefire agreement between the Sri Lankan government and the separatist Liberation Tigers of Tamil Eelam (LTTE) rebels currently appears to exist in name only. More than 800 people have been killed in a surge of ethnic violence in 2006, raising fears that fighting in the country's 23-year-old civil war may again become wholly unrestrained. Hundreds of thousands of Sri Lankans remain internally displaced by the conflict. On July 30, government troops launched a ground offensive, their first in more than four years.
- President Mahinda Rajapakse took office in November 2005 after winning a narrow electoral victory (50.3% to 48.4%) over former Prime Minister Ranil Wickremasinghe. It is widely held that an LTTE-enforced election boycott by many ethnic Tamils facilitated Rajapakse's win.
- Angered by President Rajapakse's outright rejection of their demand for a Tamil homeland, the Tigers refused to revive stalled peace talks, then agreed to send negotiators to meet with government officials in Geneva in February. As a Co-Chair of the Tokyo Donors' Conference, the United States welcomed the discussions as an opportunity to restore confidence in the ceasefire agreement. At Geneva, the Colombo government made a commitment to halt the activities of independently operating militias, a reference mainly pertaining to the breakaway Karuna faction. For its part, the LTTE pledged to halt all attacks on security forces and police. Months

¹ This updates a report authored by Bruce Vaughn, Analyst in Southeast and South Asian Affairs.

later, it was clear to nearly all observers, including the U.S. government, that both commitments remained unfulfilled.²

- In April, the Tigers withdrew from further planned negotiations, complaining that government forces were violating the terms of the ceasefire agreement. Ensuing bombings and other violence killed nearly 100 people in only two weeks. On April 25, a suspected LTTE suicide bomber killed nine in a failed attempt on the life of Sri Lanka's top military commander. Government forces retaliated with a week-long series of air strikes on Tiger strongholds that caused thousands of civilians to flee their homes. In May, a fierce naval battle left at least 17 Sri Lankan sailors and 50 rebels dead, spurring the leading Norwegian truce monitor to declare that war was again at hand.³
- On May 30, the European Union formally designated the LTTE as a terrorist organization, thus depriving the rebels of funds collected from members and supporters in Europe. The move also made untenable the position of Norwegian and Danish truce monitors who could no longer maintain neutrality. The Tigers responded by demanding that all EU truce monitors leave the country by September 1.
- On June 15, a landmine explosion destroyed a passenger bus in Colombo, killing 64 people and injuring another 86. The government blamed the LTTE and intensified ongoing attacks on rebel positions. Eleven days later, a suicide bomber rammed his motorcycle into a car carrying Sri Lanka's third-highest ranking military officer, killing the general and three other people.
- The United States continues to recognize the "legitimate grievances" of Sri Lanka's Tamil community and it seeks Colombo's articulation of "a political vision for the future of the country that provides room for the aspirations of all Sri Lankans, from all religions and ethnicities." At the same time, Washington will have "no relationship" with the LTTE — a U.S.-designated Foreign Terrorist Organization since 1997 — so long as that group continues to seek redress through violence. The United States believes the LTTE bears "the major responsibility" for the upsurge of violence in 2006.⁴

² U.S. Department of State, "Sri Lanka: Talks in Geneva," Feb. 22, 2006; Richard Boucher, "Press Conference in Colombo, Sri Lanka," U.S. Department of State, June 1, 2006.

³ "S. Lankan Tigers Say Talks Off Indefinitely," Reuters, Apr. 20, 2006; "Sri Lanka Strikes Stop as Island Teeters on Brink," Reuters, Apr. 27, 2006; "Sri Lanka is at War, truce Monitor Says," Reuters, May 14, 2006.

⁴ Robert Blake, Statement of the Ambassador-Designate to Sri Lanka and Maldives Before the Senate Foreign Relations Committee, June 15, 2006; R. Nicholas Burns, "Remarks to the Press in Sri Lanka," U.S. Department of State, Jan. 23, 2006; Richard Boucher, (continued...)

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 1815. 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 Sri Lanka's population, while descendants of earlier Tamil arrivals, known as Sri Lankan Tamils, constitute 12% of the population. Moorish and Malay Muslims account for about 7% of the population. The majority of Sri Lankans (nearly three-quarters) are mostly Buddhist Sinhalese. In 1972, Ceylon was renamed Sri Lanka ("resplendent land"), as it was known in Indian epic literature.

