Sri Lanka: Background and U.S. Relations

Updated August 15, 2007

K. Alan Kronstadt
Specialist in South Asian Affairs
Foreign Affairs, Trade, and Defense Division
Summary

Sri Lanka is a constitutional democracy with relatively high educational and social standards. Political, social, and economic development has, however, been seriously constrained by ethnic conflict between the majority Sinhalese and minority Tamil ethnic groups. Since 1983, a separatist war costing some 70,000 lives has been waged against government forces by the Liberation Tigers of Tamil Eelam (LTTE), a rebel group that seeks to establish a separate state in the Tamil-dominated areas of the North and East.

A Norwegian-brokered peace process produced a February 2002 “permanent” ceasefire agreement. This generally was honored by both parties until 2006, when major violence flared anew. The Colombo government and the LTTE had held their first peace talks in seven years in September 2002, 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 and, in October 2003, the LTTE submitted to the government a proposal for establishing an interim administration in the Northeast. The period from 2004-2005 witnessed increasing instability within the ranks of both the Colombo government and the LTTE. Such political discord itself contributed to a weakening 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, then-SLFP President Kumaratunga suspended parliament and declared an emergency while then-UNP Prime Minister Wickremesinghe was in Washington seeking U.S. 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 Wickremesinghe with perceived hardliner Mahinda Rajapaksa, who himself went on to win the presidency in a narrow November 2005 electoral victory. Since that time, Rajapaksa has stabilized his position by enticing the defection of several UNP and Muslim party parliamentarians, but his government continues to face pressure from the JVP and from hardline Buddhist-nationalist parties that are part of the ruling coalition. Meanwhile, the LTTE suffered a major schism in 2004 when a top commander in the East known as Colonel Karuna broke away with up to 6,000 cadres and began collaborating with government forces.

Ethnic violence spiked in 2006 and, with major government military offensives in 2007, 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 foreswear 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 $2 billion in assistance funds, including an estimated $9.4 million in non-food aid for FY2006. This report will be updated periodically.
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, halting peace process that seeks to end a 24-year-old civil war, as well as on terrorist activity, human rights, and U.S. appropriations for food, economic, and military assistance. A Congressional Caucus on Sri Lanka and Sri Lankan Americans, established in 1998, had two dozen members as of mid-2007.

U.S. attention to Sri Lanka in the late 20th century focused mainly on efforts to resolve the country’s ethnic-based conflict, but during this time Washington largely deferred to India as the major external actor in Colombo. The Cold War’s end served to reduce U.S. interest in both Sri Lanka and in the region more generally. However, in the new century, U.S. engagement with Sri Lanka deepened. As explained by Jeffrey Lunstead, who served as U.S. Ambassador to Sri Lanka from 2003 to 2006,

The enhanced engagement that commenced in 2001 occurred despite the absence of significant U.S. strategic interests in Sri Lanka. Political-military interests are not high, and the U.S. has no interest in military bases in Sri Lanka. From an economic and commercial standpoint, Sri Lanka is unlikely to be a major U.S. trading partner in the near future. There is not a large enough Sri Lankan-origin community in the U.S. to have an impact on U.S. domestic politics. The main U.S. strategic interest in Sri Lanka is in ensuring that a terrorist organization does not obtain its goals through the use of terror.¹

Most Recent Developments

Resurgence of Ethnic Conflict and Human Rights Abuses. 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. Despite a renewal of heavy fighting beginning in 2006, however, both sides still claim to adhere to the ceasefire. Government forces saw major success against rebel positions in the island’s eastern region in 2007 and in July appeared to have retaken and pacified areas previously under LTTE control for many years. The Tigers — with a base now almost wholly limited to the Tamil-majority northern region where they retain significant military assets and an administrative structure — appear weakened, but unbowed. They have threatened to attack the country’s economic infrastructure and to bring the fight to the country’s Sinhalese-majority South and the

capital of Colombo. With President Rajapaksa’s July vow to “restore democracy to the East and all Sri Lanka,” most observers expect major combat and the associated human rights crisis to continue.2

The four “Tokyo Donor” members (including the United States, the European Union, Japan, and Norway) met in June and urged parties to the conflict to end violence and re-engage negotiations. Of particular concern in 2007 has been an upsurge in reported human rights violations being committed in the course of the war, along with unlawful killings, “disappearances,” and the internal displacement of more than 100,000 civilians victimized by the fighting. Independent observers hold all parties to the fighting responsible for such abuses.

U.S. Policy. During a May 2007 visit to Colombo, the lead U.S. diplomat for the region, Assistant Secretary of State for South and Central Asia Richard Boucher, outlined key U.S. concerns about “the way things have been heading” in Sri Lanka. First among these was the negative impact that armed ethnic conflict was having on the people, both directly through terrorism and human rights abuses, and indirectly by harming the country’s economy. In the area of human rights, Secretary Boucher placed special emphasis on the increased incidence of abductions and unlawful killings, as well as on widespread reports of government attempts to intimidate the press. He acknowledged that the government of President Rajapaksa had voiced a commitment to upholding human rights, but said “a lot more needs to be done” both in dealing with the behavior of government security forces and in controlling “paramilitaries” (often a euphemism for the Karuna faction, which broke away from the LTTE in 2004). He conveyed to Sri Lankan political leaders of all stripes the U.S. position that consensus through the All Parties Committee — “a consensus that identifies for the Tamil community their role in the island, their place, their control over various levels of government and their own lives” — represented the best basis for future progress toward conflict resolution.3

On June 25, 2007, H.Res. 516, expressing serious concern regarding the worsening situation in Sri Lanka, was introduced in the House. The resolution has not moved out of committee to date.

In August 2007 testimony before the House Foreign Affairs Committee, a State Department official offered that

Sri Lanka’s long-standing ethnic conflict, fragile peace process, and deteriorating human rights conditions continue to cause concern for the United States and the international community.... Our top policy priorities for Sri Lanka remain restoration of good governance and respect for human rights leading to an eventual negotiated settlement. We believe that finalizing a credible devolution of power proposal, together with ending human rights violations and improving government accountability, are essential steps toward a lasting peace.4

---

4 Statement of Steven Mann, Principal Deputy Assistant Secretary of State for South and (continued...)
He went on to review the ways in which the United States is supporting peace efforts, including through the four-member Tokyo Conference mechanism, through USAID projects to promote inter-ethnic dialogue, and by helping to fund humanitarian relief programs overseen by Save the Children, the U.N. Children’s Fund, the World Food Program, and the International Committee of the Red Cross.

**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 5% of Sri Lanka’s population and are clustered in the south-central “tea country.” Descendants of earlier Tamil arrivals, known as Sri Lankan or Ceylon Tamils, constitute up to 12% of the country’s population and live predominantly in the North and East. Moorish and Malay Muslims (largely Sunni) account for another 8% of the population. The majority of Sri Lankans (about three-quarters) are ethnic Sinhalese, most of them

---

4 (...continued)

Buddhist.\(^5\) 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, 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 that includes 60 million Tamils just across the Palk 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. In the simplest terms, the SLFP can be viewed as more Sinhala nationalist, statist, and social democratic, while the UNP can be viewed as more Western-oriented, liberal, and open to free market economics.\(^6\) 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. The Colombo government operates a Secretariat for Coordinating the Peace Process.\(^7\) The LTTE maintains its own Peace Secretariat.\(^8\)

Chandrika Kumaratunga — longtime 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 people. Although Kumaratunga’s People’s Alliance (PA) coalition went on to win 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

---


7 See [http://www.peaceinsrilanka.org].

8 See [http://www.ltteps.org].
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) — with the Tamil National Alliance (15 seats) and the Sri Lanka Muslim Congress (5 seats). UNP leader and new Prime Minister Ranil Wickremesinghe pledged to open talks with the Tamil rebels and to resuscitate the ailing Sri Lankan economy.  

