



The Situation in Sri Lanka: An Update



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Summary

After defeating the LTTE in May 2009, Sri Lanka was faced with an uphill task of rebuilding the nation, the most challenging of which was improving the lives of the Tamils living in the North and the East. Acknowledging the fact that military victory over the LTTE is not the final solution, Mahinda Rajapaksa promised to restore the rights and dignity of the Tamils through a political solution. Rajapaksa strongly believes that the infrastructure development projects he has launched in the North and the East, are one part of the larger solution to the Tamil issue. During the celebration of the second anniversary of victory over the LTTE in May 2011, Rajapaksa declared with pride that within two years he has been able to draw a new map of Sri Lanka through a revolution in development. However, even as the Rajapaksa Government was boasting about the country's unprecedented economic growth and development, Western countries began to accuse Sri Lanka of committing war crimes during the last phase of Eelam War IV. Reacting to this allegation, Rajapaksa has said that he expects support from the international community, not obstruction of his efforts at nation building. To understand these issues in a larger perspective, this Brief presents an update on the political, economic and internal security situation in Sri Lanka. An attempt has also been made to analyse the foreign policy orientation of Sri Lanka in the post-LTTE period with special focus on its policy towards India.

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Political Situation in Sri Lanka

After winning a second presidential term, Mahinda Rajapaksa passed the 18th Amendment Bill to further strengthen his position and power.¹ At the same time, the United People's Freedom Alliance (UPFA) under his leadership has been constantly criticised for the high cost of living, lack of democracy and lack of transparency by the opposition parties such as, the United National Party (UNP) and the Janata Vimukti Peramuna (JVP). However, the results of the recent parliamentary election² and the local government election³ prove that Mahinda Rajapaksa and his alliance still enjoy popular support. Meanwhile, the United

¹ Sri Lanka's Parliament passed the controversial 18th Amendment Bill on September 8, 2010, with 161 Members of Parliament voting for and 17 against the bill. It is basically an amendment of the 17th Amendment, which the current government considered as "ineffective and impractical." The highlights of the changes brought about by this amendment are: (a) The President can seek re-election any number of times; (b) The ten-member Constitutional Council has been replaced with a five-member Parliamentary Council; (c) Independent commissions have been brought under the authority of the President; and (d) It enables the President to attend Parliament once in three months and entitles him to all the privileges, immunities and powers of a Member of Parliament other than the entitlement to vote. In short, it is all about arming the President with absolute power.

² In the 14th Parliamentary election the UPFA secured a landslide victory by winning 144 seats. The main opposition, the UNF won only 60 seats. The Tamil National Alliance and Democratic National Alliance secured 14 and 7 seats, respectively.

³ The local Government Election held on March 17, 2011 was for 234 out of a total of 335 local authorities. Out of these 234, the UPFA won 205, TNA 12, UNP 9, SLMC 4 and JVP Nil.

National Front (UNF)⁴ has failed to provide a vibrant opposition in the Parliament. One of its constituent parties, the UNP, recently went through a leadership crisis, during which several of its members joined the ruling UPFA. Thus, a strong President and a weak Opposition are the notable features of the current political system in Sri Lanka.

Dialogue with the Tamil National Alliance⁵

The government has so far, had four rounds of talk with the Tamil National Alliance (TNA). Before these official dialogues, President Rajapaksa held discussions with the TNA Parliamentary Group Leader Rajavarotheyam Sampanthan twice, on a one to one basis, without any aides being present. As a result of these meetings a decision was taken to set up two joint mechanisms: one to deal with immediate issues such as relief, resettlement, rehabilitation, reconstruction and livelihood etc., and the other to commence a structured dialogue for political settlement. In addition, two trusted representatives namely, the Central Bank Governor Ajit Nivard Cabraal and the TNA National List MP and Lawyer MA Sumanthiran, held a series of discussions in Colombo. These talks were focused on the framework of a potential political settlement based on maximum devolution to provincial units while ensuring the unity, sovereignty and territorial integrity of Sri Lanka. Both representatives reported regularly to Rajapaksa and Sampanthan after each round of talks.

The first round of official talks between the representatives of the government and the TNA took place on January 10, 2011. Some of the issues raised by the TNA in the first round of talks were, the removal or reduction of high security zones, disarmament of persons and groups bearing arms illegally in the North and East and the fate of 600-800 Tamils being detained since May 2009 at various places in the country under the Prevention of Terrorism Act (PTA) and Emergency regulations. The government promised to return with a positive response at the second round of talks. The second round was supposed to have been held on January 24 2011, but instead took place on February 3. During this round, the TNA expressed its disappointment with the government's response. The government representatives then assured the TNA that they would get back to the third round of talks with more information on the issues raised. After postponing it twice, the third round of talks was held on March 18, 2011 without any significant development. The fourth round of talks, held on April 7, 2011, also did not produce any outcome. In this round, the Tamil National Alliance and the government decided upon visiting and inspecting the Vavuniya and Omanthai IDP camps on April 16, 2011. However, the government continues to postpone the inspection.

