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## HELPING SRI LANKA SECURE A NEW BEGINNING

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A confluence of historical events has formed the most favorable opportunity for peace and prosperity in Sri Lanka since its independence in 1948. Support from the United States could well facilitate the process.

In December 2001, Sri Lanka's war-weary citizens voted into office a majority government led by the United National Front (UNF) party. A right-of-center political party that favors a free-market economy, the UNF is committed to a broad-based civil government that includes the Tamil minority. It also is willing to negotiate substantive autonomy for certain regions with the Liberation Tigers of Tamil Eelam (LTTE), a violent insurgent group that the United States has labeled a terrorist group. The United States should fully support the peace efforts and maintain its current levels of military assistance to Sri Lanka, but it should not remove the terrorist designation for the LTTE until a peace settlement is reached. In addition, it should encourage the economic reform process now underway in Colombo.

**Why Hope for Peace Has Grown.** The Tamil Tigers are battle weary. After decades of civil war, the LTTE realizes that its terrorist tactics and suicide bombings have discredited its cause. Starting with the United States in 1997, a number of countries have designated the LTTE a terrorist group, blocking its ability to raise or move funds in other countries. Additionally, the attack on the United States on September 11 inspired a sea change in attitudes worldwide against tolerance of groups that use terrorist methods to achieve political goals. Bereft of international sympathy, battling a larger

and increasingly professional Sri Lankan military, and detecting softer domestic backing and dwindling financial support, the Tamil Tigers agreed to a cease-fire in February.

The government of Sri Lanka is also tired of two decades of war that left 64,000 people dead. A public outcry for peace, led by the beleaguered business community, encouraged the ongoing peace process. Government war expenditures, including funding the ever-growing army and its costly operations, have overburdened the economy, which shrank last year for the first time since independence. Only a substantive and durable peace agreement with the Tamils will permit the government to cut defense spending.

Despite some provocative political posturing from the LTTE leadership and a few violations of the cease-fire, the UNF led by Prime Minister Ranil Wickremasinghe has been able to maintain the integrity of the cease-fire. It also has fast-tracked the Norwegian-sponsored peace initiative. Amid rising expectations of a lasting peace, both sides will meet in Thailand from September 12-17 for formal

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peace talks. Public support is so overwhelming that the opposition People's Alliance has climbed on board, backing greater devolution of power to allow some autonomy for majority Tamil regions. Although the devil will be in the details of the final peace agreement, the government appears to have a considerable amount of latitude within parliament and with the public to grant such concessions to the Tamil Tigers.

The prospects for peace have combined with the government's 2002 budget, presented in March, to greatly improve investor confidence. The budget demonstrates the government's commitment to economic liberalization. The reforms include tax rationalization, additional deregulation, and privatization. This year, the government will grant no new tax exemptions, and the scope of the existing exemptions will be narrowed to two main categories designed to encourage private investment. Land reform dominates the privatization process. The government owns 80 percent of the land but is selling commercially viable properties to the private sector at market prices.

Other areas still need work. The government employs 12 percent of Sri Lankan workers—the highest ratio in Asia—and consumes 10.4 percent of gross domestic product. It also dominates the utility, health care, and financial sectors. Only in manufacturing does the private sector have the lead, but its narrow base is principally in textiles and clothing.

Economic reforms and a peace settlement will not be enough to revitalize the Sri Lankan economy this year. Without a peace agreement, there can be no demobilization of the Sri Lankan military. Investors are warily optimistic, but previous peace talks in 1985, 1991, and 1995 all collapsed. Wickremasinghe, who firmly believes that American assistance is vital to the peace effort, came to Washington in July with the message that U.S. military assistance and economic aid are vital to securing peace and reviving the Sri Lankan economy.

**Washington's Support.** To assist the peace process and economic recovery, the Bush Administration should:

- **Continue military assistance.** The current security assistance program is friendly but modest. Assistance for 2003 consists of \$252,000 for International Military Education and Training and some visits of Special Forces teams to train with the Sri Lankan military. If the peace talks break down, the Bush Administration should increase all forms of military assistance substantially, including the sale of lethal equipment.
- **Retain the LTTE on the list of foreign terrorist organizations.** This designation gives Washington some leverage with the Tamil Tigers. If a lasting peace agreement is signed and the LTTE transforms itself from a terrorist group to a political party, the State Department can remove it from this list. If the talks fail and the LTTE returns to its terrorist tactics, then the United States should side firmly with the government.
- **Step up trade and economic assistance.** Continuing the economically contradictory policies of foreign aid while maintaining high tariffs and quotas will do nothing to invigorate Sri Lanka's economy. Instead, Washington should lower tariffs and eliminate quotas on its apparel and agricultural industries. Debt relief should be considered, but only if it is conditioned on continued privatization and Sri Lanka promises to forgo future assistance.

**Conclusion.** The government of Sri Lanka is on the verge of obtaining a landmark peace agreement from the violent Tamil Tigers. The United States should support the peaceful resolution of the civil war in Sri Lanka, continue providing military and economic assistance until the Tigers have signed the agreement, and remove the terrorist label only when peace is secure.

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