The Politics of Foreign Aid in Sri Lanka

Promoting markets and supporting peace

ICES SRI LANKA PROGRAM

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Abbreviations

ADB	Asian Development Bank
CARE	Cooperative for American Relief Everywhere
CEC	Commission of European Communities
CFA	Ceasefire Agreement
CIDA	Canadian International Development Agency
CMEV	Centre for Monitoring Election Violence
CWC	Ceylon Workers Congress
DAC	Development Assistance Committee
DFID	Department for International Development
DHA	Department of Humanitarian Affairs
DJV	Deshapremi Jathika Viyaparaya
DUNF	Democratic United National Front
ENDLF	Eelam National Democratic Liberation Front
EPDP	Eelam People's Democratic Party
EPRLF	Eelam People's Revolutionary Liberation Front
EROS	Eelam Revolutionary Organisation of Students
EU	European Union
FINNIDA	Department for International Development Cooperation, Finland
FRG	Federal Republic of Germany
GDP	Gross Domestic Product
GDR	German Democratic Republic
GOSL	Government of Sri Lanka
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit GmbH (German Agency for echnical Co-operation)
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFAD	International Fund for Agricultural Development
ILO	International Labour Organisation
IMF	International Monetary Fund
IPKF	Indian Peacekeeping Force

IRDP	Integrated Rural Development Project
IRED	Innovations et Réseaux pour le Développement
ISGA	Interim Self-Governing Authority
JBIC	Japan Bank for International Cooperation
JHU	Jathika Hela Urumaya
JICA	Japan International Cooperation Agency
JSS	Jathika Sevaka Sangamaya
JVP	Janatha Vimukthi Peramuna
LSSP	Lanka Sama Samaja Party
LTTE	Liberation Tigers of Tamil Eelam
MP	Member of Parliament
MEP	Mahajana Eksath Peramuna
NGO	Non-governmental organisation
NORAD	Norwegian Agency for Development Cooperation
OCHA	Office for the Co-ordination of Humanitarian Affairs
ODA	Overseas Development Administration (in Chapter 2)
ODA	Overseas Development Assistance (in Chapter 4)
OECD	Organisation for Economic Co-operation and Development
PA	People's Alliance
PLOTE	People's Liberation Organisation of Tamil Eelam
PR	Proportional Representation
PRGF	Poverty Reduction Growth Facility
PRSC	Poverty Reduction Support Credit
PRS	Poverty Reduction Strategy
PTA	Prevention of Terrorism Act
SDR	Special Drawing Rights
SIDA	Swedish International Development Cooperation Agency
SLFP	Sri Lanka Freedom Party
SLMC	Sri Lanka Muslim Congress
TULF	Tamil United Liberation Front
ULF	United Left Front
UNDP	United Nations Development Programme
UNF	United National Front
UNP	United National Party
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
VAT	Value Added Tax
WHO	World Health Organisation

Introduction

It is impossible to write anything about the political economy of post '77 Sri Lanka without reference to foreign aid. During the last 25 years, the influence of foreign aid has permeated all corners of the Sri Lankan economy, state and society. It has become a decisive political factor in key areas of Sri Lankan political and economic life.

The primary reason for this expanding role of foreign aid since 1977 was the inauguration of economic policies that emphasised the private sector, markets and integration into the world economy. Major multilateral and bilateral donors supported these policies, and responded by increasing the volume of aid given to Sri Lanka. However this narrow focus on the economy did not last for long. Very soon donors began to argue that there had to be changes in many other areas, if development assistance was to be effective. Gradually the role of foreign aid has expanded to cover many other areas such as governance, democratic development, environment protection, conflict resolution, etc. Foreign aid now seems to be concerned with the total transformation of Sri Lankan society.

From this range of interests that development assistance has come to focus on, the principal concern of this study is the interaction between two key areas - promoting a market economy and supporting the resolution of Sri Lanka's conflicts. As we shall show in this study, when the flow of foreign aid into Sri Lanka began to expand in 1977 because of the liberalisation of the economy, the foundation for the North/East conflict had already been laid. But the donors by and large ignored it. They also ignored the violence generated by the undemocratic manner in which the ruling elite tried to hold on to power. The principal factor behind this attitude of donors was their preoccupation with supporting the new direction of economic development.

But this could not last forever. The deterioration of the situation in the North/East, refugee flows to Western countries

and an insurgency in the South[1] of Sri Lanka made it difficult to ignore conflicts. What is more, the instability and an expensive war were undermining the donor agenda of promoting a market economy. As a result, from somewhere around the beginning of the nineties, conflicts became a major concern of aid agencies.

This interest shown by aid agencies in Sri Lanka's conflicts from the beginning of the nineties parallels similar developments internationally. The momentous changes in 1989, which ended with the collapse of the Soviet bloc, marked the beginning of a new period for global capitalism. Events in 1989 marked the triumph of liberalism in both economics and politics. Under the impact of these, promoting a capitalist economy and institutions of liberal democracy became a major plank of development assistance.

The end of the Cold War period also generated a lot of hope that the world would be a peaceful place. Quite a number of the ongoing conflicts in the world had a link to Cold War politics. Cold War politics added a new dimension to the internal reasons for the conflicts. Each side of the conflicts was supported by a superpower. With the end of Cold War politics, it was hoped that this dynamic would come to an end.

Among the liberals there was also the expectation that the end of Cold War politics would mean the end of support from the Western powers to despotic rulers, and this would lead to promoting democracy and human rights and resolving conflicts. Liberal triumphalism and a peaceful world were to be the hallmarks of the post Cold War world. The idea that the growth of capitalism and globalisation would be a process characterised by conflicts and contradictions, and that this process would give a new impetus to already existing conflicts and generate new ones, was not a popular view in this milieu of liberal triumphalism.

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[1] 'South' throughout the text means areas other than the North/East Province of Sri Lanka. In the text the terms North/East and North/East Province mean the same.

The dream of a peaceful world, where capital expands its dominance and liberal democracy prevails in politics, was short-lived. The breakdown of the Soviet bloc, instead of inaugurating a peaceful Eastern Europe, resulted in a number of conflicts, some of which are still ongoing. In Africa, conflicts have unravelled post-colonial states. The term 'collapsed states' is commonly used to characterise certain parts of Africa. Conflicts in the Middle East that existed during the Cold War period show no sign of ending. Asia is studded with a number of conflicts based on ethnic identities. In Latin America, old conflicts based on resource distribution continue, and there is the possibility of new ones based on identities. The events of September 11th show that even the centre of the developed capitalist West is not immune from these conflicts. Therefore, rather than a peaceful world based on values of liberalism in politics and economics, the post Cold War world is characterised by globalisation or expansion of capitalism and conflicts. The twin phenomena of globalisation and conflicts provide a better framework to understand the world that we are living in today. Since the beginning of the nineties, the foreign aid agencies have tried to respond to the conflicts prevalent in many parts of the world.