2003 Political Crisis. 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. Kumaratunga’s ongoing feud with then-Prime Minister Wickremesinghe — she believed his conciliatory approach toward the rebels was allowing them to consolidate their positions and rearm — likely spurred her surprise move. The shakeup undermined existing peace efforts by the prime minister and cast doubt on his ability to follow through on peace negotiations with the LTTE. Kumaratunga’s ensuing February 2004 dismissal of Parliament, and the LTTE’s claim that this was a “grave setback” to negotiations, cast a further pall on the future of the peace process.

2004 Parliamentary Elections. As UNP leader 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 President Kumaratunga reportedly hampered progress in peace negotiations. In April 2004, a new national election was held to restore the Parliament dissolved by 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), took a plurality of the seats in parliament and so ousted the UNP. The UPFA won 105 seats and nearly 46% of the vote as compared to the UNP, which won 82 seats and about 38% 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. An EU Election Observation Mission noted some problems with the conduct of the 2004 polls, but called them a “vast improvement” in comparison to past exercises.

2005 Presidential Election. A November 2005 presidential poll saw SLFP figure Mahinda Rajapaksa barely defeat Wickremesinghe in an election marked by an LTTE-engineered boycott affecting 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.”12 Unlike Rajapaksa, 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.13

### Table 1. Selected 2004 Parliamentary Election Results

<table>
<thead>
<tr>
<th>Party/Coalition</th>
<th>Total votes won</th>
<th>Percentage of total vote</th>
<th>Total seats won</th>
<th>Percentage change from previous Parliament</th>
</tr>
</thead>
<tbody>
<tr>
<td>United People’s Freedom Alliance (mainly the Sri Lankan Freedom Party and the Janatha Vimukthi Peramuna or People’s Liberation Front)</td>
<td>4,223,970</td>
<td>45.6</td>
<td>105</td>
<td>+12</td>
</tr>
<tr>
<td>United National Front (mainly the United National Party)</td>
<td>3,504,200</td>
<td>37.8</td>
<td>82</td>
<td>-27</td>
</tr>
<tr>
<td>Tamil National Alliance (backed by Tamil separatists)</td>
<td>633,654</td>
<td>6.8</td>
<td>22</td>
<td>+22</td>
</tr>
<tr>
<td>Jathika Hela Urumaya (JHU or National Heritage Party, led by Buddhist monks)</td>
<td>552,724</td>
<td>6.0</td>
<td>9</td>
<td>+9</td>
</tr>
<tr>
<td>Sri Lanka Muslim Congress</td>
<td>186,876</td>
<td>2.0</td>
<td>5</td>
<td>—</td>
</tr>
<tr>
<td>Other</td>
<td>136,353</td>
<td>1.5</td>
<td>2</td>
<td>-15</td>
</tr>
<tr>
<td>Total</td>
<td>9,262,732</td>
<td>—</td>
<td>225</td>
<td>—</td>
</tr>
</tbody>
</table>

Source: International Foundation for Election Systems

Separatist-related violence escalated during 2006 and, as the October date for renewed peace negotiations approached, President Rajapaksa sought to find common ground with the country’s main opposition UNP. A resulting three-page memorandum of understanding signed by Rajapaksa and UNP leader Wickremesinghe gave the peace process a boost with the two leaders agreeing to adopt a bipartisan approach to conflict resolution. The pact represented a rare expression of political unity, especially among the fractious Sinhalese of the country’s Sinhala-dominated South.14 However, after the October talks failed, Rajapaksa changed his political strategy and in January 2007 was able to secure a simple (113-seat) parliamentary majority for his coalition by offering ministerial positions to lure 19 parliamentarians from the UNP and another 6 from the Muslim Congress into defection from the opposition benches. The cross-overs put a damper on bipartisanship in Colombo and served to further deepen the SLFP-UNP rift. The adjustment did, however, ease Rajapaksa’s previous dependence on his hardline and

---

oftentimes unpredictable Marxist JVP and Buddhist JHU allies, potentially making a deal with the rebels more attainable. The JHU, in particular, has been at the forefront of a resurgent Sinhalese Buddhist nationalism that adamantly opposes Tamil autonomy in the North and that has played a role in some recent human rights violations.\textsuperscript{15}

The Rajapaksa government vows to hold local-level elections by the end of 2007 as part of a controversial devolution plan. However, the preference of Rajapaksa and his SLFP is to devolve power at the district level only, not at a higher level as demanded by the Tigers. In the absence of compromise by the ruling coalition on this key point, a cross-party effort to forge consensus is unlikely to succeed.\textsuperscript{16}

**LTTE Schism.** Like the Colombo government, the separatist Liberation Tigers of Tamil Eelam (LTTE) rebel group has experienced its own instability and factional disagreements. In March 2004 there was a major rupture within the LTTE ranks: Vinayagamoorthi 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. The Karuna faction’s ongoing influence has done significant damage to the longstanding LTTE claim to be the sole representative of Sri Lanka’s Tamil people.

Since the 2004 schism, Colonel Karuna and those loyal to him apparently have fought in cooperation with government forces, although Colombo continues to deny any link with the breakaway faction.\textsuperscript{17} The Karuna group (along with the LTTE and sometimes government forces) is widely accused of abusing human rights in the course of its struggle, especially through the recruitment of child soldiers. The United States has called on Colombo to exert control over paramilitary groups such as Karuna’s that are believed to commit human rights abuses against the Sri Lanka people.\textsuperscript{18}

**Ethnic Conflict and Civil War**

A combination of communal politics (as practiced by both Sinhalese and Tamil political leaders) and deteriorating economic conditions created deep schisms in Sri Lankan society through the early decades of independence. By the 1970s, the


\textsuperscript{17} See Ajit Kumar Singh, “Colonel’s Control,” *Outlook* (Delhi), March 27, 2007.

\textsuperscript{18} See [http://www.state.gov/p/sca/rls/rm/2007/84701.htm].
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 several militant Tamil groups that sought to establish by force a Tamil homeland to include the Northern and Eastern provinces. The Liberation Tigers of Tamil Eelam, led by its charismatic founder and chief strategist Velupillai Prabhakaran, was established in 1976 and 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 separatist Tamil militants. More than two decades of ensuing war have claimed some 70,000 lives and displaced between 800,000 and 1.6 million people. Each of four major attempts at a peaceful settlement has ended in failure and further violence. At present, a ceasefire agreement (CFA) brokered by the Norwegian government in February 2002 is still nominally adhered to by both parties to the conflict, but with a resurgence of large-scale violence since 2005, it exists on paper only.