Although Ceylon gained its independence from Britain peacefully in 1948, the succeeding decades have been marred by ethnic conflict between the country's Sinhalese majority clustered in the densely populated south and west, and a largely Hindu Tamil minority living in the northern and eastern provinces. 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

SRI LANKA IN BRIEF

Population: 20.2 million; *growth rate:* 0.8% (2006 est.)
Area: 65,610 sq. km. (slightly larger than West Virginia)
Capital: Colombo
Ethnic Groups: Sinhalese 74%; Tamil 8%; Arab 7%; other/unspecified 11% (2001 census)
Languages: Sinhala (official and national language) 74%; Tamil (national language) 18%; English widely used
Religions: Buddhist 69%; Muslim 8%; Hindu 7%; Christian 6%; (2001 census)
Life Expectancy at Birth: female 76.1 years; male 70.8 years (2006 est.)
Literacy: female 90%; male 95% (2003 est.)
Gross Domestic Product (at PPP): \$75.4 billion; *per capita:* \$3,630; *growth rate* 6% (2005)
Inflation: 11.6% (2005)
Military Expenditures: \$606 million (2.6% of GDP; 2005 est.)
U.S. Trade: exports to U.S. \$2.1 billion; imports from U.S. \$198 million (2005)
Sources: CIA *World Factbook*; U.S. Commerce Department; Economist Intelligence Unit; Global Insight

⁴ (...continued)

"Remarks to the American Chamber of Commerce Colombo, Sri Lanka," U.S. Department of State, June 1, 2006..

that includes the 60 million Tamils across the strait in India's southern state of Tamil Nadu.

Political Setting

The Democratic Socialist Republic of Sri Lanka has a working multi-party democratic system despite relatively high levels of political violence. The country'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. 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

A year-long political crisis began in November 2003, when President Kumaratunga suspended parliament, declared a state of emergency, and dismissed key ministers responsible for peace talks with the LTTE.⁶ This undermined existing peace efforts by former Prime Minister Wickremesinghe and cast doubt on the new prime minister's ability to follow through on peace negotiations with the LTTE. The president's ensuing February 2004 dismissal of parliament and the LTTE's claim that this was a "grave set back" to negotiations cast further doubt on the future of the peace process.

In April 2004, a new national election was held to restore the parliament dissolved by President Kumaratunga. In that election, the United People's Freedom Alliance (UPFA) coalition, composed of the populist SLFP and the Marxist-Leninist, Sinhalese nationalist People's Liberation Front (JVP), won a slim majority of the

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

⁶ Scott Baldauf, "Woman Behind Sri Lanka's Turmoil," *Christian Science Monitor*, Nov. 7, 2003.

seats in parliament and defeated the UNP. The UPFA won 105 seats and 45.6% of the votes as compared to former Prime Minister Wickremasinghe's UNP, which won 82 seats and 37.8% of the vote. The UNP's defeat was attributed in part to a perception among voters that too many concessions were being made to the LTTE in peace negotiations.

As UNP leader Ranil Wickremasinghe, who served as prime minister from 2001 to 2004, was relatively more open to talks with the Tamil rebels; his bitter personal rivalry with Kumaratunga reportedly hampered progress in peace negotiations. A November 2005 presidential poll saw SLFP figure Mahinda Rajapakse barely defeat Wickremasinghe in an election marked by an LTTE-engineered boycott by much of the Tamil community (the LTTE was accused of using intimidation tactics to enforce the boycott). The United States expressed "regret" that many Tamil voters were deprived of the opportunity to make their views known and it condemned LTTE "interference in the democratic process."⁷ Unlike Rajapakse, Wickremasinghe was not beholden to Sinhala nationalist parties, and many analysts believe he would have won the election with the votes of a large majority of Tamils.⁸

Political Parties in Parliament — 2004 Election Results

Party	Votes	%	% Change*	Seats	Seats Change*
United People's Freedom Alliance (primarily composed of Sri Lankan Freedom Party and JVP)	4,317,996	46.6	+0.2	105	+12
United National Front	3,410,174	36.8	-8.8	82	-27
Illankai Tamil Arasu Katchi	633,654	6.8	-	22	+22
Jathika Hela Urumaya	554,076	6.0	-	9	+9
Sri Lanka Muslim Congress	186,876	2.0	+0.08	5	-
Eelam People's Democratic Party	21,860	0.2	-0.06	1	-1
Other	138,096	1.5	-	1	-15
Total	9,262,732	-	-	225	-

Note: The United People's Freedom Alliance vote and seat totals are compared with the combined People's Alliance (2001 electoral coalition of SLFP and other leftist parties) and JVP vote and seat counts at the 2001 election.

* In comparison to 2001 elections.

⁷ Adam Ereli, "Sri Lanka - Presidential Election," U.S. Department of State Press Statement, Nov. 18, 2005.

⁸ Chandra de Silva, "Sri Lanka in 2005," *Asian Survey* 46, 1, Jan. 2006, p. 116.

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 the Sinhalese Marxist JVP waged a terrorist campaign against Tamils in the central and southern regions. Periodic rioting against Tamils in the late 1970s and early 1980s, culminating in the devastating communal riots of 1983, 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 Velupillai 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. More than 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, antiaircraft weaponry, and captured armored vehicles (including several T-55 tanks and armored personnel carriers 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, mini-submersibles of indigenous construction, and underwater demolition teams. The LTTE air wing also reportedly has constructed an airstrip at Iranamadu in the north and acquired at least two light aircraft (to go along with a few pre-existing helicopters and gliders).⁹ 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 (especially the Tamils in Canada and Western Europe¹⁰), as well as from smuggling and legitimate businesses. The LTTE has been criticized for its alleged campaign to extort and coerce funds from overseas Tamils, especially in Canada and Britain.¹¹

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 more than 1,000 Indian troops) was assassinated in May 1991 by an alleged LTTE suicide

⁹ Sugeeswara Senadhira, "Kumaratunga's Dilemma on Joint Mechanism", *Asian Tribune*, Apr. 23, 2005.