This study attempts to analyse how this twin interest of promoting capitalism and managing conflicts has been played out in Sri Lanka's context. The period covered by the study begins with the inauguration of what we call the phase of liberal capitalism in 1977, and ends with the collapse of the peace process in 2004. The defeat of the UNP in the 2004 general election signifies this.

The chapter structure of the study is as follows: Chapter One begins with a mapping of how donor interest in conflict has evolved during the post Cold War period. This chapter ends with an elaboration of the thesis put forward by Mark Duffield, who argues that this new found interest by donors on conflicts amounts to a merger of the security and development fields within the aid discourse (Duffield 2001). The rest of the study is an attempt to apply this thesis to Sri Lanka.

The analysis of the Sri Lankan situation begins with Chapter Two, which looks at the politics and history of foreign aid in Sri Lanka. This chapter tries to remind the reader of the political nature of foreign aid. In a period where international actors are identified with terms like international community, it is important to emphasise power and the politics behind foreign aid. This chapter ends with an analysis of the role of foreign aid in Sri Lankan society after 1977, which is qualitatively different from what went on before.

Chapter Three focuses on the political economy of violence and instability in post '77 Sri Lanka. It covers violence associated with what is popularly called the ethnic conflict, as well as the violence due to undermining of democratic institutions and authoritarian politics in the South. The principal argument in this chapter is to link the violence and conflict with the manner in which the ruling elite chose to deal with two political challenges they faced during the post '77 period. The first challenge was posed by Tamil militancy, which is related to the deteriorating relationship between the Sri Lankan state and Sri Lankan Tamils. The second challenge was posed by the possible opposition to the new economic agenda. This could be challenged through both democratic and non-democratic means. This paper argues that the ruling elite tried to deal with these political challenges making use of two strategies - institutional design and authoritarian politics. The political violence and conflict that became endemic in Sri Lankan society during the post '77 period can be traced to the authoritarian politics of the ruling classes. In this chapter we also show how this situation was compounded by the violent character of the counter-state movements that emerged in this context. This was the case with the Liberation Tigers of Tamil Eelam (LTTE) in the North/East and the Janatha Vimukthi Peramuna (JVP) in the South.

Chapter Four is an analysis of donor responses to this situation of conflict and political violence in Sri Lanka from the beginning of liberal capitalism to around the late eighties and early nineties. The chapter argues that this period can be divided in two parts. In the first - from the beginning of liberal capitalism up to the mid

eighties - the flow of foreign aid continued despite a worsening of the situation with regard to Tamil issues and the undermining of democratic institutions. These realities did not affect the aid flow. The primary reason for this was the overwhelming support that donors wanted to provide for the economic policies of the UNP government. This was more important than any consideration of conflict or democratic issues. However this could not last forever, and from around the mid eighties the social costs of conflict, human rights and strengthening democracy entered the donor discourse. These concerns came into sharp focus due to violence in the 1989/90 period, which affected both the North/East and the South. This was a turning point for the entry of issues related to the conflict into donor policy making. Nevertheless, as we show in this chapter, this new found interest on conflict did not generate uniform responses from donors. While one group of donors - bilateral donors - began to incorporate conflicts into their policy making process, others - multilateral donors and Japan - continued to focus on support for the economy. As a result, Sri Lanka continued to receive assistance at a considerable level despite the violence and conflict.

Chapter Five is devoted to the United National Front (UNF)-led peace process, which lasted from 2000-2004. This chapter points out the link between the economic crisis of the years 2000 and 2001 and the decision of the ruling elite to invite Norway to be a facilitator between the Sri Lankan government and the LTTE. This process resulted in the Cease Fire Agreement (CFA), signed by the UNF government with the LTTE. As argued in this chapter, the strategy of the UNF government had three elements - signing the CFA with the LTTE, carrying out an extensive programme of economic reform to take the development of capitalism to another stage, and mobilising international support for both these agendas. This chapter is an analysis of the political fall-out of the economic reform process, and how it contributed to undermining support from the Southern electorate, leading to the electoral defeat of the UNP in April 2004. Thus ended the neoliberal peace strategy of the UNF.

The final chapter takes the reader back to donor policies in the context of the UNF-led peace process and its collapse. By the time the UNF signed the CFA, Sri Lanka was showing signs of undermining almost all the objectives underlying foreign aid support to the country. There was no end in sight to the conflict in the North/East. This meant that donors were achieving very little with their new focus on conflict resolution. Secondly, the economic crisis of 2000 and 2001 meant the objectives of those donors whose primary interest was supporting the development of capitalism were also getting undermined. Due to these factors, and the UNF strategy of mobilising international support, donors became not only supporters of the peace process, but an integral part of it. Hence the collapse of the peace process was not only a failure of the UNF strategy, but it was also a failure of donor strategies.

As we have argued in Chapter Six, the UNF-led peace process was based on political notions hitherto never accepted by the Sri Lankan elite. It accepted that there are two armies in the country controlling different parts of it. The agreement also accepted the principle of treating an armed counter-state movement, the LTTE, and the Sri Lankan state on a par with each other. The failure of the peace process shows the contradictions of these political assumptions. Many donors were enthusiastic supporters of these positions.

The failure of the peace process has brought into prominence another policy framework of donor countries, which was apparent even when negotiations with the LTTE lasted. Internationally, the central objective of this policy is ensuring security in a globalised world. These concerns are integrated into aid policies in order to take care of conflicts in the periphery. This is precisely what Duffield points out when he argues that there has been a merger of security and development in aid policies.

When it comes to Sri Lanka, this position basically accepts that Sri Lanka has a political problem with regard to the rights of the Tamil minority, and it has to be resolved through negotiations. The political objective of this resolution is the reform of the highly

centralised Sri Lankan state in order to arrive at a power sharing arrangement. This solution also means ultimately there has to be disarmament of the LTTE. The objective of this second trend is how to support the Sri Lankan state to achieve this. It also calls for negotiations with the LTTE. But if the LTTE does not respond, it is ready to support the Sri Lankan state. The second plank of this position is continued support to the economic agenda of developing capitalism. This framework will keep up this support even while the conflict continues.

Of course this assistance is not unconditional. If Sri Lanka deviates significantly from the basic principles of liberal capitalism, or if the conflict aggravates to the extent of creating a significant human rights and humanitarian crisis and begins to affect the economy in a significant way, or if Sri Lankan foreign policy shifts in a direction hostile to the countries who are major donors, this support is likely to suffer. The last chapter argues that the relationship of the fragmented state of Sri Lanka with donor countries can best be understood through the presence of these two principal trends - one which informed the UNF-led peace process that tried to treat the LTTE and Sri Lankan state on a par with each other, and the other which is supporting Sri Lanka to develop capitalism and arrive at a negotiated settlement to the Tamil problem. The chapter ends with a short reflection on the fate of the Sri Lankan state in the context of these two trends.