According to the Colombo government’s Secretariat for Coordinating the Peace Process, nearly 4,200 ceasefire violations occurred from February 2002-April 2007, the great majority of these (about 92%) being committed by the LTTE. More than half of all reported LTTE violations involve child recruitment and abduction of adults. However, international human rights groups have criticized both the government and the Tigers for widespread abuses and, in 2006, the Norwegian general overseeing the ceasefire asserted that he could distinguish “no significant difference in the gravity” of truce and human rights violations by either side. According to the Sri Lankan Ministry of Defense, the period December 2005 to August 2007 saw a total of 5,174 Sri Lankans “killed in action,” including 3,087 LTTE members, 1,240 security forces, and 847 civilians. Determining the true situation on the ground in conflict zones is difficult, given a fierce propaganda campaign being fought by both the government and the rebels. Both sides routinely block ceasefire observers from inspecting battle sites.

Parties to the Military Conflict

Sri Lankan Security Forces. The Sri Lankan military, with a budget of $686 million for 2006, is comprised of about 151,000 active personnel. Colombo intends to increase its defense spending by 45% in 2007. The quality of equipment (mostly outdated Soviet- and Chinese-made weaponry) and training has generally been poor. Morale has suffered with an inability to decisively defeat a long-running insurgency and with sometimes embarrassing tactical level defeats at the hands of

---

tenacious Tamil Tiger forces. Since 2002, however, the Colombo government has focused on efforts to improve its defense capabilities and levels of training have improved. Morale, too, has been bolstered, likely contributing to battlefield successes in 2006 and 2007, which themselves further burnished the military’s self-image. Over the decades of Sri Lankan independence, the country’s military has become increasingly dominated by ethnic Sinhalese, meaning that in much of the northern and eastern provinces it is now widely regarded as a foreign force. This perception is reinforced by reported human rights abuses against civilians in these Tamil-dominated areas, a problem that the Colombo government has with only mixed success sought to address.23

A Sri Lankan army of nearly 118,000 active personnel is armed with 62 tanks, 217 armored personnel carriers, and 157 towed artillery tubes. The navy operates 123 patrol and coastal combatants, most of them inland and riverine, but also possesses 2 missile boats, along with a very modest amphibious capability. The air force flies 2 fighter/ground attack squadrons — one notable for its 4 MiG27s, another made up of 10 Israeli-made Kfir jets — as well as 14 Russian-made Hind and attack helicopters and 28 American-made Bell utility helicopters. Paramilitary forces include a 30,000-person active police force and a 13,000-person home guard.24

**The Tamil Tigers.** LTTE forces are estimated at up to 7,000-15,000 armed combatants, roughly half of them trained in combat. Arms include long-range artillery, mortars, antiaircraft weaponry, and captured armored vehicles. A small but effective naval contingent, known as the Sea Tigers, includes speedboats, fishing vessels, mini-submarines, 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.25

The LTTE’s 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 comes from the worldwide diaspora of Tamil emigres (especially the Tamils in Canada and Western Europe), as well as from smuggling and legitimate businesses.26 The LTTE has been criticized for its alleged campaign to extort and coerce funds from overseas Tamils, especially in Canada and Britain.27 One estimate has the Tigers bringing in $200-300 million per

---


27 Human Rights Watch, “Tamil Tigers Extort Diaspora for ‘Final War’ Funds,” March 15, (continued...)
year from various licit and illicit businesses. The United States designated the LTTE as a Foreign Terrorist Organization under U.S. law in 1997. The European Union followed suit in 2006, 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.

According to the U.S. State Department’s Counterterrorism Office,

LTTE has integrated a battlefield insurgent strategy with a terrorist program that targets key personnel in the countryside and senior Sri Lankan political and military leaders in Colombo and other urban centers. It also has conducted a sustained campaign targeting rival Tamil groups and figures... LTTE is most notorious for the Black Tigers, its cadre of suicide bombers. Political assassinations and bombings were commonplace tactics prior to the cease-fire and have increased again since mid-2005.

The LTTE has been a prolific employer of suicide bombing, with one report calling it responsible for fully half of all suicide attacks worldwide in the early years of this century. 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 Colombo in enforcing a peace accord with the Tamils in 1987 ended in the deaths of about 1,200 Indian troops — was assassinated in May 1991 by a suspected LTTE suicide bomber. Many Indians insist that top LTTE leaders, including Prabhakaran, be extradited to India to stand trial for Rajiv Gandhi’s death.

Peace Initiative Falters, Civil War Resumes

The Norwegian-brokered peace effort, which began in 1999, produced notable success after then-Prime Minister Wickremasinghe revived the process upon taking office in late 2001. A permanent ceasefire agreement (CFA) was reached in February 2002 and, despite incidents of alleged violations, was for several years generally observed by both sides. In addition, confidence-building measures called for under the ceasefire were implemented. A Sri Lanka Monitoring Mission (SLMM) comprised of members from Nordic countries was created to investigate reported violations of the CFA. In April 2002, LTTE leader Prabhakaran emerged from hiding for his first press conference in 12 years and made the unprecedented suggestion 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. However,

27 (...continued)
2006.


Buddhist clerics and their political party, the JHU, have staunchly and consistently opposed negotiating with the LTTE.31

**Peace Talks in 2002 and 2003.** 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, 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 brought another breakthrough when the two sides agreed on a framework for seeking foreign aid to rebuild the country (officials estimated that repairing the war-damaged infrastructure in the island’s northeast could cost as much as $500 million).32 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.33

In what appeared to be yet another meaningful 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 habituation of the Tamil-speaking peoples, based on a federal structure within a united Sri Lanka.”34 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, appeared 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. Renewed armed conflict had the potential to disrupt the engagement: the meetings began only hours after three LTTE rebels incinerated themselves at sea when Norwegian truce monitors boarded their weapons-laden craft. Although an apparent violation of the ceasefire, the incident did not derail the peace process; it did, however, serve to erode 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.”35

---


35 “Sri Lankan Peace Talks Start in Berlin,” Reuters, February 7, 2003; Amal Jayasinghe, (continued...)
Talks in Japan in March 2003 produced no major breakthroughs on political or human rights issues. A Japanese participant suggested that the promise of major external assistance — anticipated at some $3 billion over three years — is all that kept the disputing parties at the negotiating table. 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. Norwegian truce monitors criticized both sides while refraining from ruling who was at fault.

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. Yet the LTTE pulled out of the peace negotiations in April, just days before a seventh round of peace talks was set to begin in Thailand. The Tigers issued a statement protesting their exclusion from a scheduled June 2003 donor conference in Japan and expressing unhappiness with slow progress in efforts to improve the quality of life for the country’s Tamil minority.

In September 2003, Norway and Japan led an effort to revitalize the peace process and prevent its devolution back into further conflict. These initiatives followed a meeting of the Tigers with constitutional experts in Paris, a meeting that was part of the Tigers’ effort to respond to a Sri Lankan government proposal for an interim administration in the northeast of Sri Lanka (a major concession by the government to Tiger demands which were a prerequisite for further talks). For their part, the LTTE had previously made the key concession that it would settle for an autonomy agreement rather than its previous goal of a separate state. Despite such concessions by both sides, a peace agreement was not guaranteed. The LTTE indicated that it would once again seek secession and an independent state if substantial autonomy was not achieved through the negotiation process.