¹⁰ "Expert Criticizes Canada for Not Banning LTTE," *The Island* (Colombo), Sept. 15, 2003; U.S. Department of State, *Patterns of Global Terrorism 2003*.

¹¹ Human Rights Watch, "Tamil Tigers Extort Diaspora for 'Final War' Funds," Mar. 15, 2006.

bomber.¹² One leading scholar claims that the LTTE had been responsible for fully half of all suicide attacks worldwide in recent years.¹³ Four previous attempts at a peaceful settlement ended in failure and violence. According to the Colombo government, more than 4,200 ceasefire violations occurred between the February 2002 agreement and July 2006, the great majority of these (95%) being committed by the LTTE.¹⁴

Current Peace Process

The current Norwegian-brokered peace effort, which began in 1999, has produced notable success since Prime Minister Wickremasinghe revived the process upon taking office in late 2001. A permanent ceasefire agreement was reached in February 2002 and, despite several incidents of alleged violations, was generally observed by both sides. In addition, confidence-building measures called for under the ceasefire have been implemented. In April 2002, 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.¹⁵

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 autumn 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 million¹⁶). A multilateral “donor conference” in Oslo in late November brought numerous pledges

¹² 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), Apr. 11, 2003).

¹³ Cited in Amy Waldman, “Suicide Bombing Masters: Sri Lankan Rebels,” *New York Times*, Jan. 14, 2003.

¹⁴ Nearly two-thirds of all LTTE violations involve child recruitment and abduction of adults (“CFA Violations at a Glance, February 22, 2002 — July 31, 2006,” Secretariat for Coordinating the Peace Process, Government of Sri Lanka).

¹⁵ Amal Jayasinghe, “Sri Lanka Lifts Ban on Tigers Ahead of Thai Talks,” *Agence France Presse*, Sept. 4, 2002.

¹⁶ “Sri Lankans in Reconstruction Talks,” BBC News, Nov. 18, 2002. Large numbers of Tamil refugees have already begun returning to the war-torn region since the February 2002 ceasefire (Dilip Ganguly, “100,000 Refugees Return to Sri Lanka,” *Associated Press*, Sep. 20, 2002).

of external assistance, with the United States promising to “play its part” toward implementation of a peace plan.¹⁷

In what appeared to be an important breakthrough, talks in the final month of 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.”¹⁸ This language marked a 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 2003, 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 ceasefire,” 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.”¹⁹

Talks in Japan in March 2003 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 had 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.²⁰ As with earlier talks, violence again threatened to derail the process. On March 10, 2003, 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 was carrying munitions. Norwegian truce monitors criticized both sides while refraining from ruling who was at fault.²¹

¹⁷ “Transcript: U.S. Prepared to ‘Play Its Part’ to Further Peace in Sri Lanka,” U.S. Department of State Washington File, Nov. 25, 2002.

¹⁸ Amy Waldman, “Sri Lanka to Explore a New Government,” *New York Times*, Dec. 6, 2002.

¹⁹ “Sri Lankan Peace Talks Start in Berlin,” Reuters, Feb. 7, 2003; Amal Jayasinghe, “Suicide Bomb Blunts Sri Lanka’s Peace Momentum,” Agence France Presse, Feb. 10, 2003; “U.S. Criticizes Tamil Tiger Smuggling,” BBC News, Feb. 12, 2003.

²⁰ Scott McDonald, “Sri Lanka Propose Aid Body to Tamil Tigers,” Reuters, May 28, 2003; Amal Jayasinghe, “Sri Lanka Negotiators Leave Japan With Little Progress, But Cash Hopes Alive,” Agence France Presse, Mar. 22, 2003.

²¹ “Sri Lanka Monitors Chide Both Sides Over Sea Clash,” Reuters, Mar. 17, 2003.

Also in March 2003, 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, the first for Sri Lanka since 1996. Organized around the central themes of peace, growth, and equity, the CAS called for \$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 1998.²²

In the spring of 2003 the Colombo government said it was considering holding an island-wide non-binding referendum to endorse its current peace negotiations with Tamil rebels. A public opinion poll found that 84% of all Sri Lankans believed peace could be achieved through dialogue, including more than 95% of Tamils.²³ 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 were set to begin days later.

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 Japanese and Norwegian efforts were aimed at keeping the faltering peace process between the LTTE and the Sri Lankan government from devolving back into further conflict. These peace initiatives 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 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.²⁴ 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 such concessions by both sides, a peace agreement was not guaranteed. The LTTE indicated that they would once again seek secession and an independent state if substantial autonomy is not achieved through the negotiation process.²⁵

The government is split between a more conciliatory faction represented by President Chandrika Kumaratunga and a more hardline faction represented by the JVP. The UNP opposition is also regarded as the party most willing to negotiate with the LTTE in order to end the conflict. Many observers believed this was due to the fact that a large portion of UNP political support is derived from the business class, whose success in turn depends on limiting the impact of uncertainty and instability which the conflict creates.

