

## **Sri Lanka at the Crossroads**

Sri Lanka's President Chandrika Bandaranaike Kumaratunga, reelected last month after an assassination attempt, faces three interlocking challenges: creating some room for maneuver within Sri Lanka's highly confrontational political system, reviving a lackluster economy, and most importantly, using her electoral momentum to start a serious peace process. Her early gestures of conciliation toward her main political rival could help, but following through will require unusual persistence, creativity, and self-restraint.

**The voters speak:** Chandrika Kumaratunga's decision to call a presidential election nearly a year ahead of schedule was widely expected. Her proposals to reform the constitution and address the political grievances of the country's 20 percent Tamil minority had run out of steam, and the military campaign was bogged down after some early advances. The peace platform on which she had staked her political career seemed unattainable without the push of a new mandate.

The campaign pitted Kumaratunga, a charismatic campaigner, representing the People's Alliance (PA), against the more aloof Ranil Wickremasinghe of the United National Party (UNP). Heirs to long political traditions, the two have been bitter political enemies, especially for the past four years. Violence plagued the campaign from the start. As Wickremasinghe's campaign picked up, both contenders sought new political allies. Five UNP parliamentarians, several known for ethnic hostility, declared for Kumaratunga. A Tamil leader vital to Kumaratunga's 1994 victory shifted his support to the UNP, and the death of another Tamil leader left a bloc of votes in the hill districts up for grabs.



As soon as the election was announced, the principal Tamil insurgent group, the Liberation Tigers of Tamil Eelam (LTTE), overran a series of Sri Lankan military bases in areas the army had taken over in 1995. The army and the LTTE between them suffered thousands more dead, and the army's and the government's competence came under serious questioning.

The LTTE leader, Velupillai Prabhakaran, added fuel to the fire by describing the last five years as "a curse on the Tamil people," words widely interpreted as a death threat against Kumaratunga. Three days before the election, the last pre-poll rallies of both candidates were attacked, apparently by the LTTE. Kumaratunga was injured in the suicide bombing, and will probably lose her vision in one eye. Wickremasinghe had already left his rally before the explosion. In the two events, some 25 people were killed and over 100 wounded.

Kumaratunga, perhaps helped by the attack, won with 51 percent of the vote, down sharply from 62 percent in 1994. There have been allegations of irregularities. More interestingly, both candidates campaigned on a peace platform, with Wickremasinghe arguing that he could provide peace more competently than Kumaratunga. It remains to be seen whether this departure from the pattern of nationalist one-upsmanship portends a better chance to make peace.

**A peace mandate?** Kumaratunga's inaugural speech was a plea for an end to hatred and a new search for peace. Unlike the situation in 1994, however, she now carries the baggage of five years in office. Her 1995 peace proposals won neither a serious hearing from the LTTE nor the support of the UNP. She was reelected with the help of nationalist forces hostile to compromises with the LTTE. She now needs to deal with three issues at once: her relationship with the UNP, integrating her military and political strategy, and resuming negotiations.

Most observers expect a parliamentary election early in 2000, well before the August deadline. Meanwhile, Kumaratunga has appealed to Wickremasinghe to join her government, while continuing to court UNP dissidents. If she is serious about forging common ground with the UNP, she will need to develop a personal understanding with Wickremasinghe. His early

statements have suggested that an understanding on the main lines of peace policy is conceivable. Such an understanding would gain considerable popular support, but would require an unusual degree of self-discipline by both sides in avoiding gratuitous attacks.

**Militarily, a bloody stalemate:** The last four years have been the bloodiest period in Sri Lanka's long ethnic war. The territorial gains of late 1995 led to a major deterioration in security in the ethnically mixed east of the country, already under government control. In principle, the government could get out of this trap either by changing its military strategy to de-emphasize the control of new territory or by attempting to negotiate a viable ceasefire. But its military strategy cannot be separated from its political goals.