---

35 (...continued)


The Colombo government was at that time split between a more conciliatory faction represented by President Chandrika Kumaratunga and a more hardline faction represented by the JVP. The UNP opposition was regarded as the major 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 comes from Sri Lanka’s business classes, whose success in turn depends on limiting the impact of uncertainty and instability which the conflict creates.

It was hoped that the LTTE would respond to the government’s offer and rejoin peace negotiations by the end of September 2003. 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, which was on record as opposed to further concessions to the LTTE.42

The international community made an effort to support the dialogue process by offering inducements for peace. The 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.43 At the same time, the World Bank approved a loan of $125 million to assist Sri Lankan poverty reduction and reconstruction in the northeast, and to support the peace process.44 Then-U.S. Deputy Secretary of State Armitage expressed support for the peace process at the Tokyo conference by asking the LTTE to end its boycott of the talks and offering $54 million in U.S. aid.45 Yet both the government and the rebels remained intransigent in their positions, and the LTTE refused to rejoin Norwegian-sponsored peace negotiations.

**Peace Process Stalemated.** Despite international inducements, the peace process remained deadlocked for more than two years, with the LTTE continuing to insist on interim self-rule in the Tamil northeast as the basis of resumption of negotiations. The government expressed a desire that the LTTE restate its willingness to explore a federal solution to the conflict, and Colombo 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 pervasive doubt on the eventual outcome of the peace talks.

The crisis continued beyond the April 2004 elections and was 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 government-LTTE distribution mechanism for foreign aid (to LTTE controlled areas) in response to the December 2004 Indian Ocean tsunami; 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 and has made numerous threats to withdraw from the United People’s Freedom Alliance, a move that would deprive the ruling coalition of its parliamentary majority.46

Following the mid-2004 LTTE schism there were numerous instances of political and military operatives being killed by each side as they jockey for power in the East. The LTTE accuses Colonel 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 later withdrew to a fortified base in the jungles of eastern Sri Lanka where his forces were able to repel LTTE attacks.47 During the first half of 2005 there were several reported instances of serious ceasefire violations. First was the February death of a high-level LTTE political officer, followed by an increase in targeted, politically-motivated killings throughout the eastern provinces.48

April 2005 saw 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.49 By the middle of 2005, politically-motivated killings reportedly were taking one life per day and, following the LTTE’s August 2005 assassination of Foreign Minister Lakshman Kadirgamar, an ethnic Tamil, Parliament passed a state of emergency regulation that has been renewed every month since.50

**Civil War Resumes.** The narrow November 2005 election victory of perceived hardliner President Rajapaksa led to a further escalation of violence between government security forces and LTTE cadres. One month later, a pro-LTTE Tamil National Alliance parliamentarian was assassinated inside a government high security zone in the eastern town of Batticaloa. In February 2006, Colombo and the LTTE voiced renewed commitment to the CFA and violence waned until April, when an explosion at a Sinhalese market in Trincomalee led to a limited backlash against Tamils. Shortly after, an LTTE suicide bomber attacked a major army compound in Colombo, killing eight soldiers and seriously wounding the army’s top commander. The government retaliated with air strikes on Tiger positions. In June 2006, an LTTE suicide bomber succeeded in killing the army’s third highest-ranking general in a suburb of Colombo. Mutual animosities intensified.


A dramatic surge in violence in early August 2006 was sparked by a water dispute: the Sri Lankan military had moved to reopen a sluice gate in Tiger-controlled territory after negotiations failed to resolve the quarrel (in closing the gate, LTTE forces had cut water supplies to thousands of mostly Sinhalese farmers south of Trincomalee). Rather than employ a small force for the operation, the government launched large-scale airstrikes on nearby Tiger positions in tandem with a ground offensive. The LTTE’s political wing called the attacks a “declaration of war.”51 The four “Tokyo Donor” countries (including the United States) issued a statement calling on both sides to immediately end hostilities and re-engage negotiations, but the LTTE said that Colombo’s military operations made further talks impossible.

By late August 2006, the Sri Lankan army was pressing a major offensive in the area around the Tiger stronghold of Trincomalee, the LTTE was declaring that the ceasefire appeared to have ended, and human rights groups were demanding that both sides allow humanitarian supplies to reach civilians who had been trapped in the crossfire and who were unable to obtain food and other basic commodities. Hundreds of thousands of these civilians were displaced by the fighting. Under heavy air bombardment, the Tigers retreated from their positions near the strategic Trincomalee harbor in September, while their naval forces lost a series of fierce battles off the northern Jaffna Peninsula.52 In displacing the Tigers from Trincomalee’s environs, the government carried out the first major seizure of enemy territory by either side since the 2002 ceasefire.

In a now weakened position, the LTTE changed course and agreed to engage in new and unconditional negotiations with Colombo. Some observers opined that, as in the past, dwindling financial resources were a primary motive for the government’s decision to re-engage the peace process as called for by international aid providers.53 A new round of talks was set for late October 2006 in Oslo, Norway, even as the government’s ongoing military offensives brought fierce battles in the both the North and East. Possible overconfidence in the army ranks may have led to serious reversals during the course of the month as their units were repulsed around Jaffna at considerable cost.54 The Tigers also retaliated with a series of suicide attacks, including an October 16 truck bombing that left 99 Sri Lankan sailors and civilians dead in the north-central city of Harbrane; and the October 19 detonation of “suicide boats” that left a sailor and 15 rebels dead near the Sri Lankan Navy Headquarters in Galle, a major tourist destination some 70 miles south of Colombo.

In the lead up to late October peace talks, President Rajapaksa moved to establish a common negotiating position that would include the country’s main opposition UNP. A resulting pact was widely hailed as a rare expression of political

unity, especially in the country’s Sinhala-dominated South. However, and despite low expectations, the talks were a conclusive failure: The government rejected a key rebel demand to reopen the strategically vital A-9 highway that crosses LTTE-controlled territory leading to Jaffna, and the two sides failed even to agree on a timetable for future meetings. Renewed exchanges of artillery fire began hours after the talks adjourned.

Fighting continued during the final months of 2006. LTTE leader Prabhakaran blamed President Rajapaksa for the conflict’s resurgence and he called the CFA “defunct.” The U.S. State Department expressed being “disturbed” by such claims, and it condemned the Tigers for “fueling violence and hostility,” and urged both sides to honor the CFA and return to negotiation. The LTTE disregarded the admonition and declared a renewed struggle for independence. Tiger cadres subsequently attempted to assassinate the defense secretary — who is also President Rajapaksa’s brother — by bombing his motorcade, but he escaped unharmed.

Government forces took control of the LTTE’s eastern stronghold of Vakarai in January 2007, resulting in up to 20,000 more internally displaced persons (another 15,000 Tamil civilians were described as being “trapped” by the fighting). From Colombo’s perspective, the “liberation” of Vakarai saved these civilians from being used as “human shields” by the rebels. Although the Norwegian government insisted that its effort to end the civil war had not failed — and the British government offered to play a greater role in the peace process, including a willingness to talk directly with the terrorist-designated LTTE — there developed a growing consensus among independent observers that full-scale civil war had returned to the island.