²² Florence Wickramage and Kushani Ratnayake, “World Bank Pledges Unconditional Support to Lanka,” *Daily News* (Colombo), Mar. 28, 2003; “World Bank Discusses New Country Assistance Strategy for Sri Lanka,” World Bank Press Release, Apr. 1, 2003.

²³ Francis Harrison, “Sri Lanka Ponders Peace Vote,” BBC News, Apr. 4, 2003; “Overwhelming Support for Peace Talks — Poll,” *Daily News* (Colombo), Mar. 24, 2003.

²⁴ Amal Jayasinghe, “Norway to Make Fresh Bid to Revive Sri Lanka Peace Process,” *Agence France Presse*, Sept. 3, 2003.

²⁵ Amy Waldman, “Sri Lanka to Explore a New Government,” *New York Times*, Dec. 6, 2003.

It was hoped that the LTTE would respond to the government's offer and rejoin peace negotiations by the end of September 2003.²⁶ An earlier proposal for an interim administration was rejected by the LTTE. The government continued having difficulty making offers as some observers noted that a constitutionally viable solution would require the consent of the more hardline faction in the government led by the JVP who have gone on record as opposing further concessions to the LTTE.²⁷

The international community has made an effort to support the dialogue process by offering inducements for peace. An international donors conference held in Tokyo in June 2003 obtained aid pledges for Sri Lanka totaling \$4.5 billion. Nearly one-quarter of the package was pledged by Japan. Some 51 nations and 20 international institutions participated in the conference, though it was boycotted by the LTTE.²⁸ During the same month, 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.²⁹ Deputy Secretary of State Richard Armitage expressed his support for the peace process at the Tokyo conference by asking the LTTE to end their boycott of the talks.³⁰

Despite international inducements, the peace process remained stalled for more than two years. The LTTE continued to insist on interim self-rule in the Tamil northeast as the basis of resumption of peace talks. The government expressed a desire that the LTTE restate its willingness to explore a federal solution to the conflict. Colombo has also requested that discussion of an Interim Self Governing Authority (ISGA) be part of a comprehensive peace discussion and not a precondition of such negotiations. Moreover, divisions within both the government and the LTTE cast doubt on the eventual outcome of the peace talks.

The ceasefire is still holding at present, but only nominally. The crisis continued beyond the April 2004 elections and was been exacerbated in 2005 by a number of factors, including tensions between the SLFP and its JVP coalition partners over the privatization of the university educational system and the petroleum sector; the possibility of a joint distribution mechanism with the LTTE of foreign aid as a result of the December 2004 Indian Ocean tsunami to LTTE controlled areas; and the prospect of a peace agreement that would grant greater autonomy to the Tamil-controlled North and East. The JVP strongly opposes each of these options

²⁶ "Tamils Begin Paris Talks on Sri Lanka Peace Offer," Agence France Presse, Aug. 21, 2003.

²⁷ "Sri Lanka Peace," Voice of America Federal News Dispatch, June 20, 2003.

²⁸ "Donors Pledge \$4.5 Bill for Sri Lanka Peace," *Ji Ji Press*, June 10, 2003.

²⁹ "World Bank Gives \$125 Million," Agence France Presse, June 18, 2003.

³⁰ "U.S. Asks Tamil Tigers to Resume Talks with Sri Lankan Government," BBC Monitoring South Asia, June 13, 2003.

and made numerous threats to withdraw from the United People's Freedom Alliance, thus depriving the electoral coalition a majority in parliament.³¹

The LTTE has experienced instability and intra-factional disagreements, as well. In March 2004 there was a major rupture within the LTTE ranks: Vinayagamoorathi Muralitharan, alias Colonel Karuna (who, as Special Commander, Batticaloa-Amparai District, was in charge of the LTTE's military operations in the Eastern Province) split with the Northern command of the LTTE headed by the supreme commander of the LTTE (Veluppillai Prabhakaran) and took an estimated 6,000 soldiers with him. Colonel Karuna then called for a separate truce with the government. Factional fighting ensued between Karuna's splinter group and the Northern faction of the LTTE, resulting in Prabhakaran's reassertion of control over the eastern areas where Karuna had previously operated.