⁴ United National Front (UNF) is the Opposition in the Sri Lankan Parliament.

⁵ For details, see D.B.S. Jayaraj, "Positive Forward Movement in Government-TNA Dialogue", *Daily Mirror*, March 21, 2011 at <http://print.dailymirror.lk/opinion1/38731.html>.

The issue of devolution of power is expected to be formally discussed in the next round of talks scheduled on June 23, 2011. Both the government and the TNA are trying to determine the extent of devolution. They are focusing on the devolved list and reserved list to allocate responsibilities to the provincial units and the central government. They are trying to do away with the concurrent list altogether or reduce its scope to a great extent.

Though the Sri Lankan Government is engaged in a dialogue with the TNA, it still considers the TNA as a sympathiser of the Liberation Tigers of Tamil Eelam (LTTE). The government believes that some TNA members may have connections with the pro-LTTE community abroad. On the other hand, pro-LTTE media organs abroad feel that the TNA has sold out to the government.

Internal Security

After the defeat of the LTTE, there has been no terrorist attack in Sri Lanka. However, people are facing challenges from the Tamil paramilitary organisations and from some illegal arm bearers in the North and the East. While the emergency regulation and the Prevention of Terrorism Act are still being used in many parts of the country, cases of disappearances have been reported. The situation is not very conducive, particularly for journalists. The government is alleged to be behind the cases of disappearance. It has been alleged that the present government does not tolerate any opposition be it from Tamil community or the Sinhala community.

Sri Lankan Economy⁶

Sri Lanka's economy grew by an impressive eight per cent in 2010, reflecting a fast recovery from the setback suffered in 2009. Inflation was measured at six per cent. All key sectors of the economy demonstrated a commendable performance in 2010. The agriculture sector, which contributed around 11.9 per cent of the GDP in 2010, grew by seven per cent, compared to 3.2 per cent in 2009, mainly driven by the increased production of paddy, tea, rubber and minor export crops along with significant improvements in the fisheries sector. The industrial sector grew by 8.4 per cent. The share of the industry sector in the total GDP increased marginally to 28.7 per cent in 2010. The services sector grew by eight per cent in 2010. The wholesale and retail sub-sector, which accounts for the largest share in the services sector, grew by 7.5 per cent with enhanced performance in both domestic and external trading activity. The hotels and restaurants sub-sector grew sharply by about 39.8 per cent underpinned by the strong performance in tourism.

⁶ For details, see Central Bank of Sri Lanka website, http://www.cbsl.gov.lk/htm/english/10_pub/p_1.html.

Both exports and imports recovered strongly, while increased earnings from the tourism industry and higher inward remittances offset the widening trade deficit to a great extent, reducing the external current account deficit. Increased capital and financial flows resulted in the balance of payments (BOP) recording a surplus in 2010, further strengthening the external reserves of the country. While the earnings from exports increased by 17.3 per cent, the expenditure on imports grew by 32.8 per cent. As a result, the trade deficit expanded to US \$ 5,205 million in 2010.

Foreign direct investments (FDI), including loans to the Board of Investment (BOI) enterprises, decreased further to \$516 million in 2010, mainly due to the impact of the global financial crisis on foreign financial flows.

Sri Lanka was graduated to middle-income status from the list of Poverty Reduction and Growth Trust (PRGT) eligible countries in January 2010 by the International Monetary Fund (IMF). The specific factors that have been considered by the IMF in graduating Sri Lanka to middle-income status include: (a) the strong economic performance in recent years, which has lifted Sri Lanka's per capita income substantially to \$2,014 by 2008, well above the prevailing International Development Association (IDA) threshold; (b) the gradual decline of projected external debt over the medium term, ensuring a sustainable level of public debt with timely implementation of fiscal consolidation; and, (c) the benefits accruing from increased access to capital markets in recent years, thus meeting the market access criterion of the IMF. This was reflected in the heavily oversubscribed five-year international sovereign bonds issued in 2009. Sri Lanka raised \$ one billion from the international sovereign bond issue in 2010, with a ten-year maturity at a very competitive rate.

Government Target/Ambition

- To transform Sri Lanka into a strategically important economic centre by developing five strategic hubs: a knowledge hub, a commercial hub, a naval/ maritime hub, an aviation hub and an energy hub, by taking advantage of the country's strategic location and resources.
- 2.5 million tourist arrivals envisaged in 2016.
- To double the country's per capita income to \$4,000 by 2016 and to turn Sri Lanka into the "Wonder of Asia".
- Currently, Sri Lanka's ranking in the Doing Business Index is 102 and the government has targeted to improve the ranking to 30 by 2014.