By March 2007, the government was claiming to have completely cleared LTTE forces from the island’s east coast. Later that month, Tiger rebels launched an unprecedented air attack, using two crude planes to bomb an air force base adjacent to Colombo’s main airport. While damage reportedly was light, the ability of the Tigers to penetrate Sri Lankan air defenses and return safely to their base 250 miles away was a major embarrassment to the Colombo government. Further Tiger air raids in April — one killing at least six soldiers at the main army base in Jaffna, another destroying fuel facilities in Colombo — spurred acute security concerns among commercial airline companies serving the island, and caused analysts to identify an even greater threat perception among residents of the southern provinces.

Current Status. In July 2007, the Tigers appeared to have largely been evicted from their last major bastion in the Eastern Province and the Colombo government claimed to be in full control of the region for the first time in 13 years. Following its military victories in the East, the government vowed to devote more than $50 million toward infrastructure programs designed to win hearts and minds in the region and to establish a credible civil administration there by holding local elections before 2008. The LTTE has responded to government declarations with threats to cripple the country’s economy with attacks on military and economic targets. The Rajapaksa government asserts openness to resuming negotiations with the rebels even as it is likely to press ahead with military operations in the North. The LTTE, for its part, has stated that peace is not possible so long as Rajapaksa is in power, and there are fears that the rebels could again seek to bring the war to the country’s capital.

During a March 2007 visit to Washington, Sri Lankan Foreign Minister Rohitha Bogollagama told Secretary of State Condoleezza Rice that his government was committed to a negotiated solution to the conflict and that military operations undertaken in the eastern regions of Sri Lanka were intended to prevent the LTTE from seeking any military advantage under the cover of the cease-fire and to convince the rebels that they could not expect to win on the battlefield. He emphasized that Colombo remained fully committed to creating a political consensus in the country’s South and to constitutional reforms that would enable an enduring settlement and address the “concerns of the minorities.”

Faced with a choice between scaling back army operations and resuming peace negotiations or pressing ahead with military offensives, President Rajapaksa may have concluded that the Tigers could be decisively defeated on the battlefield. The risk of alienating key hardline coalition supporters likely has played a central role in Rajapaksa’s calculations. Thus, despite heavy material and political costs — including the alienation of more negotiation-minded political allies, severe economic damage, cuts in foreign aid, and censure from foreign governments and international human rights groups — President Rajapaksa has in 2007 appeared to pursue an all-out effort to defeat the LTTE by use of force.

Increased strife has been costly for Sri Lanka on the world stage. In May 2007, the British government cited human rights concerns in suspending about $3 million in debt relief aid to Colombo. In the same month, a U.S. official cited like concerns in explaining why Millennium Challenge Corporation funding has not been

forthcoming, saying the island’s security circumstances continued to preclude finalizing a compact under that program. Other international donors have in 2007 suspended aid or withheld new commitments for similar reasons. President Rajapaksa responded with defiance, saying his country was not dependent on foreign aid and could go it alone, if necessary. His brother and defense secretary later decried the “international bullying” on human rights.65

The Tigers reject new negotiations in the absence of Colombo’s adherence to the terms of the 2002 CFA. Yet the government is unlikely to agree to such terms as doing so would require ceding control of territories taken from the LTTE in 2007. In seeking to explain the apparent collapse of the most recent peace process, many analyses are critical of an allegedly narrow focus on two parties — the Colombo government and the LTTE — to the exclusion and at the expense of other key stakeholders such as non-LTTE-affiliated Tamils and the country’s sizeable Muslim minority. Moreover, a process too heavily reliant on economic incentives may have been undermined by political opposition to Colombo’s reform program.66

Obstacles to Peace

Even during a period of relative peace from 2002 to 2005, negotiators have faced great difficulty as they attempt to craft a political system that maintains Sri Lanka’s unity while addressing the LTTE’s desire for substantive autonomy.67 A variety of federal models has been put under consideration, including those that have seen success in Switzerland and Canada, among others.68 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.

A key unresolved shorter-term issue under the CFA has been the decommissioning of LTTE weapons, which the Tigers repeatedly have stated will not occur until a permanent settlement is reached. The SLFP has long claimed that the


67 A Tamil state in the northern areas 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).

rebels must disarm as part of the negotiation process.\textsuperscript{69} Also, there are reported to be many thousands of government troops controlling parts 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 would be used as cover by the Tigers to better position themselves should fighting resume. Colombo has refused to open up these “high security zones” until the rebels lay down their arms, an action the Tigers have called “non-negotiable.”\textsuperscript{70} Some analysts express certainty that the Tigers will be unwilling to disarm in the foreseeable future, and even some Sinhalese intellectuals reportedly have sympathized 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.”\textsuperscript{71}

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 current ruling coalition if any agreement is reached which they allege might impinge national sovereignty, and the JHU represents an virulent and influential form of Sinhalese majoritarianism:

> The capacity of these nationalist actors to mobilize Sinhala nationalist sentiments poses deep problems for the future of the peace process as it threatens to draw mainstream political actors back into more nationalist strategies for political survival. It also serves to challenge the legitimacy of governing coalitions or, through the use of a coalitional veto, bring about governmental collapse for those attempting to move the peace process forward.\textsuperscript{72}

Moreover, the SLFP has expressed past concerns that the Norwegian mediators are biased in favor of the rebels.

### December 2004 Indian Ocean Tsunami

The tsunami (tidal wave) that devastated much of coastal South and Southeastern Asia on December 26, 2004, hit Sri Lanka particularly hard some 90 minutes after its launch by an earthquake centered west of Sumatra, Indonesia. The massive wave caused more than 31,000 deaths (with another 4,100 people still officially missing), fully or partially destroyed at least 100,000 homes, and displaced nearly 600,000 Sri Lankans in the country’s worst-ever natural disaster. The island’s east coast was most affected and 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


\textsuperscript{71} Rasheed Bhagat, “No to War Isn’t Yes to Peace,” Business Line (Madras), April 8, 2003.

1,000 of its cadres.\textsuperscript{73} The Sri Lankan navy also saw significant damage to some of its southern coastal facilities. The single most costly event in terms of human lives was the complete destruction of a train traveling along a coastal railroad track. More than 2,000 people died in this single incident.\textsuperscript{74} Fortunately, a projected outbreak of disease following the tsunami never materialized.

President Bush expressed condolences to the Sri Lankan people over the “terrible loss of life and suffering,” and the U.S. government moved quickly to provide assistance to those nations most affected.\textsuperscript{75} USAID oversaw a total of about $133 million in relief and reconstruction aid for Sri Lanka, devoted especially to the provision of emergency relief supplies, transitional housing, livelihoods restoration, and psychological and social support.\textsuperscript{76} (See CRS Report RL32715, \textit{Indian Ocean Earthquake and Tsunami}.)

There were hopes that the human costs of the disaster would bring about an opportunity to reinvigorate the stalemated peace process, but negotiations on how to disburse relief aid reflected existing political obstacles. After much wrangling, in June 2005 the Colombo government and the LTTE reached an agreement to share some $3 billion in international tsunami aid under a Post-Tsunami Operational Management Structure (PTOMS). However, the agreement was challenged in court and was never implemented, leaving both parties more distrustful than before. In the words of one analysis, “Protracted negotiations about the institutional arrangements for delivering tsunami assistance to the North-East mirrored earlier peace talks and exposed the deep underlying problems of flawed governance, entrenched positions, and patronage politics.”\textsuperscript{77}

## Economic Issues

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 goods. Tourism and repatriated earnings of Sri Lankans employed abroad are 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. Since 2001, both tourism and investor confidence, previously on the rebound, were seriously affected by major LTTE terrorist attacks and renewed

\begin{footnotesize}


\textsuperscript{76} See [http://www.usaid.gov/lk/programs/tsunami_response/index.html].