CHAPTER 1

Global Capitalism, Conflicts and Foreign Aid – The Merger of Security and Development

This chapter focuses on what the Organisation for Economic Co-operation and Development (OECD) defines as 'development assistance', and its expanding agenda. It argues that in recent times the objectives of development assistance have expanded to build a liberal capitalist order. This entails transforming entire societies, influencing them to have an economy based on free market principles, a polity based on institutions of liberal democracy and a stronger civil society. This ideology of liberal triumphalism was at its peak in the aftermath of the break-up of the Soviet bloc. Since then it has been challenged by intra-state conflicts and Islamic militancy. Conflicts in the periphery have become the principal security issue for maintaining stability in the post Cold War period. This stability is essential for the growth of global capitalism. In order to face these challenges, conflicts have taken centre stage in aid policies. The fields of security and development have merged to form a single agenda.

The expanding agenda of development assistance – building a liberal capitalist order

In mainstream literature on foreign aid, the term 'development assistance' was coined to differentiate between foreign aid for development and other forms of aid, such as military assistance and commercial transactions. According to Roger Riddell, whose 1987 publication, *Foreign Aid Reconsidered*, is considered a classic in mainstream literature on foreign aid,

> Official aid is now termed 'development assistance', and the donors' club of OECD member nations is called

the Development Assistance Committee (DAC). Not only is the DAC careful to distinguish military aid and commercial transactions from development assistance, thereby implying that it is the latter category of funds that is a cause of or motor in development, but in order to be called 'aid', funds from DAC members have to fulfil certain criteria, one of which is that 'They must be administered with the promotion of economic development and welfare of developing countries as their main objective'. (Riddell 1987:81)

According to a more recent study, the following three criteria must be fulfilled in order that resource transfers from OECD countries to developing countries can be classified as development assistance:

- they are undertaken by the official sector;
- the main objective is promotion of economic development and welfare; and
- they are provided on concessional financial terms (if a loan has a grant element of at least 25 per cent). (Degnbol-Martinussen and Engberg-Pedersen 2003:56)

A closer look at the flow of development assistance shows that the attempt to arrive at this definition had its own politics. Much of the development assistance undertaken for development purposes, especially during the Cold War period, had explicit political and strategic objectives. This was especially true of countries like the US and the former Soviet Union. Secondly, official development assistance always promoted a particular type of development. It entailed supporting certain interests, values and ideas. For example, in recent times, the development ideology promoted by development assistance supported promoting the interests of private capital, glorified individual initiatives and tried to establish liberal ideas. This is a very political exercise. Promoting capitalist relations in post-colonial societies through development assistance can hardly be termed a politically neutral affair.

Two other motivations that are often cited in literature as reasons for the flow of development assistance are environmental and humanitarian concerns (Degnbol-Martinussen and Engberg-Pedersen 2003:17). In the case of the first, the motivation is preservation of the common heritage of humanity, and aid is rationalised through these arguments. The latter has a high degree of a moral component, often used in the developed world to raise funds for humanitarian purposes.

But even in these areas politics, broadly defined as the interaction and competition between different interests, values and ideas, is hardly absent. The debates on environmental issues have generated a range of political positions. The behaviour of donor countries pertaining to these issues also demonstrates political motives. Humanitarian assistance, a field where humanitarian professionals are carrying on a difficult battle for political neutrality, is fast losing its neutral space. Recent experience in Iraq demonstrates the degree to which humanitarian assistance is linked to political and strategic objectives.

The role of development assistance becomes much clearer if these political objectives are kept in focus. This makes it easier to wade through the jungle of terms and debates found in the literature. An explicitly political perspective also makes it easier to give a realistic assessment of whether development assistance has a chance of achieving what it has been set up to do, because much of what donors are trying to do now is an extremely political affair. Hence a political approach is useful even for policy debate among donors.

The beginning of the development assistance industry in Western capitalist countries dates back to a number of historical events in the middle of the last century: the decolonisation process - which made a large number of former colonies independent; the Marshall Plan - to reconstruct war-ravaged Europe; the need to counter the influence of the Eastern European bloc led by the Soviet Union as a countervailing power to the Western capitalist countries; and the need to stabilise the world capitalist economy, which had

been hit both by the recession of the thirties and the Second World War.

Following the end of the colonial period, the former colonial powers were keen on maintaining political and economic links and influence with their former colonies. This had both strategic and economic reasons. Strategically, former colonial powers wanted to maintain their influence over former subjects even after independence. These powers also continued to maintain economic interests in these former colonies. They were not ready to give up these entrenched interests so easily. No doubt a continuous sense of responsibility towards these territories was mixed up with these strategic and economic considerations. These motivations were true both for the British and the French - the major departing colonial powers.

Britain 'established a form of foreign aid to overseas areas during the colonial period - for example, under the Colonial Development Act of 1929 and the Colonial Development and Welfare Act of 1940' (Degenbol-Martinussen and Engerberg-Pedersen 2003:86). As the colonies became independent, funds were channelled to them through various forms of development assistance. In the case of the British, both the establishment of the Commonwealth and special mechanisms like the Colombo Plan became a major source of development assistance to the former colonies.[1] Although British policy in development assistance is much more diverse at present, these colonial roots still play a certain role in aid policy.

In the case of the French, development assistance has been, and remains, much more explicitly linked with the former colonial territories.

> It is characteristic for French aid that it is strongly concentrated in the country's own former colonies, especially in Africa and also, in recent years, in Indochina ... Part of the aid (13-15 per cent) goes to the French overseas territories that belong to the group of high income countries and territories. (Degnbol-Martinussen and Engberg-Pedersen 2003:83)

[1] It is interesting to note that Japan 's first effort at development assistance was through the Colombo Plan.

In the aftermath of the Second World War, US support to war-ravaged Europe - the Marshall Plan - was the second factor which contributed to the establishment of development assistance as a major activity of developed capitalist countries. The proposal in 1947 made by the USA's foreign minister, George Marshall, is considered by some authors as one of the first comprehensive proposals regarding development assistance. The idea was to give massive aid to Europe in order to rebuild it following the Second World War.