Since the 2004 LTTE schism there have been numerous instances of political and military operatives being killed by each side as they jockey for power in the East. The LTTE has accused Col. Karuna and those loyal to him of cooperating with Sri Lankan Army (SLA) paramilitaries and special forces in raids and targeted killings of forces under their command, which the SLA denies. Karuna has since withdrawn to a fortified base in the jungles of eastern Sri Lanka where his forces have been able to repel LTTE attacks.³² During the first half of 2005 there were several reported instances of serious ceasefire violations. First was the death of a high level LTTE political officer, E. Kousalyane, in early February which was followed by an increase in politically motivated killings of individuals throughout the eastern provinces.³³ In April there was also a much-publicized incident when a Sea Tiger unit attacked a Sri Lankan Navy vessel carrying a peace monitor, slightly wounding him. This led to a formal censure of the LTTE by the ceasefire monitoring group, the Sri Lanka Monitoring Mission (SLMM), and marked a particularly brazen attack as the Sri Lankan Navy vessel was flying the SLMM flag to indicate that monitors were aboard.³⁴ By the middle of 2005, politically-motivated killings were reportedly costing one life each day.³⁵

Obstacles

Many observers have been surprised to see the ceasefire hold despite the stalled negotiations between the Sri Lankan government and the LTTE. Despite several years of relative peace, negotiators face great difficulty as they attempt to craft a political system that maintains Sri Lanka's unity while addressing the LTTE's desire

³¹ "JVP Threatens to Bring Down Lanka Govt. Over LTTE Tsunami Deal," *Hindu* (Madras), Apr. 20, 2005

³² Press Trust of India, Mar. 21, 2005.

³³ V.S. Sambandan, "Batticaloa LTTE Leader Killed," *Hindu* (Madras), Feb. 7, 2005.

³⁴ "Tamil Tiger 'Breached Ceasefire,'" BBC News, Apr. 08, 2005.

³⁵ "Sri Lanka: Political Killings Escalate," Human Rights Watch, Aug. 16, 2005.

for substantive autonomy.³⁶ A variety of federal models have been put under consideration, including those that have seen success in Switzerland and Canada, among others.³⁷ In addition to questions of power-sharing, numerous other highly contentious issues to be settled include geographical boundaries, human rights protection, political and administrative mechanisms, public finance, law and order, and LTTE accountability for past actions.³⁸

A key unresolved short-term issue is the decommissioning of LTTE weapons, which the Tigers repeatedly have stated will not occur until a permanent settlement is reached. The SLFP claims that the rebels are “armed to the teeth” and must disarm as part of the negotiation process.³⁹ 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.⁴⁰ Colombo is refusing to open up the “high security zones” until the rebels lay down their arms, an action the Tigers have called “non-negotiable.”⁴¹ 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.”⁴² Many believe that the Tigers are continuing recruitment and arms procurement efforts in violation of the February 2002 ceasefire agreement in order to maintain the military balance.⁴³

There have been a number of incidents of concern since the ceasefire was declared. Reports indicate that following the establishment of the ceasefire, the LTTE killed a number of rivals, informants, and intelligence officers.⁴⁴ In August 2003, the U.S. State Department “noted with concern” that the LTTE was

³⁶ 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*, Jan. 14, 2003).

³⁷ 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, Jan. 1, 2003.

³⁸ V.S. Sambandan, “Fashioning a Federal Sri Lanka,” *Hindu* (Madras), Dec. 10, 2002.

³⁹ “Tamil Tigers ‘Must Disarm,’” BBC News, Dec. 13, 2002.

⁴⁰ Amy Waldman, “Sri Lanka Faces the Divisions Within,” *New York Times*, Jan. 8, 2003.

⁴¹ “Sri Lanka Talks Face Hurdle,” BBC News, Jan. 4, 2003.

⁴² Rasheed Bhagat, “No to War Isn’t Yes to Peace,” *Business Line* (Madras), Apr. 8, 2003.

⁴³ V. Suryanarayan, “Paradigm Shift in Sri Lanka?,” *Hindu* (Madras), Jan. 21, 2003; Anthony Davis, “Sri Lanka Intercepts New Arms Purchases,” *Jane’s Intelligence Review*, Apr. 1, 2003.

⁴⁴ Amal Jayasinghe, “Violence Against Muslims Adds to Sri Lanka Peace Bid Worries,” *Agence France Presse*, Aug. 19, 2003.

“undermining confidence in the peace process” by maintaining a military camp near Trincomalee and by conducting “political assassinations.”⁴⁵ The Sri Lankan Muslim Congress, a constituent of the UNF, has also accused the LTTE of killing Muslims in the east.⁴⁶ The LTTE 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 ceasefire agreement by setting up the new camp.⁴⁷ In June 2003, a Sri Lankan naval patrol intercepted a vessel suspected of running guns for the Tigers.⁴⁸

From 2004 to date there was an increase in the number of small-scale violations of the ceasefire. These included the LTTE’s firing on SLMM personnel on board a Sri Lankan naval vessel, as well as the construction of an airfield for the LTTE Air Tigers. These developments were attributed to the continued jockeying for position in the lead up to any resumption of anticipated talks.

A potential obstacle to a peace deal in the near- and middle-term is the continuing political division between the JVP and the SLFP as regards any settlement of autonomy or self-governing aspects of any eventual peace deal. The JVP has threatened to withdraw from the UPFA coalition if any agreement is reached which they allege might impinge national sovereignty.