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

The UNP-led coalition government that came to power under then-Prime Minister Wickremesinghe in late 2001 sought to institute a program of sweeping economic reforms and liberalization. Stabilization efforts were based on reduced government expenditures, while structural reforms included downsizing the bureaucracy, selling off state-owned businesses, and reforming labor and land laws to encourage the freer operation of market mechanisms. The United States and other external donor countries sought to support this reform effort with greatly increased aid: according to one source, external aid rose more than four-fold from 2002 to 2003. However, this same analysis is among those that fault the Wickremesinghe government for pursuing this tack while failing to link it to the ongoing peace process. From this perspective, the stalemating of that process — and the UNP’s 2004 election defeat — could be traced to an economic reform program that “alienated many social classes within a short period of time, without offering any benefits in return.”

Despite the existence of considerable obstacles, not least being renewed civil war, current statistics show Sri Lanka’s economy to be performing relatively well. The economy grew by 7.4% in 2006, led by a services sector that accounts for more than half of GDP. Short-term projections are generally positive, but still mixed: optimistic analyses foresee further expansion at around 6.5% annually in both 2007 and 2008, with a rebounding agricultural sector and rapid growth in India (one of Sri Lanka’s main trading partners) buoying the economy. Others stress that a winding down of tsunami-related base effects, fragile export performance, and inflationary pressures will keep annual GDP growth rates around 5.5%, even as the middle- and longer-term potential is seen to be considerable. Another important future variable will be levels of U.S. and European demand for textiles. Consumer price inflation has been a major burden at 11.6% in 2005 and 13.7% in 2006. Near-term inflation is likely to remain high, but is expected to ease and drop below 10% after 2007. Sri Lanka is highly dependent on foreign assistance, with the World Bank, the Asian Development Bank, Japan, and other donors disbursing loans totaling $912 million in 2006. Foreign grants amounted to another $301 million in 2006.

In November 2006, the Colombo government issued a discussion draft of its 10-year development framework, Mahinda Chintana: Vision for a New Sri Lanka. According to a January 2007 World Bank report,
The vision sets out ambitious growth targets (over 8% by 2010) aimed at reducing poverty incidence to 12% of the population by 2015 (from 23% in 2002). The rapid growth scenario assumes the continuation of a favorable external environment and implies improved security conditions. A key target is to raise total investment from 28-30% of GDP in 2006 to 34% in 2010, with the largest contribution coming from the public sector. Public sector savings (currently negative) are expected to contribute 5 percentage points of GDP to gross domestic savings by 2010. FDI is projected at around 2% of GDP (compared to less than 1% in the past decade).

Nearly all commentators agree that continued escalation in ethnic violence will negatively impact the economy, especially by reducing investor confidence and by further damaging the vital tourism sector. The civil war continues to place a heavy burden on the country’s economy, as well as to hinder its future potential. Defense expenditures as a percentage of GDP have doubled since 1980. Aside from defense spending, other costs of the war include damage to infrastructure and expenditures for humanitarian relief. Several analyses have asserted that annual growth rates over the past 24 years could have been 2-3 percentage points higher in the absence of protracted ethnic conflict. International donors say the Mahinda plan for poverty reduction is dependent upon peace.

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. 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 2006 human development index (between Turkey and the Dominican Republic), higher than any other South Asian country.

**U.S. Relations and Policy Concerns**

According to the U.S. State Department, a history of cordial U.S.-Sri Lanka relations has been based in large part on shared democratic traditions. 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 subsequent years set back the time frame for any possible Free Trade Agreement (FTA), and relevant negotiations were put on hold pending positive developments in peace negotiations. The United States also maintains a limited military-to-military relationship with the Sri Lanka defense establishment.

---


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 Lankan leader since 1984.

The U.S. State Department first designated the LTTE as a Foreign Terrorist Organization in 1997. In 2003, then-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 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. The U.S.-led global anti-terrorism campaign, which reportedly has resulted in the international withholding of several billion dollars from the LTTE and made it more difficult for the group to acquire weapons, was a likely factor in the rebels’ decision to enter into peace negotiations in late 2001.

Trade, Investment, and Aid

U.S. Trade and Investment. The United States is by far Sri Lanka’s most important trade partner, accounting for nearly one-third of the country’s total exports and about one-fifth of its imports. In 2006, U.S. imports from Sri Lanka were valued at $2.1 billion (up 3% from 2005). About two-thirds of this value came from imports of apparel and household goods, most of them cotton. U.S. exports to Sri Lanka in 2006 were valued at $237 million (up 20% from 2005), led by drilling and oil field equipment, which accounted for about one-third of the 2006 export value. 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.

During Prime Minister Wickremesinghe’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

---

82 See the FTO list at [http://www.state.gov/s/ct/rls/crt/2006/82738.htm].
85 U.S. Census Bureau, Foreign Trade Statistics.
86 See [http://www.boi.lk/InvestorSite/content.asp?content=us&SubMenuID=54].
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.”

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.” 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.” 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.

The U.S. government continues to urge 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.

**U.S. Assistance.** A total of more than $2 billion in U.S. economic and military assistance went to Sri Lanka from 1947 to 2006, including more than $14.5 million for FY2006 and an estimated $9.4 million in FY2007 (see Table 2). About half of this was aimed at supporting the peace process through democracy and governance programs. Other U.S. aid to Sri Lanka has focused 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 (the

---


89 Author interview with U.S. Trade Representative official, April 9, 2003.


FY2006 total included a significantly boosted demining fund). From 2003 to 2005, USAID ran a two-year program intended to generate greater support for a negotiated peace settlement to end the long-standing ethnic conflict. About three-quarters of the FY2007 aid is to be used to support democracy, economic growth, and humanitarian assistance in Sri Lanka. USAID works to “foster political reconciliation” and participates in “joint reconstruction programs [with the Colombo government] that foster economic reintegration as well as social reconciliation.”

The Administration’s FY2008 request also includes a modest, but unprecedented INCLE program that would use $350,000 in U.S. aid to support law enforcement reforms in Sri Lanka.

The Millennium Challenge Corporation (MCC, authorized by Congress in 2004) has designated Sri Lanka as an eligible country, and the country’s Finance Ministry has posted a $590 million, multi-year proposal for poverty reduction and economic growth initiatives, but no compact has been signed to date. MCC eligibility largely is based on a country’s record measured by 16 performance indicators related to the three categories of good governance, economic freedom, and investing in people. Sri Lanka presently “passes” on 11 of the 16 indicators, with fiscal policy being a notable weak area. The MCC reports an expectation that a compact with Colombo could be signed for FY2008, but Sri Lanka’s deteriorating security circumstances have thus far precluded U.S. aid under this program. (See also CRS Report RL32427, Millennium Challenge Account).