> The Marshall Plan was initiated in 1948 at the same time as the Organisation for European Economic Co-operation (OEEC), the predecessor of the Organisation for Economic Co-operation and Development (OECD) ... At his inauguration the following year, President Truman presented the first plan for the expansion of American foreign aid: it was to include developing countries threatened by communism, either from outside or from within. Truman's proposal was included in the so-called Act for International Development, which was approved by Congress in 1950. Among the countries that especially benefited from this law were South Korea and Taiwan, which received considerable transfers of resources from the USA starting in 1954. (Degnbol-Martinussen and Engberg-Pedersen 2003:8)

Hence, countervailing against the influence of the Soviet bloc, and undermining the influence of the communist movement, became important objectives of development assistance at a very early stage. Development assistance became an important player in Cold

War politics. This had an impact in all parts of what came to be known as the Third World. In the case of Indo-China, where there was a growing influence of communist movements with the support of both China and the Soviet Union, this link between development assistance and strategic interests was explicit. This was also partly true in Latin America, which the US foreign policy establishment considered to be their backyard and therefore their area of dominance. Africa also became an arena of this competition where development assistance played a significant role. Finally, even in the case of South Asia, where the ideas of non-alignment were much more established thanks to leaders like Nehru, development assistance was a critical factor in this game for influence between the Western and the Eastern bloc countries.[2]

Although the Soviet bloc has disappeared and does not play a significant role in development assistance any more, it is important to remember this history. It allows us to remember the importance of politics and strategic issues when analysing development assistance. This is especially important in the current context where development assistance, as we shall show in this section, has taken on the task of almost total transformation of recipient country societies. This is a process that is highly political, and closely associated with the strategic interests of these countries.

Finally in this account of the beginnings of the development assistance industry, the other important landmark is the establishment of the two Bretton Woods institutions, the World Bank and the International Monetary Fund (IMF). Both these

[2] West Germany is the other important country where Cold War politics was explicitly linked to their development assistance programme. The objective in this case was undermining the influence of the German Democratic Republic (GDR) Countries that entered into a relationship with GDR were punished on the basis of what was called the Hallestein Doctrine. This meant that during this period the strategic interests of all major Western donors were quite explicit. The question is have they disappeared now, or have they taken a different form?

institutions were set up to regulate and manage the international capitalist economy. Two major factors in the establishment of these institutions were the global recession of world capitalism in the thirties, and the need to get capitalist accumulation moving after the Second World War. Soon this political role began to have an influence on post colonial societies. These institutions, especially the World Bank, began to play a role in transferring assistance to these societies. Today they have become major players in development assistance and the expansion of the capitalist world economy.

By the 1950s, development assistance was firmly established as part of the foreign policy of many developed countries. When it came to rationalising and theorising development assistance, such discourse was dominated by economists. The principal objective of theorisation was how to bring about economic growth in post-colonial societies so that they could join the world capitalist system.

Mainstream aid theory which developed during this period came from Keynsian economists, who believed in the need for state intervention for the purpose of bringing about economic growth. This theory had two key assumptions: 'that aid constitutes additional resources, and that these are important for accelerating development' (Riddell 1987:85). It placed

> strong emphasis on the need for intervention in promoting development and on the belief that more resources lead to greater development. It is therefore, not hard to understand why it should lean so heavily on interventionist theories of development and associate aid so closely with what growth theorists at the time believed to be the critical factor in accelerating growth, namely capital investment. (Riddell 1987:86)

Walt Rostow, the American economist who articulated the stages of growth theory, was one of the first Keynsian economists to link aid theory and economic growth. He was one of the first to

introduce the terms 'developed' and 'underdeveloped' countries into the debate on aid theory. According to his stages of economic growth theory, countries go through a number of stages in order to achieve an 'era of high mass consumption' and 'self sustaining growth'.

> the most important phase in achieving this developed state was the process of '*take-off* into self-sustaining growth'; the take-off stage is a relatively short period that is prepared by creating the social and economic conditions for self-sustaining growth. (Riddell 1987:87)

Therefore aid is needed for this relatively short period of time, when countries can be supported in order to achieve the take-off stage.

Rostow's ideas on stages of growth and the role of aid were elaborated in much more detail in the sixties by writers like Holis Chenerey, Alan Strout and Rosenstein-Rodan. Chenerey and Strout's contribution, published in the American Economic Review in 1966, is still considered a classic in mainstream aid theory (Chenerey and Strout 1966). In this article they set out to 'investigate the process by which a poor, stagnant economy can be transformed into one whose normal condition is sustained growth' (quoted from the *American Economic Review* in Riddell 1987:89). The model that Chenerey and Strout developed

> is characterised by two different sort of gaps in domestic resources that can be filled by external assistance. In the first, called investment-limited growth, skills and savings are in short supply. In the second, trade-limited growth, foreign exchange is in short supply because export earnings are lower than import needs. What they suggest is that foreign aid can help to bridge each of these gaps at the different stages of development, thereby fulfilling the overall function of assisting the

> acceleration of the growth rate until the self-sustaining stage is achieved. (Riddell 1987:90)

This conventional aid theory came under criticism during the seventies because the growth models on which it was based were not giving enough attention to poverty, income distribution and other social development issues. The very idea that promoting growth per se would lead to improvements in the living conditions of people in developing countries was questioned. Secondly, the need to expand the notion of development to include many areas other than economic growth was emphasised.

As far as aid theory was concerned, the answer to these shortcomings was direct intervention in order to tackle poverty and social development issues.

> Redistribution with growth and basic-needs approaches to development took the centre of the stage, commonly shifting attention away from macro-questions and towards micro-interventionist policies and projects. (Riddell 1987:95)

A significant development in this policy shift was that the World Bank, under the leadership of Robert McNamara, embraced this position of redistribution with growth and basic needs as their major thrust.

The shift away from the emphasis on economic growth per se opened the doors to a large gamut of issues that constituted social development. It generated debates about new ways of measuring development that included social development. The introduction of the Physical Quality of Life Index, a precursor to the currently popular Human Development Index, was one such example. The role of specialised agencies of the UN, such as UNICEF, WHO, ILO et al, became much more important for development assistance debates.

The opening up of a whole range of issues that were not tackled by economists - whose primary concern was how to bring

about growth so that post-colonial societies could join the capitalist world economy - was the beginning of a process that would lead to the addition of more and more issues that development assistance would try to take care of. Even after the backlash by market fundamentalists against the Keynsian interventions towards the end of the seventies, the expansion of issues that came under development assistance did not stop. As we shall see at the end of this section, the large range of issues which are now on the development assistance agenda has posed a series of extremely complex questions for donors.

What dominates donor discourse at present is the rightist thrust in development ideologies which began towards the end of the seventies. This rightist orientation has an extreme as well as a milder variety. The more extreme version, based on neo-classical economic theory, asserts that interventions through aid frustrate, or even impede, the development process.

> At its centre is an extreme optimism about the efficacy of the market, and the overriding benefits of a non-distorted price system and private enterprise to achieve sustained and accelerated development on their own. (Riddell 1987:157)

Philosophically these extreme versions of rightist critiques are drawn from the thinking of liberal fundamentalists such as Friedrich Hayek and Robert Nozick, for whom any form of state intervention for the purpose of social justice is considered to be in conflict with the individual's inalienable rights to liberty and freedom. In development assistance debates, the Austrian economist P.T. Bauer was the most famous proponent of these ideas. Based on this market fundamentalism, Bauer at one time even argued that the practice of giving development assistance should be terminated altogether (Bauer 1973). He did not accept any moral arguments for developed countries helping the developing world.