The SLFP 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.”⁴⁹ At the time, President Kumaratunga complained that Oslo’s role in assisting the LTTE’s December 2002 procurement of a powerful FM radio transmitter raised serious questions about Norway’s impartiality.⁵⁰ Press reports indicated that the Tigers would use the new equipment to extend their radio broadcasts into government-controlled regions for the first time since the civil war began; some critics said the move provides the rebels with an influential propaganda tool.⁵¹

⁴⁵ “U.S. Notes with Concern LTTE Camp and Political Assassinations,” U.S. Department of State, Press Release, Aug. 7, 2003.

⁴⁶ V.S. Sambandan, “Sri Lanka to Step up Security in the East,” *Hindu* (Madras), Aug. 22, 2003.

⁴⁷ Amal Jayasinghe, “Tigers Defy Scandinavian Monitors,” Agence France Presse, Aug. 8, 2003.

⁴⁸ Amal Jayasinghe, “Double Blow to Sri Lanka Peace Bid,” Agence France Presse, June 14, 2003.

⁴⁹ Frances Harrison, “Sri Lanka Peace Moves Attacked,” BBC News, Nov. 15, 2002.

⁵⁰ “Kumaratunga Angry at Norway,” BBC News, Dec. 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), Feb. 26, 2003).

⁵¹ “Tamil Tigers to Mount Radio Offensive,” BBC News, Jan. 2, 2003; Frances Harrison, (continued...)

The shift in power from Wickremasinghe to Kumaratunga appeared to some analysts to indicate an increasingly hardline position by the government. At the same time, the LTTE split and ensuing inter-factional fighting may have weakened the LTTE organization. For these possible reasons, and potentially due to the devastation wrought by the tsunami, the LTTE did not pursue a military solution in 2005, despite its frustration with the government for not acceding to demands for a Interim Self Governing Authority (ISGA) as a precondition to a resumption of negotiations.

President Kumaratunga's November 2003 removal of Defense Minister Tilak Marapone, Interior Minister John Amaratunga, and Information Minister Imthiaz Bakeer Makar — and her declaration of a state of emergency while also deploying troops around the capital and dismissing parliament — appeared to undermine the peace process being pursued by then-Prime Minister Wickremesinghe.⁵² These actions followed the October 2003 submission by the LTTE of a power sharing proposal for an interim administration for the northeast that reportedly would give the rebels significant authority over the territory under their control.⁵³ Kumaratunga's adviser, Lakshman Kadirgamar, criticized the LTTE proposal for an Interim Self-Governing Authority as a "total incursion into Sri Lanka's sovereignty" and as a result, unacceptable.⁵⁴ It was also reported that Kumaratunga viewed the ISGA as a foundation for partition. While in Washington to meet with President Bush, then-Prime Minister Wickremesinghe stated that President Kumaratunga's moves were calculated to hurt the peace process, and a U.S. State Department spokesman expressed concern that the developments "could have a negative effect on the peace process."⁵⁵

The December 2004 Indian Ocean Tsunami

The tsunami that devastated much of coastal South and Southeastern Asia hit Sri Lanka particularly hard. As of April 2005, 31,147 persons were reported killed in Sri Lanka with 4,114 missing.⁵⁶ According to the Colombo government, an estimated 496,282 Sri Lankans were displaced from their homes. The Sri Lankan Ambassador to the United States stated that up to 70% of the Sri Lankan coast was damaged. The single most costly event in terms of human life was the complete destruction of a train traveling along a coastal railroad track. More than 2,000 people

⁵¹ (...continued)

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

⁵² "Sri Lanka: Situation Report," Stratfor.com, Nov. 5, 2003.

⁵³ "Sri Lankan President Seizes Control," *Times* (London), Nov. 5, 2003.

⁵⁴ "Sri Lankan Aid Says Tiger Proposal "Unacceptable," BBC News, Nov. 5, 2003.

⁵⁵ "Sri Lankan President Seizes Control," *Times* (London), Nov. 5, 2003.

⁵⁶ "Indian Ocean-Earthquakes and Tsunami", Fact Sheet #37, USAID, Apr. 1, 2005; *Seattle Times*, Feb. 9, 2005.

died in this single incident.⁵⁷ Fortunately, a projected outbreak of disease following the tsunami never materialized.

President Bush expressed his condolences to the Sri Lankan people over the “terrible loss of life and suffering.” The State Department stated that the United States stood ready to provide assistance to those nations most affected, including Sri Lanka.⁵⁸ The State Department also issued a travel advisory warning Americans to avoid Sri Lanka (this has since been rescinded). It was reported that the Pacific Tsunami Warning Center attempted to warn the region of the incoming tsunami but was unable to do so because the region had no alert system. It took one and a half hours for the tsunami to reach Sri Lanka from its epicenter west of Sumatra, Indonesia. There was some evidence that the tsunami weakened the LTTE through the destruction of many of its naval assets and the loss of at least 1,000 of its cadres.⁵⁹ (See also CRS Report RL32715, *Indian Ocean Earthquake and Tsunami*.)

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, as well as 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. Sri Lanka’s entire economy has also suffered as a result of prolonged drought (the worst in two decades), related hydroelectric power shortages, and the worldwide economic downturn. The country experienced its first ever recorded recession in 2001, with a negative GDP growth rate of -1.4%.