**Re-launching negotiations:** Ultimately, a peace effort must lead back to the negotiating table. The Kumaratunga government's 1995 negotiating effort ended in frustration, but since the LTTE is still capable of preventing a settlement, there is also no alternative to dealing with them. Kumaratunga's 1995 proposals were good at the time, but she needs a new launching pad for her peace efforts.

The LTTE still seeks a separate Tamil state in the north and east of Sri Lanka. The government is committed to keeping Sri Lanka as a single country. The key to Kumaratunga's 1995 proposals was broad local autonomy, with a quasi-federal structure and complex guarantees for both the central and the provincial authorities. The most neuralgic issues in the long constitutional debate are:

- "Merger", or whether or not the Tamil north and ethnically mixed east of the country should be treated as one unit, a longstanding Tamil demand rejected by all Sri Lankan governments;
- "Devolution," or the degree of provincial autonomy, a subject on which there is room for negotiation but a history of badly implemented agreements;
- The content of devolved powers, in particular of local authority over distribution of state lands, local law and order, and education;
- A variety of issues that touch on the permanence of a less centralized government structure and the symbolic equality of the Sinhalese and Tamil people in it. These include whether the Sri Lankan state can still be characterized as "unitary", the special role accorded to Buddhism, language policy, and the conditions, if any, in which provincial leaders can be dismissed.

Some of these ideas may well figure in a new proposal, but Kumaratunga will need to explore new means of determining whether the LTTE is serious and demonstrating that her government is. A discreet third party role and a multi-stage negotiating process are both worth considering.

Historically, the LTTE's concept of a political settlement has gone well beyond the kind of devices described here. It remains to be seen whether they are prepared to live with a compromise. The LTTE and its current leaders have enforced their will with even greater violence against Tamil opponents than against Sri Lankan government leaders, and may not see much advantage to themselves in a settlement.

**Reviving the economy:** Meanwhile, the new government needs to tone up the country's uninspiring economic performance. In spite of the ethnic conflict, Sri Lanka grew by about 4 percent in 1999, and maintained a 4-6 percent growth rate for nearly the past decade. It has coasted for a generation on some of the most impressive social statistics in the region: literacy above 90 percent, population growth just over 1 percent, and infant death rates and life expectancy figures close to Western Europe's. But other countries in Asia will soon rival these accomplishments, and are achieving much more reliable economic growth as well.

Sri Lanka's population is heavily rural, but industry overtook agriculture's share of GDP over a decade ago. Its largest exports are ready-made garments, now earning close to \$2.5 billion per year, mostly sold in the United States, and tea. Both did well in 1999, and tourist arrivals partly recovered from a bad 1998. Foreign private investment has been rising steadily, but remains small in relation to the total economy.

Sri Lanka began its market reforms in the late 1970s. Kumaratunga's government accepted and continued the basic thrust of the program, and she has extended the privatization and deregulation efforts begun under her predecessor. Today's major policy issues are:

- The fiscal deficit, estimated at over 9 percent for 1998, is likely to exceed its target again in 1999. Defense spending accounts for 5.6 percent of GDP, and is unlikely to drop. Privatization cannot provide the cash to underwrite it indefinitely. Inflation is over 9 percent.

- Crumbling infrastructure will require private sector investment. The sale of 35 percent of Sri Lanka Telecoms to a strategic investor has been a success; this model may work in other areas, especially power.
- Financial sector reform. The big issue here is the future and possible privatization of the public sector banks.
- Education. Sri Lanka's achievements in primary and secondary education are extraordinary, but they need to build on these by making secondary and higher education more responsive to job needs, and by making higher education more flexible and more available.

The biggest boost to the economy, of course, would be a settlement of the ethnic problem. But this is unlikely to come quickly enough to provide economic relief to the current government -- and success on the ethnic issue will also bring with it new economic demands for reconstruction of war-ravaged areas of the country. In the end, all three of the government's major challenges in politics, the war, and the economy are interconnected.

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