> Bauer completely rejects the idea that the rich industrialized countries originally based part of their growth on the transfer of resources from the colonies. He also asserts that the rich countries should in no way be responsible for poverty in developing countries. On the contrary, the differences in living standard and access to resources arise from the differences in what countries and populations have 'earned' as a result of their own efforts and those of their forebears. (Degnbol-Martinussen and Engberg-Pedersen 2003:11)

At the political level these extreme market fundamentalist views were expressed by the Reagan administration in the US. These policies were articulated in a two-volume report prepared by the Presidential Task Force on International Private Enterprise. This policy document argued that reliance on individual initiative, free competitive markets and private sector is essential for Third World development. The role of development assistance should be to promote these elements. The report was also critical of current practices in development assistance which were not giving enough attention in this direction (Riddell 1987:158).

The World Bank's version of these policies

> was the sweeping structural adjustment programmes that mostly aimed at limiting the state's involvement in economic development. The state was to withdraw from the production sphere, stop its regulatory intervention in the private sector, and generally reduce its expenditure, including that on health and education. Foreign aid to relieve poverty remained on the agenda, but since the structural adjustment programmes did not include any considerations worth mentioning of their effects on the poor, the result was a strong toning down of poverty alleviation measures. (Degnbol-Martinussen and Engberg-Pedersen 2003:27)

Any kind of direct intervention for bringing about social development, that dominated the previous redistribution with growth and basic needs era, was also discouraged.

A major development that had an impact on aid debates within post-colonial societies, just at the time market-oriented structural adjustment was becoming dominant, was the collapse of the Eastern European bloc led by the Soviet Union. This event at once removed an alternative source of development assistance to these countries. But what was much more important was what happened at the ideological level, and the space for manoeuvring that post-colonial societies had in aid negotiations. Ideologically, the collapse of centrally-planned state socialism removed the only real alternative economic model to capitalism that the world had seen. It also discredited ideas about state intervention and state planning within the policy debates of aid receiving countries. Finally development assistance from capitalist centres became the only available source of concessionary finance for development purposes. This limited the space for manoeuvring in aid negotiations with developed capitalist countries. From this point onwards, aid receiving countries became dependent on the developed West for concessionary finance.

Although extreme market fundamentalist views do not have the same influence in donor discourses now, the fundamental objectives of promoting competitive markets, the private sector, and opening economies to the international economy, have become the cornerstone of current policies of aid agencies in the sphere of economic development. However it has been realised that the process of deepening capitalist relations will not take place just by freeing the markets. Many other ingredients are necessary for this objective to be achieved, of which adjusting the policies of the state in recipient countries is crucial.

In 1997, the World Bank annual report focused on the state and development. This report put forward a wide ranging agenda of reforming and developing state institutions in order to promote a market economy. The objectives of this institutional development were much wider than anything undertaken before. On one hand,

it signified going away from pure dependence on the market. On the other, it aimed at fully fledged reforms of the state in order to promote capitalism (World Bank 1997).

This sums up the rationale behind the structural adjustment policies that have dominated the agenda of donors from the end of the seventies and beginning of the eighties. The main objective of this strategy was to adjust the development policies of recipient countries so that market-based growth could take place. Hence the earlier agenda of bringing about capitalist growth through investment was supplemented with another through which macro policies of the recipient countries were transformed so that capitalist growth could take place.

The next addition to this ever-expanding agenda of donors was democratisation, which meant establishing liberal democratic institutions.

> DAC countries have adopted declarations several times since 1989 in which they maintain that there is a connection between democratic and accountable regimes, compliance with human rights, and an effective and equality-oriented economic policy. (Degnbol-Martinussen and Engberg-Pedersen 2003:30)

This position questioned the hitherto accepted view that did not always see a harmonious relationship between capitalism and democracy. For example, for a long time policy-making circles of the US gave a greater degree of priority to political stability than democracy in developing countries. This view linked the evolution of sustainable democratic institutions with capitalist growth and the emergence of a middle class. The new position in development assistance took the view that simultaneously promoting market economies and liberal democratic institutions was a desirable and a possible goal. With this addition, the aid industry set itself an explicit political goal – one that earlier had been confined to foreign policy agendas of donor countries. Therefore the establishment of liberal institutions in both the economy and polity has become the

mainstream discourse of development assistance. The agenda is nothing short of establishing a liberal capitalist order at the global level.

The World Bank and the United Nations Development Programme (UNDP), which do not have a mandate to intervene in the nature of regimes in aid receiving countries, have translated the idea of the liberal democratic state through the notions of good governance. Good governance involves rule of law, predictability, transparency, openness and citizen participation. It has a vision of a state that operates on the basis of law, ensures freedom of the judiciary so that the rule of law can be maintained, is open to citizens' influence, and is transparent and accountable. It is a vision of a state not captured by sectional interests, which operates within a rule of law. Of course, when it comes to the economy, this rule of law will protect institutions that are essential for the development of a market economy. Politically it is an attempt to break the control of sectional interests that could dominate the state and prevent the promotion of capitalist relations. Through this, it is hoped it will be possible to create a liberal state that would be conducive to the development of a market economy.

The final element in this agenda of developing a liberal capitalist order is the emphasis on promoting and strengthening civil society as a countervailing force to the state. For liberal theory, which is always sceptical of excessive state power, promoting civil society is desirable per se, because it can check the power of the state. The contradictory nature of civil society, or the fact that civil society might have very 'uncivil' elements, is not recognised. In translating the notion of strengthening civil society, donors have focused on supporting and strengthening the so-called 'non governmental organisations' (NGOs). NGOs have now become a powerful force both nationally and internationally. The very emergence of these organisations has reconstituted civil society space.

While this expanding agenda of development assistance has brought the liberal discourse into the economic and polity

mainstream, some of the other issues which began to come into prominence in the seventies have continued to be present within this broad framework - for example, ideas about human development promoted by UNDP, gender and environment issues. The notion of human development is a continuation of the focus on social development issues that emerged when the pure focus on economic growth was questioned in the seventies. It continues to draw our attention to the social impact of development as the correct measure in understanding development. Gender became a principal concern from the mid-seventies. Initially it was brought in through the concept of women in development, where the idea was how to bring the benefits of development to women. Later this was replaced by gender in development, which actually focuses on the structures in society which construct and maintain gendered relationships. If this concept is taken seriously, it will question the fundamentals of the liberal order promoted by donors. However this is often not the case when gender issues are incorporated as women's issues in donor discourse. Finally, from the beginning of the seventies, the environment became a principal concern. Here, too, it is incorporated within the larger objective of developing a liberal capitalist order, rather than a fundamental critique of the capitalist order based on the sustainability of this model of development.