Despite the existence of such obstacles, current estimates show Sri Lanka’s economy is doing relatively well. The economy grew by 6% in 2005, and estimates for 2006 and 2007 near 5.4%.⁶⁰ Possible success with renewed privatization efforts and further progress in the current peace process would 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. Consumer price inflation has been a major burden at more than 11% in 2005 and at a year-on-year level of nearly 18% in June 2006. Despite earlier and possible future government-LTTE negotiations, the civil war continues to place a heavy burden on the country’s economy, as well as to hinder

⁵⁷ Shimali Senanayake, “Sri Lanka: Railroad Line Closed by Tsunami Reopened” Associated Press, Feb. 21, 2005.

⁵⁸ Deb Riechman, “Bush Sends Condolences to Asia, Offers Aid,” Associated Press, Dec. 27, 2004.

⁵⁹ Chandra de Silva, “Sri Lanka in 2005,” *Asian Survey* 46, 1, Jan. 2006, p. 116.

⁶⁰ “Sri Lanka: Executive Summary,” Global Insight, July 19, 2006.

its economic potential. Many analysts believe that annual growth rates would have been as much as three percentage points higher in the absence of protracted ethnic conflict.⁶¹

The uncertainty caused by ongoing ethnic conflict was particularly unfortunate for Sri Lanka as the economy was rebounding with new-found confidence that an agreement would be reached between the government and the LTTE. In 2005, foreign investment was expected to reach \$300 million.⁶² The president's call for snap elections, years before they were required, caused a 15% drop in the Colombo stock market in February 2004. The Sri Lankan rupee at the time also dropped to close to its all time low before the central bank intervened to support it at 98.25 to the U.S. dollar.⁶³

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 around 5% today. 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. The U.N. Development Program ranked Sri Lanka 93rd out of 177 countries on its 2005 human development index, just above Turkey and higher than any other South Asian country. Sri Lanka's ranking rose from 96th in 2004 and 99th in 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 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. However, the political instability of 2004 and 2005 set back the time frame for any possible Free Trade Agreement (FTA), and negotiations were put on hold pending positive developments in peace negotiations. The two countries also maintain military-to-military relations.

Bilateral Relations

In July 2002, President Bush met with then-Sri Lankan Prime Minister 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

⁶¹ "Sri Lanka: Executive Summary," Global Insight, May 14, 2003.

⁶² Sri Lanka Country Report, Economist Intelligence Unit, Feb. 2005.

⁶³ "Sri Lankan Central Bank Intervenes," Reuters, Feb. 9, 2004.

Lankan leader since 1984. Two months later, a U.S. defense assessment team was sent to examine the training needs of the Sri Lankan military, and State Department Coordinator for Counterterrorism Francis 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.⁶⁴ The United States and Sri Lanka signed an agreement that would provide demining training to the Sri Lankan military. The training was estimated to cost \$2.2 million and ran from August 2003 to February 2004.⁶⁵ Ship visits continued with the visit of the *USS Blue Ridge* to Colombo in February 2005.⁶⁶ The U.S. and Sri Lankan navies also participated in a multilateral search and rescue exercise off the coast of Madras in July of 2003.⁶⁷ In June 2004, the U.S. Coast Guard transferred the donated USCG Cutter *Courageous* offshore patrol vessel to the Sri Lankan Navy, which renamed it the SNLS P-621 *Samadura* and had it retrofitted at the Newport News facility in Virginia.⁶⁸ This was an important moment in U.S.-Sri Lankan military relations, as it marked the first significant military hardware transfer between the two nations.

The U.S. State Department first designated the LTTE as a Foreign Terrorist Organization in 1997.⁶⁹ In February 2003, former 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.⁷⁰

⁶⁴ “United States Help to Modernize Sri Lanka Military,” Agence France Presse, Aug. 30, 2002; “U.S. Counterterrorism Official to Visit Sri Lanka,” Reuters, Sep. 24, 2002; “U.S., Sri Lankan Militaries Cooperate in ‘Balance Style,’” U.S. Embassy Sri Lanka Press Release, Jan. 14, 2003.

⁶⁵ “U.S. Government Provides Sri Lankan Army with Demining Training,” U.S. Department of State Press Release, Aug. 22, 2003.

⁶⁶ “USS Blue Ridge, Seventh Fleet explore Sri Lanka”, U.S. Seventh Fleet.

⁶⁷ “U.S. Naval Ship to Take Part in Rescue Exercise,” *Hindu* (Madras), July 9, 2003.

⁶⁸ “Admiral Sandagiri Accepts Transfer of Former U.S. Coast Guard Vessel “Courageous,” Embassy of Sri Lanka Press Release, June 24, 2004.

⁶⁹ “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, Aug. 9, 2002).

⁷⁰ “Transcript: Armitage Says U.S., Other Nations Have Role in Ending Sri Lankan Conflict,” U.S. Department of State Washington File, Feb. 14, 2003 (Assistant Secretary of State for South Asia Rocca set similar criteria in March 2003).