Foreign Policy of Sri Lanka

Sri Lanka's foreign policy under Mahinda Rajapaksa can be defined as Asia centric and non-aligned. While Sri Lanka follows a foreign policy of "friendship with all and enmity

towards none”, priority is being given to countries in the Asian region, particularly India, Japan, China and Pakistan.

Despite India’s insistence upon a political solution to the Tamil issue, Sri Lanka maintains friendly relations with India. Sri Lanka does not allow contentious issues such as, illegal fishing and poaching in each others’ water, supply of poor quality medicine, diesel power unit for railways and other issues to affect the friendly relations between the two countries. Both countries are attempting to solve these and other issues through bilateral dialogue. (India-Sri Lanka relation is discussed in greater detail below). The current Sri Lankan Government officially considers India as a ‘relative’ and China as a ‘good friend’. However, a section of the Indian strategic community considers Sri Lanka’s foreign policy as tilted towards China.

Sri Lanka has also attached importance to strengthening relations with other South Asian countries and in playing a lead role in promoting greater regional cooperation through the South Asian Association for Regional Cooperation (SAARC). Sri Lanka’s relations with Pakistan and Bangladesh were further strengthened by Pakistani President Asif Ali Zardari’s visit to Sri Lanka in November 2010 and by President Mahinda Rajapaksa’s visit to Bangladesh in April 2011.

Sri Lanka-China relations, which started with trade ties, have been diversified to all areas of contemporary relevance. In 2008, China replaced Japan as Sri Lanka’s largest foreign donor, with aid topping \$ one billion dollar. In 2009, the aid amount increased to \$ 1.2 billion. While consolidating the traditional bonds of friendship that had existed with China, Japan and South Korea, Sri Lanka has paid special attention to evolving a more productive relationship with the Southeast Asian region.

Sri Lanka’s West Asia policy is influenced by the large number of Sri Lankans working there and whose remittances contribute significantly to its economy, and by energy needs.

Mahinda Rajapaksa’s visit to Russia in February 2010 was the first high-level visit to Russia after 36 years. It marked a renewal of Sri Lanka-Russia relations.

In the aftermath of the civil war, Sri Lanka’s relations with the West has soured, particularly when the Western powers insisted on accountability for alleged excesses committed during the last phase of the civil war. The West, as well as India, also insisted on the need to revive a political approach to the ethnic issue. Sri Lanka’s enhanced economic and political ties with China, which avoids such demands, show the government’s resentment toward what has been perceived as Western attempts to interfere in Sri Lanka’s internal affairs.⁷

⁷ Uyangoda, Jayadeva, “Sri Lanka in 2010”, *Asian Survey*, Vol. 51, No. 1 (January/February 2011), pp. 131-137, at <http://www.jstor.org/stable/10.1525/as.2011.51.1.131>.

However, Sri Lanka's economic relations with the West did not get affected in the process. Sri Lanka has also been seen to develop relations with small countries and approaching every possible country seeking investment in Sri Lanka, particularly in the field of tourism and infrastructure development.

The question of human rights violations during the last phase of the civil war has become entangled with Sri Lanka's bitter relationship with the United Nations (UN). On April 12, 2011, the three-member advisory panel appointed by Ban-Ki-Moon handed over its report, which found "credible allegations, which if proven, indicate that a wide range of serious violations of international humanitarian law and international human rights law were committed both by the Government of Sri Lanka and the LTTE, some of which would amount to war crimes and crimes against humanity." The experts recommended an independent international investigation mechanism for war crimes. The Sri Lankan Government finds this report fundamentally flawed in many respects as it is allegedly based on patently biased material which has been presented without any verification. Sri Lanka will be relying on two Security Council members Russia and China, to veto an independent international investigation, if the matter is taken to the Security Council. Russia has already condemned the report.

India-Sri Lanka Relations

India-Sri Lanka relations have matured and diversified in the areas of trade, services and investment, development cooperation, energy, culture and education. Since the inception of the Norway-brokered peace process in 2002, when Chandrika Kumaratunga was at the helm, India has been constantly consulted by Sri Lanka. The relationship between the two countries has further improved under Mahinda Rajapaksa. The Rajapaksa government has reasoned that Sri Lanka's military operations against the LTTE in 1987 could not be sustained because the relationship with India was not managed effectively. Rajapaksa also understood that "while other countries could mount pressure on Sri Lanka through diplomatic channels or economic means, only India could influence the military campaign."⁸ It was this realisation which made the Rajapaksa government manage its relations with India through a clear communications line at the highest level. The high-level bilateral contacts and visits between India and Sri Lanka have continued even after the successful completion of military operations against the LTTE in May 2009.