As is shown in this brief account of the history of ideas in development assistance, an activity, which first began to support economic growth, now has a full blown agenda of establishing a liberal capitalist order. It hopes to reform economic relations, the nature of the state, forms of regimes and state-society relations in order to achieve these objectives. It is an agenda of total transformation of post-colonial societies.

Dealing with conflicts

Conflicts and instability in various parts of the post-colonial world were a concern for development assistance during the Cold War

period. Cold War politics had a direct impact on how these conflicts were viewed in Western capitals. Some of the conflicts saw the two superpowers confronting each other through proxy wars. The conflict in Indo-China, which ultimately led to the defeat of the US, and national liberation struggles in Latin America and Africa, are such examples. In these cases, development assistance was closely linked to the strategic objectives of Cold War politics. Table 1.1 below shows the flow of US assistance for various periods. This data clearly shows the link between the flow of development assistance, strategic interests and conflicts.

Table 1.1 National security periods and distribution of American foreign aid (in per cent)

	Marshall Plan 1949-55 1950	Vietnam mobilisation 1964-73 1964	Vietnam settlement 1973-79 1973	Camp David agreements 1979-1979	End of the Cold War 1989-1990
Israel, Egypt	-	3	5	68	47
Remainder of Middle East, South Asia	8	36	13	13	17
East Asia	12	25	71	6	4
Latin America	1	23	6	4	17
Africa	-	8	4	6	8
Europe, Canada	80	5	1	2	7

Source: (Degnbol-Martinussen and Engberg-Pedersen 2003:77)

As a result of this history, the end of the Soviet bloc marked a significant change in the approach to conflicts within aid agencies. Events in 1989 marked the triumph of liberalism in both economics and politics. It also generated a lot of hope that the world would be a peaceful place. Among the liberals, there was also the expectation that the end of Cold War politics would mean the end of support from the Western powers to despotic rulers due to strategic reasons, and this would lead to promoting democracy and human rights and resolving conflicts. Liberal triumphalism and a peaceful world were to be the hallmarks of the post Cold War world. The idea that the growth of capitalism and globalisation would be a process characterised by conflicts and contradictions, and that this process would give a new impetus to already existing conflicts and generate new ones, was not a popular view in this milieu of liberal triumphalism. Since the end of the Cold War, 116 armed conflicts have been active in 78 locations (Eriksson and Wallensteen 2004). In 1997, what the conflict researchers call high intensity conflicts, i.e., conflicts that result in more than 1000 deaths a year, prevailed in 'Congo (formerly Zaire), Afghanistan, Algeria, Congo Republic (Brazzaville), Rwanda, Sudan, Sri Lanka, Turkey, Colombia, Albania, India-Pakistan, Burma, Burundi, Iraq, India (Assam and Bihar) and Tajikistan' (Muscat 2002:6).

These intra-state conflicts of post-colonial countries have now been supplemented by a qualitatively new type of conflict arising from the challenge of political Islam. This entered into world politics in a dramatic way with the attack on the centre of world capitalism on September 11th 2001. The reaction of capitalist powers was led by the US and UK. This has resulted in regime change in Afghanistan and the occupation of Iraq, a little more than 50 years after Iraq gained independence from colonial rule. Islamic groups have countered this occupation. Violent conflict has flared up both in Iraq and many other parts of the world. Some analysts argue we might be witnessing the emergence of a truly global Islamic militancy, that will have an impact in many parts of the world. Therefore, rather than a peaceful world based on values of

liberalism in politics and economics, the post Cold War world is characterised by globalisation, or the expansion of capitalism, and conflicts. The twin phenomena of globalisation and conflicts provide a better framework to understand the world that we are living in today.

Since the beginning of the nineties, the agencies dealing with development assistance have responded to the conflicts prevailing in many parts of the world. A significant landmark of this intervention was the publication in 1992 of *An Agenda for Peace*, which was authored by the former secretary general of the United Nations, Boutros Boutros-Ghali (Boutros-Ghali 1992). *An Agenda for Peace* was concerned not only with the reality of conflicts, but also with preventing or mitigating conflicts. This meant getting involved with 'causes', or underlying reasons, of conflicts. In theory this meant intervening in a complex set of issues in societies where these conflicts prevailed.

The same year that the secretary general's report was published, the UN established the Department of Humanitarian Affairs (DHA), which later became the Office for the Co-ordination of Humanitarian Affairs. Keeping with the mitigating objectives of *An Agenda for Peace* mentioned earlier, the DHA embarked on the development of an early-warning system in relation to conflicts. This early warning system began to monitor some 144 indicators covering social, economic and political aspects. The objective was to detect a 'complex humanitarian emergency', which in UN definition is 'a major humanitarian crisis of a multi-causal nature that requires a system wide approach', before it erupts. The large array of indicators that the DHA was interested in indicated the wide range of social and political processes that have to be taken into account if conflicts are to be mitigated. Later on, instead of the term 'complex humanitarian emergency', the term 'complex political emergency' became dominant within aid agencies.

Within the OECD, the Development Assistance Committee (DAC) set up an informal task force on Conflict, Peace and Development in 1995. In 1997, the DAC published guidelines on

conflict, peace and development assistance (OECD 1997 – reprinted in OECD 2001). After four years, in 2001, the DAC issued a supplement to these guidelines titled 'Helping Prevent Violent Conflict: Orientations for External Partners'. As stated in this supplement,

> Economic well being, social development and environmental sustainability and regeneration are major goals of development co-operation that require structural stability. Structural stability embraces the mutually reinforcing goals of social peace, respect for the rule of law and human rights, and social and economic development. It is supported by dynamic and representative political structures, including accountable security systems capable of managing change and resolving disputes through peaceful means. (OECD 2001:17)

Thus this desire for 'structural stability' has expanded the horizon of donors from economics to politics and security.

Even a body like the World Bank, which hitherto was always reluctant to stray away from traditional economic development goals, was soon influenced by the prevalence of conflicts. The Bank launched special studies to focus on the link between economic policies and conflicts. In 2003 the results of these were published under the title *Breaking the Conflict Trap: Civil War and Development Policy* (Collier et al 2003). According to its own terminology, 48 countries in Africa, the Middle East and Central Asia are designated as 'low income countries under stress'. The Bank has also established a Post-Conflict Unit, especially to deal with reconstruction of societies after peace has been established.