The LTTE has rejected calls that it renounce violence, saying it will do so only when “the aspirations of [the Tamil] people are met by a political settlement.”⁷¹ The U.S.-led 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, was cited as a likely factor in the rebel’s decision to enter into peace negotiations.⁷² In June 2003, Sri Lanka joined the U.S. Customs Container Security Initiative aimed at preventing shipping from being used to transport weapons of mass destruction.⁷³

Trade, Investment, and Aid

The United States is by far Sri Lanka’s most important trade partner, accounting for about one-third of the country’s total exports and one-quarter of its imports. In 2005, U.S. imports from Sri Lanka were valued at \$2.1 billion (up 6.4% from 2004). About three-quarters of these imports were apparel and household goods, most of them cotton. U.S. exports to Sri Lanka in 2005 were valued at \$198 million (up 20% from 2004), led by finished cloth and textiles, electric apparatus, and pharmaceutical preparations.⁷⁴ Sri Lanka’s Board of Investment reports that some 90 U.S.-based companies operate in Sri Lanka with a total estimated investment of more than \$500 million. The U.S. government urges Colombo to curb its large budget deficit, simplify the tax code, and expand the tax base. It further urges the removal of non-tariff barriers and restrictive, even discriminatory, import fees and levies to facilitate greater trade.⁷⁵

During Prime Minister Wickremasinghe’s July 2002 visit to Washington, 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.”⁷⁶

⁷¹ Alister Doyle, “Tamil Rebels Reject U.S. Call to Renounce Violence,” Reuters, Nov. 25, 2002.

⁷² “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.

⁷³ “Terrorism Notebook,” *Seattle Times*, June 26, 2003.

⁷⁴ U.S. Census Bureau, Foreign Trade Statistics.

⁷⁵ Richard Boucher, “Remarks to the American Chamber of Commerce Colombo, Sri Lanka,” U.S. Department of State, June 1, 2006.

⁷⁶ “Trade and Investment Framework Agreement Between the U.S. and Sri Lanka,” at [<http://www.slembassyusa.org/investment/tifa.html>].

That year, several teams of U.S. officials 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 was to attract greater U.S. private investment. In December 2002, 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, then 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.”⁷⁷ In March 2003, the second round of TIFA Joint Council meetings were held in Washington, where Deputy Trade Representative Huntsman and Sri Lankan Commerce Minister Karunanayake led their respective delegations. The tenor of these meetings was reportedly positive and “progress was made on issues of concern to both countries.”⁷⁸ 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.⁷⁹

A total of more than \$1.7 billion in U.S. economic and military assistance went to Sri Lanka from 1947 through 2005, including more than \$20 million for FY2005, about half as Economic Support Funds meant to support the peace process through democracy and governance programs. Other U.S. aid 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 human rights awareness and enforcement; providing psychological counseling to communities in the conflict zones; tsunami recovery efforts, and demining. USAID ran a two-year program (2003-2005) aimed at generating greater support for a negotiated peace settlement to end the long-standing conflict. Former Deputy Secretary of State Armitage pledged an additional \$54 million in assistance to Sri Lanka at the June 2003 donors meeting in Japan.⁸⁰ Estimated U.S. aid in FY2006 is just under \$13 million, including a boosted demining fund of \$3.5 million. The Bush Administration has requested \$10.1 million in FY2007 aid to Sri Lanka.

Human Rights Concerns

The U.S. State Department, in its *Sri Lanka Country Report on Human Rights Practices, 2005*, determined that the Colombo government “generally respected the human rights of its citizens; however, there were serious problems in some areas.

⁷⁷ 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, Nov. 21, 2002; “U.S., Sri Lanka to Work on Economic Ties,” Reuters, Dec. 20, 2002.

⁷⁸ Author interview with U.S. Trade Representative official, Apr. 9, 2003.

⁷⁹ “Thailand Near Top of U.S. List for Next Free Trade Pact,” *Bangkok Post*, May 10, 2003.

⁸⁰ “Armitage Pledges \$54 million at Sri Lanka Donors Conference,” U.S. Department of State Press Release, June 10, 2003.

Some members of the security forces committed serious human rights abuses.”⁸¹ Major problems included torture of detainees and poor prison conditions; violence and discrimination against women; child prostitution and child labor; and human trafficking, among others. There were extensive reports of torture and custodial deaths as a result of police torture. To address the issue of government accountability for past abuses committed during the war, the Sri Lankan government investigated some past abuses by security and armed forces personnel. The government of Sri Lanka continued to hold Tamils under the Prevention of Terrorism Act (PTA), which permitted arrests without warrants and non-accountable detention. The United States also finds that the LTTE “continued to commit serious human rights abuses” in 2004-2005, including “unlawful” killings, disappearances, arbitrary arrests and detentions, extortion, child recruitment into their armed forces, and torture.⁸²

⁸¹ U.S. Department of State, *Supporting Human Rights and Democracy: The U.S. Record 2004 - 2005*.

⁸² Ibid.

Figure 1. Map of Sri Lanka



Source: Map Resources. Adapted by CRS. (K.Yancey 6/18/04)