Security Relations

The United States and Sri Lanka maintain friendly military-to-military and defense relations. According to the U.S. State Department, senior Sri Lankan military officers continue to strongly support U.S. strategic goals and programs, and Sri Lanka continues to grant blanket overflight and landing clearance to U.S. military aircraft, and routinely grants access to ports by U.S. vessels. Modestly funded U.S. military training and defense assistance programs have in recent years assisted in professionalizing the Sri Lankan military and provided the country with basic infantry supplies such as boots, helmets, radios, flack vests, and night vision goggles, along with maritime surveillance and interdiction equipment for the navy and communications and mobility equipment to improve the army’s humanitarian and U.N. peacekeeping missions. The Bush Administration insists that U.S. military assistance to Sri Lanka does not support Colombo’s efforts to expand the country’s

---

92 See [http://www.state.gov/documents/organization/60655.pdf].
95 During a May 2007 visit to Sri Lanka, Assistant Secretary of State for South and Central Asia Boucher said that “the security situation and the human rights situation” had cast doubt on the ability to carry out planned road building projects, which remain on hold given “the current circumstances” (see [http://www.state.gov/p/sca/rls/rm/2007/84701.html]).
96 See annual Congressional Budget Justifications at [http://www.state.gov/s/d/rls/cbj].
ethnic conflict, but rather is focused on bolstering the country’s ability to defend itself against terrorism.\textsuperscript{97}

In 2002, a U.S. defense assessment team was sent to examine the training needs of the Sri Lankan military, and then-State Department Coordinator for Counterterrorism Francis Taylor went to Colombo to discuss ways to integrate “intelligence, law enforcement, legal and diplomatic efforts against terrorism.”\textsuperscript{98} The two countries later signed an agreement to provide demining training to the Sri Lankan military. The program cost roughly $2.2 million and ran for six months in 2003-2004.\textsuperscript{99}

The United States and Sri Lanka held their ninth consecutive joint military exercises in early 2003, with training focused on combined arms operations and medical techniques. The U.S. and Sri Lankan navies also participated in a multilateral search and rescue exercise off the coast of Madras.\textsuperscript{100} Also in 2003, Sri Lanka joined the U.S. Customs Container Security Initiative aimed at preventing shipping from being used to transport weapons of mass destruction.

In June 2004, the U.S. Coast Guard transferred the donated USCG Cutter \textit{Courageous} offshore patrol vessel to the Sri Lankan Navy, which renamed it the SNLS P-621 \textit{Samadura} and had it retrofitted at the Newport News facility in Virginia.\textsuperscript{101} 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 ship has bolstered Sri Lanka’s ability to perform sea-borne interdictions.

The United States and Sri Lanka inked an Acquisition and Cross-Services Agreement in March 2007. The pact, which creates a framework for increased military interoperability, allows for the transfer and exchange of numerous logistics, support, and re-fueling services during joint operations or exercises. A U.S. official visiting Sri Lanka during that month called it a “very routine” and “fairly modest” barter arrangement that the United States has with 89 other countries, and he emphasized that it has no wider applications beyond logistics.\textsuperscript{102}

\begin{itemize}
\item \textsuperscript{97} See [http://www.internationalrelations.house.gov/110/man080107.htm].
\item \textsuperscript{98} “United States Help to Modernize Sri Lanka Military,” Agence France Presse, August 30, 2002; “U.S. Counterterrorism Official to Visit Sri Lanka,” Reuters, September 24, 2002
\item \textsuperscript{101} “Admiral Sandagiri Accepts Transfer of Former U.S. Coast Guard Vessel ‘Courageous,’” Embassy of Sri Lanka Press Release, June 24, 2004.
\end{itemize}
Human Rights Concerns

Human rights abuses in Sri Lanka largely have been associated with ethnic conflict and civil war; they thus have increased in both number and severity since mid-2006. A June 2007 “donors’ conference” focused on the island’s increasingly dire human rights situation. On June 25, 2007, H.Res. 516, expressing serious concern regarding the worsening situation in Sri Lanka, was introduced in the House. In late July, tens of thousands of Sri Lankans took to the streets of Colombo in an anti-government protest organized by the opposition UNP. The demonstrators called for new national elections, an end to rife corruption, and swift action against human rights violators.103


As a result of the escalating hostilities between the government and LTTE and numerous violations of the cease-fire agreement by both sides, overall respect for human rights declined in the affected areas. There were numerous, credible reports that armed paramilitary groups, suspected of being linked to the government and security forces, participated in armed attacks during the year. Human rights monitors also reported arbitrary arrests and detention by security forces, poor prison conditions, denial of fair and public trials, corruption and lack of transparency, infringement of religious freedom and freedom of movement, and discrimination against minorities. Trafficking in persons also remained a serious issue affecting women, children and men for the purposes of commercial sexual exploitation and forced labor. The LTTE engaged in politically motivated killings, suicide attacks, disappearances, torture, arbitrary arrest and detention, interference with privacy, denial of freedoms of speech, press, assembly, and association, and recruitment of child soldiers. Since the August 2005 killing of Foreign Minister Lakshman Kadirgamar, the government has regularly renewed emergency regulations that permitted arrests without warrants and unaccountable detentions. In December parliament toughened these regulations to give security forces even broader arrest and detention powers. These regulations restrict the media’s ability to report on the conflict. The new rule also establishes an appeals process for detainees, but gives civil servants, rather than judges, the right to adjudicate the cases.105

International human rights groups have issued reports echoing these concerns. On the issue of religious freedom in Sri Lanka, the State Department reports that

The constitution accords Buddhism the “foremost place,” but Buddhism is not recognized as the state religion. The constitution also provides for the right of

104 See [http://www.state.gov/g/drl/rls/hrrpt/2006/78875.htm].
105 See [http://www.state.gov/g/drl/rls/shrd/2006/80590.htm].
members of other faiths to freely practice their religion. While the Government publicly endorses this right, in practice there were problems in some areas.\footnote{106}{See [http://www.state.gov/g/drl/rls/irf/2006/71444.htm].}

Perceived problems included proposed anti-conversion laws, and legal restrictions and sporadic attacks on Christian churches. The U.S. government found no change in the status of respect for religious freedom in Sri Lanka in 2006. With regard to human trafficking, the State Department’s latest annual report determined that Colombo “does not fully comply with the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so,” and it placed Sri Lanka on the “Tier 2 Watch List” for its “failure to provide evidence of increasing efforts to address trafficking over the previous year, especially in its efforts to punish trafficking for involuntary servitude.”\footnote{107}{See [http://www.state.gov/g/tip/rls/tiprpt/2007/82807.htm].}

In 2006, a U.N. Special Rapporteur recommended establishing an International Human Rights Monitoring Mission for Sri Lanka. The European Union has since taken the lead in pushing for creation of such a body and human rights advocates argue forcefully that it could “make it harder for those who commit serious human rights abuses to deny responsibility.”\footnote{108}{Somini Sengupta, “Sri Lanka Human Rights Panel Is Criticized,” \textit{New York Times}, June 15, 2007.} Sri Lankan officials have resisted the initiative, viewing it as a threat to the country’s sovereignty. In June 2007, an international panel of experts issued a scathing criticism of a human rights investigatory commission created by President Rajapaksa in late 2006. The so-called President’s Commission of Inquiry — faulted for both inaction and for an appearance of bias given the involvement of the country’s attorney general — was seen to be conducted in a way “inconsistent with international norms and standards.”\footnote{109}{“EU Committee Criticizes Sri Lanka for Human Rights ‘Abuses,’” BBC Monitoring South Asia, June 8, 2007; James Ross, “Why a United Nations Monitoring Mission Will Benefit Sri Lanka,” \textit{Daily Mirror} (Colombo), March 22, 2007.}