These initiatives of multilateral agencies paralleled developments within bilateral donors. In the UK, for example, in September 1995 the minister in charge of the Overseas Development Administration (ODA) approved the introduction of

conflict resolution as part of the aid programme. The British minister in charge of development aid even voiced the more controversial idea that development aid fuelled conflicts in developing countries. The following year, the ODA set up a special study group in order to study, and make recommendations on how to handle, conflicts through aid programmes. This work is now incorporated into the Humanitarian Assistance Department of the Department for International Development (DFID), the successor to the ODA. The UK government is often credited with carrying out the most far-reaching institutional reforms in order to deal with conflicts. As a result of these reforms, the British government has established mechanisms which allow the Foreign Ministry, Ministry of Defence and DFID to work together when dealing with conflicts.

Probably the biggest impetus to link development assistance policies with conflict has been happening in the US. Even before 9/11, USAID had a special unit called the Office of Transitional Initiatives to handle conflict and post conflict situations. But, as a knowledgeable observer of USAID noted,

> The advent of the Cold War in the late 1940s provided the first grand impetus for foreign aid and for the promotion of trade and investment as instruments for driving the economic advance of the developing countries. The advent of international terrorism, with the finance, powerful methods and weapons, and suicidal determination to exploit the very open society the terrorists despise should provide a second grand impetus. (Muscat 2002:24)

This sentiment reflects the substantial reforms that have taken place with US policy.

Not to be outdone by governments, the other actors within the aid industry that have begun to give a great deal of attention to conflicts are NGOs. NGOs have become a major channel of achieving the expanding agenda of development assistance.

Theoretically legitimised as civil society, they are now a key player within the aid industry. The entry of conflict into the aid agenda has expanded conflict-related work of existing NGOs, added this element to the NGOs dealing with other issues, and given rise to new NGOs and networks of NGOs that explicitly deal with conflict resolution.

International NGOs have always played a prominent role in delivering humanitarian aid in conflict situations. With the increased donor support to conflict issues, this work has been consolidated. The other major group of organisations that have begun to work in conflict situations are the development NGOs. Their interventions in development have been guided by concepts such as community-based development and self-reliance. These concepts were extended to cover conflict situations as well. Through this process they established the idea of a relief-development continuum. The notion was that even in emergency situations it was possible to utilise the concepts of development that NGOs are familiar with, and relief measures should be carried out to create a basis for self-reliant development. The focus on conflicts has given rise to a significant number of NGOs that specialise in conflict analysis and conflict resolution. They carry out numerous studies on conflict in post-colonial societies, try to develop capacities to resolve them, and lobby various governments and international agencies on these issues. They work individually as well as through networks specialising in this area. In the globalised world, NGOs have become critical players in trying to resolve conflicts within the liberal capitalist order.

The merger of development and security

The introduction of conflicts and conflict resolution as an important concern of aid agencies has led to a wide ranging debate in literature. The positions taken up in this literature range from those of liberal internationalists, especially of the West, who essentially welcome interventions, to those of nationalists and representatives

of the old left, who condemn these attempts outright as another form of imperialism.

One of the most perceptive interpretations of this new-found interest of donors on conflicts has come from Mark Duffield. Duffield brings together his ideas on these issues in his book, *Global Governance and the New Wars*. Duffield worked for four years in Sudan in the late eighties as the country representative of Oxfam. Hence he brings field experience in the context of a long drawn-out conflict into his academic work. In his theorisation of development assistance in conflict situations from the early nineties, he links together the dynamics of the global capitalist system, the merging of development and security within aid agencies, and the emergence of networks of global governance linking governments, NGOs, the military and the private sector with the objective of promoting 'liberal peace'. Since this study on Sri Lanka has been influenced to a great extent by his ideas, and this study itself is an attempt to apply his ideas in a modified form to the Sri Lankan context, we give below a substantial summary of his arguments and thesis.

According to Duffield, in order to theorise on the current interests of donors on conflicts and conflicts, it is necessary to place these interventions in the context of the characteristics of the global capitalist system, or processes of globalisation. Therefore this theorisation goes beyond the traditional notion of internal conflicts within the national state system, by arguing the need to bring in globalisation as an element within which these conflicts have to be viewed.

Mainstream interpretations view global capitalism as a benevolent system which incorporates more and more people into a market economy, brings about an interconnected world and spreads prosperity and freedom into all corners of the world. However Duffield argues that what prevails under global capitalism is far different from this scenario of inclusion. The logic of globalisation and capitalism at present is such that it excludes certain parts of the world, while including the others. 'Manuel

Castells (Castells 1996, 1998) has argued that global capitalism no longer operates on the basis of expansion and incorporation but on a new logic of consolidation and exclusion' (Duffield 2001:4). In order to understand the nature of conflicts in the present day, it is important to place them in the context of this exclusionary logic of global capitalism.

Duffield shows that, from somewhere around the seventies, globalisation meant

> consolidation of several distinct but interrelated regionalised economic systems as the core of the formal international economy. Moreover, rather than continuing to expand in a spatial or geographical sense, the competitive financial, investment, trade and productive networks that link these regionalised systems have been thickening and deepening since the 1970s. Although there are, of course, many differences that separate them, these core regionalised systems of the global informational economy are here figuratively described as the 'North'. Correspondingly, the areas formally outside or only partially or conditionally integrated into these regional networks are loosely referred to as the 'South'. (Duffield 2001:3)

This characterisation of the terms North and South is as much social as territorial. There are pockets that are linked to the global system even in the poorest parts of the global South. There are areas socially excluded from the global economy in the North. In order to be included in the North, the spatial units have to show certain social characteristics.

> Unlike the more general logic of inclusion and subordination that existed when the capitalist world system was geographically expansive, however, inclusion under global liberal governance is more discerning and selective'. (Duffield 2001:7)

Areas that are included have to show certain standards of behaviour. This could mean adhering to neoliberal economic prescriptions, standards of good governance as defined by donors, or engaging in poverty alleviation through donor prescriptions. These standards are set by the discourse that dominates in the aid agencies, and countries have to adhere to them to be a part of global North.

The critical factor behind the new found interest of donors in conflicts is the fact that these excluded areas of the globalised world are not really isolated. In other words, in a globalised world exclusion due to the logic of capitalism does not mean isolation. They are actually reintegrated into the globalised world as sites of conflicts, instability, and all sorts of criminal activity. In a globalised interconnected world, these sites of instability represent 'the site of new and expansive forms of local-global networking and innovative patterns of extra-legal and non-formal North-South integration' (Duffield 2001:5). In short, the excluded South reintegrates into the global system as a security issue for the global system.

According to Duffield, it is these processes that have led to a process of the reproblematisation of security, as well as the radicalisation of development. Elaborating on the reproblematisation of security, he argues,

> Today, security concerns are no longer encompassed solely by the danger of conventional interstate war. The threat of an excluded South fomenting international instability through conflict, criminal activity and terrorism is now part of a new security framework. Within this framework, underdevelopment has become dangerous. (Duffield 2001:2)

The other side of the coin is a re-interpretation of development as being a source of instability, which has far-reaching implications. The need to intervene in development is now because of security reasons. To represent underdevelopment as dangerous demands remedial measures that cannot be left to chance.