The most significant visit, in the post LTTE period, was Rajapaksa's visit to India in June 2010, during which the two countries agreed to "further harness the enormous potential available for consolidating and strengthening the bilateral partnership by building on shared values and principles of democracy and pluralism, leveraging common strategic

⁸ Supun Dias, , "Close ties with India were Crucial for War Victory-Gota", *The Daily Mirror*, June 1, 2011, at <http://print.dailymirror.lk/news/front-page-news/45643-close-ties-with-india-were-crucial-for-war-victory-gota-.html>.

concerns and interests, enhancing connectivity between the two countries, increasing the integration of their economies, and reinforcing the institutional framework for cooperation.”⁹ India has allocated Rs. 500 crore from the Union Budget for the rehabilitation of the Internally Displaced Persons (IDP) and reconstruction of the Northern and Eastern Sri Lanka. India has also provided flood relief assistance worth \$1 million in January 2011. India continues to be Sri Lanka’s largest trading partner in the world and Sri Lanka is India’s largest trading partner in South Asia. In 2010 India emerged as the largest investor in Sri Lanka.¹⁰ India is assisting Sri Lanka in the energy sector by constructing a 500 MW coal power plant in Sampoor. To strengthen the cooperation in the energy sector further, the two countries have finalised a draft agreement on conducting a feasibility study of Sri Lanka selling electricity to India through the Mannar–Tamil Nadu undersea High Voltage Direct Current (HVDC) power link. India and Sri Lanka have agreed to finalise an agreement providing for comprehensive cooperation in agriculture. India has acceded to Sri Lanka’s request for support in terms of technical assistance to the Ten-Year Presidential Initiative to steer Sri Lanka towards a Trilingual Society by 2020, which includes teaching of Tamil language in Sri Lanka. Nevertheless, issues of concerns and challenges (like the issue of fishermen) still exist between India and Sri Lanka, but the two countries have shown maturity in dealing with these issues.

The Rajapaksa Government’s continuing consultations with India on various sensitive issues like the UN Panel’s Report on Accountability in Sri Lanka and the devolution package to the North and East have been vehemently criticised in the Sri Lankan media. So far, given the importance of the India factor, Rajapaksa has ignored such criticism, though he has also sought to balance this by not moving ahead on the issue of a Comprehensive Economic Partnership Agreement (CEPA) which is opposed by certain quarters in Sri Lanka.¹¹

⁹ See the Joint Declaration issued following the State Visit of H. E. President Mahinda Rajapaksa to India from June 8-11, 2010 available at http://www.mea.gov.lk/index.php?option=com_content&task=view&id=2416&Itemid=75.

¹⁰ FDI inflows amounting to US\$110 million were recorded from India in 2010.

¹¹ The two countries have not been able to sign CEPA because of the opposition of the pressure being exerted by a section of the business community, particularly through Sri Lanka’s National Chamber of Commerce. The Chamber has particular objection to the natural movement clause, which permits Indian investors to employ Indians to staff projects. The clause is reciprocal, but the Chamber argues that Sri Lankans will not be able to find jobs in India to the same extent as Indians can in Sri Lanka. However, experts in Sri Lanka including at the Federation of Chambers of Commerce and Industry in Sri Lanka (FCCISL) discount these fears primarily because the salary structure in Sri Lanka is not attractive to Indians. They point out that, in contrast, CEPA will result in huge opportunities for Sri Lankan professionals in India which is one of the most attractive, high growth markets in the world. The National Chamber of Commerce’s opposition to CEPA is actually a question of a bruised ego because, in the initial stage of negotiations, only the views of FCCISL were taken into consideration and the National Chamber of Commerce was not consulted. Now Rajapaksa does not want to further hurt their ego, as his political survivability largely depends on them.

Conclusion

In the final analysis it can be argued that Sri Lanka has embarked upon a new path of development and economic growth after the victory over the LTTE in 2009. Though Mahinda Rajapaksa has been criticised for focussing more on economic development and less on the Tamils questions, his popularity in the country particularly among the Sinhala community is still intact. He is considered as the saviour and protector of the sovereignty and integrity of the country. It is expected that an improved economic and security situation and effective management of foreign policy will help Sri Lanka earn the support and cooperation of Asian and other developing countries in achieving the national ambition set by the President. However, at the domestic level, concerns are being raised about Rajapaksa's dictatorial style and his move to suppress political dissent. Sustainable economic development which Rajapaksa is aiming at is important, but it is equally important to strengthen the democratic institutions in Sri Lanka.