On June 7, 2007, police in Colombo evicted hundreds of ethnic Tamils said to be in the capital without valid reasons, putting at least 376 on buses headed for the war-torn North. The country’s Supreme Court ordered an immediate halt to the deportations, which the government claimed were necessary due to security considerations. Days later, Prime Minister Wickremanayake reportedly admitted that the police action was wrong and he apologized to the Tamil community.\footnote{110}{“Lanka Says Sorry to Tamils Over Expulsion,” Press Trust India, June 10, 2007.}

During his August 2007 visit to Sri Lanka, a top U.N. humanitarian official noted that at least 34 aid agency staff have been reported killed on the island since January 2006, and he identified Sri Lanka as one of the most dangerous countries in the world for humanitarian workers. Colombo condemned the remarks, calling them a contribution to forces devoted to discrediting the Sri Lankan government.\footnote{111}{“Sri Lanka Anger at UN Aid Claims,” BBC News, August 10, 2007.} The worst attack involved the August 2006 murder of 17 local aid workers employed by
a French nongovernmental organization operating near Trincomalee. Colombo vowed to pursue a full investigation of the massacre, but much suspicion fell upon government security forces themselves as being complicit, given that such an attack was seen to serve no tactical purpose for the Tigers. One year later, with no arrests made in the case and rights groups demanding swifter government action, a top Colombo official appeared to lay blame on the French NGO, itself, for sending its employees into a known combat zone.112

In August 2007, New York-based Human Rights Watch issued a sharp critique of Sri Lanka’s worsening human rights situation, focusing particular attention on a “dramatic increase” in abuses by government forces since early 2006 and on Colombo’s alleged responsibility for “unlawful killings, enforced disappearances, and other serious human rights violations,” most of them affecting members of the country’s Tamil and Muslim minorities. The Sri Lankan government rejected most of the allegations as being baseless and unsubstantiated, saying that its largely successful efforts to resolve issues such as disappearances and internal displacement had been ignored.113

**Child Abductions.** Over the course of Sri Lanka’s decades-long civil war, thousands of children have been abducted and forcefully recruited as soldiers. As of January 2007, the U.N. Children’s Fund reported having confirmed 6,241 child abductions in Sri Lanka’s North and East provinces, the great majority of these perpetrated by the LTTE.114 The Karuna faction has come under especially harsh criticism for involvement in child abductions and forced recruitments. Elements of Sri Lankan military and police forces are accused of assisting in such abductions. Colombo has responded to claims made by New York-based Human Rights Watch by flatly denying any government complicity or “willful blindness” toward forced recruitments.115

**Internally Displaced Persons.** As fighting in the Sri Lanka’s East and North intensified in 2006 and into 2007, as many as 315,000 civilians have been displaced from their homes. The great majority of these are Tamils and Muslims. One report had intense March 2007 battles in Batticaloa creating about 95,000 new internally displaced persons (IDPs) in just one week.116 International human rights groups have urged all parties to the conflict to protect civilians and allow access by


humanitarian aid agencies, which are often blocked from entering conflict zones.117 The United Nations reports that from April to July 2007 some 100,000 IDPs were able to return to their homes in the Batticaloa district after fighting there waned. Yet it still counts more than 300,000 people as having remained in a state of “protracted displacement” for two decades.118

“Disappeared” Persons. As in many ethnic conflicts, Sri Lanka’s civil war has led to the “disappearance” of many thousands of people. According to one report, more than 1,000 people are believed to have been “disappeared” during the year ending June 2007.119 One nongovernmental report acknowledged severe abuses by the LTTE while also accusing the Colombo government of “using extra-judicial killings and enforced disappearances as part of a brutal counter-insurgency campaign” and predicted that such tactics would lead to “further embitterment of the Tamil population and a further cycle of war, terrorism, and repression.”120

117 See, for example, an Amnesty International press release at [http://web.amnesty.org/library/print/ENGASA370092007].
Table 2. Direct U.S. Assistance to Sri Lanka, FY2000-FY2008  
(in millions of dollars)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CSH</td>
<td>0.7</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>DA</td>
<td>3.7</td>
<td>3.4</td>
<td>5.2</td>
<td>6.2</td>
<td>4.8</td>
<td>6.8</td>
<td>3.7</td>
<td>3.5</td>
<td>4.0</td>
</tr>
<tr>
<td>ESF</td>
<td>—</td>
<td>—</td>
<td>3.0</td>
<td>4.0</td>
<td>12.0</td>
<td>9.9</td>
<td>4.0</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>FMF</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>2.5</td>
<td>0.5</td>
<td>1.0</td>
<td>1.0</td>
<td>0.9</td>
<td>—</td>
</tr>
<tr>
<td>IMET</td>
<td>0.2</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.6</td>
<td>0.5</td>
<td>0.5</td>
<td>0.6</td>
<td>—</td>
</tr>
<tr>
<td>INCLE</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>NADR</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>2.4</td>
<td>1.8</td>
<td>2.7</td>
<td>3.6</td>
<td>1.4</td>
<td>1.2</td>
</tr>
<tr>
<td>TI</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>1.7</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>4.6</strong></td>
<td><strong>4.0</strong></td>
<td><strong>8.7</strong></td>
<td><strong>13.1</strong></td>
<td><strong>21.8</strong></td>
<td><strong>20.7</strong></td>
<td><strong>14.5</strong></td>
<td><strong>9.4</strong></td>
<td><strong>7.0</strong></td>
</tr>
<tr>
<td>Food Aid&lt;sup&gt;a&lt;/sup&gt;</td>
<td>—</td>
<td>13.9</td>
<td>8.7</td>
<td>3.1</td>
<td>3.6</td>
<td>10.8</td>
<td>8.9</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4.6</strong></td>
<td><strong>17.9</strong></td>
<td><strong>17.4</strong></td>
<td><strong>16.2</strong></td>
<td><strong>25.4</strong></td>
<td><strong>31.5</strong></td>
<td><strong>23.4</strong></td>
<td><strong>9.4</strong></td>
<td><strong>7.0</strong></td>
</tr>
</tbody>
</table>

Sources: U.S. Departments of State and Agriculture; U.S. Agency for International Development. FY2007 amounts are estimates; FY2008 amounts are requested. Columns may not add up due to rounding.

Abbreviations:
- CSH: Child Survival and Health
- DA: Development Assistance
- ESF: Economic Support Fund
- FMF: Foreign Military Financing
- IMET: International Military Education and Training
- INCLE: International Narcotics Control and Law Enforcement
- NADR: Nonproliferation, Anti-Terrorism, Demining, and Related (mainly humanitarian demining assistance, but includes modest anti-terrorism assistance to be increased in FY2008)
- TI: Transition Initiatives (temporary development programs for post-conflict states)

Notes:
- P.L. 480 Title II (grants), Section 416(b) of the Agricultural Act of 1949, as amended (surplus donations), and Food for Progress. Food aid totals do not include freight costs.
Figure 1. Map of Sri Lanka

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