Duffield sees a difference in the way development was incorporated into security during the Cold War period, and what is happening currently:

> Development assistance was politicised during the Cold War in line with a dominant security strategy that demanded the establishment and maintenance of pro-Western political alliances among the Third World countries. Aid flows tended to reflect the requirements of this strategy, and were largely unconnected with the degree to which countries were poor or not (Griffin 1991) ... the relationship was more opportunistic, geared to national interests and often covert. The current merger of development and security is much more inclusive, organic and transparent. (Duffield 2001:35)

Therefore the current merger of development and security is seen on a global scale and is much more comprehensive, in the sense that the long term objective is to have policy coherence across the fields of investment, aid and foreign policy so as to establish security in a globalised world.

It is important to note that in this dominant discourse, which has led to the merger of development and security, the reasons for instability and conflict are interpreted totally as a problem located within the post-colonial societies. Although conceptualised in a globalised world, it ignores the links between local and global. It totally ignores issues such as inequalities in the global system, how capitalism can deepen these, and linkages between these and conflicts. On the side of politics, issues such as strategic links between global South and North, and the history of propping up elites that are amenable to Western powers, are also ignored. Hence conflicts become essentially a product of the internal dynamics of these excluded societies.

Expanding further on the implications of this merger between development and security, Duffield points out that the outcome of

these developments is not simply confined to policy debates and ideas. It has much more profound structural and political implications. Ideologically, it promotes the notion of 'liberal peace'. Institutionally, it brings together Northern governments, aid agencies, militaries, private sector organisations and NGOs into what Duffield calls 'strategic complexes of global governance'.

The notion of liberal peace

> reflects the existing consensus that conflict in the South is best approached through a number of connected, ameliorative, harmonising and, especially, transformational measures. While this can include the provision of immediate relief and rehabilitation assistance, liberal peace embodies a new or political humanitarianism that lays emphasis on such things as conflict resolution and prevention, reconstructing social networks, strengthening civil and representative institutions, promoting the rule of law, and security sector reform in the context of a functioning market economy. (Duffield 2001:11)

Therefore conflict resolution is closely related to the earlier mentioned agenda of developing a liberal capitalist order. Conflict resolution is needed for this purpose, and cannot be conceptualised outside it. Hence it is part and parcel of a total transformation of post-colonial societies on the basis of liberal capitalist values.

Duffield identifies the notion of liberal peace as a central tool underpinning the merger of security and development in aid policies. The ultimate goal of liberal peace is stability. It wants to transform the dysfunctional and conflict ridden states into stable entities.

> In achieving this aim, liberal peace is different from imperial peace. The latter was based on, or at least aspired to, direct territorial control where populations

> were ruled through juridical and bureaucratic means of authority. The imperial power dealt with opposition using physical and juridical forms of pacification, sometimes in an extreme and violent manner. Liberal peace is different; it is a non-territorial, mutable and networked relation of governance. The aim of the strategic state–non-state complexes that embody global governance is not the direct control of territory. Ideally, liberal power is based on the management and regulation of economic, political and social processes. It is power through the control and management of non-territorial systems and networks. (Duffield 2001:34)

Finally, Duffield points out the emergence of an extremely complex network of international governance which he calls 'strategic complexes of global governance' in order to achieve the objectives of liberal peace. As elaborated by him,

> liberal peace is not manifest within a single institution of global government; such a body does not exist and probably never will. It is part of the complex, mutating and stratified networks that make up global liberal governance. More specifically, liberal peace is embodied in a number of flows and nodes of authority within liberal governance that bring together different *strategic complexes* of state–non-state, military-civilian and public-private actors in pursuit of its aims. Such complexes now variously enmesh international NGOs, governments, military establishments, IFIs, private security companies, IGOs, the business sector, and so on. They are strategic in the sense of pursuing a radical agenda of social transformation in the interests of global stability. (Duffield 2001:12)

Thus the principal aim of development interventions in conflict situations is stability so that capitalist expansion can proceed. But

Duffield is sceptical about the ability of the structures of global governance to deliver peace and stability.

> Whether donor governments, militaries, aid agencies and the private sector can secure a liberal peace remains an open question. One thing, however, is perhaps more clear. It is difficult to imagine that the increasingly privatised and regionally stratified strategic complexes of liberal governance will be able to deliver the geographically and socially more extensive patterns of *relative* security that characterised the Cold War years. (Duffield 2001:17)

He also points out that the political objectives of these strategic complexes are not always benevolent and geared towards peace. Often there are situations where these complexes accommodate themselves to the existing structures of violence and war. He demonstrates this with his analysis of the conflict situation in southern Sudan, where he had carried out extensive field work. Since the ultimate political rationale of these efforts is to deal with war and violence of the excluded South, so the hegemonic global structures can feel safer, he demonstrates how the new humanitarianism comes into various forms of accommodative arrangements with forces of violence. As a result, development assistance strengthens the structures and relationships responsible for violence and conflict. Hence it is possible that, in concrete historical situations, the political outcomes of liberal governance can be far away from the lofty ideals it tends to advocate.

CHAPTER 2

The Expanding Agenda of Foreign Aid in Sri Lanka

The flow of foreign aid to Sri Lanka has been influenced by number of factors. During the Cold War period, important factor were development ideologies espoused by the ruling regimes, Sr Lanka's foreign policy and how Sri Lanka figured in Cold Wa politics. Although Sri Lanka was never a major player in Cold Wa politics, the Cold War did have an impact on the flow of foreigı aid even in this small island nation.

Political considerations have been central to the flow o foreign aid. This is clearly seen when we survey the policies o bilateral donors. In the case of multilateral donors, we need to gc behind the techno-economic jargon to uncover their political rol of promoting capitalism. However there are rare occasions wher the documents of these organisations are explicit about the importance of politics in their lending decisions. One such documen is the World Bank survey of relations between the World Banl and Sri Lanka up to 1987. The very first paragraph of this repor states clearly how the development ideologies of regimes influencec the Bank's lending programme:

> In their respective periods of office, the two principal governing parties in Sri Lanka have had contrasting growth strategies. Specifically, the periods of Sri Lanka Freedom Party government from 1956-65 and 1970-77 were characterized by a system of state control and domination of the economy. On the other hand, the United National Party, which was the governing party from 1951-55, 1965-70 and has been in office again since 1977, has relied more on private enterprise and 'market–oriented' incentives. The Bank lent heavily to

> Sri Lanka during the market-oriented periods of government, while providing much less support to the dirigiste strategy. (World Bank 1987:xi)

The history and politics of foreign aid to Sri Lanka can be analysed in three periods. The first period, which lasted from independence to the mid fifties, was characterised by total dependence on Western capitalist countries for development assistance. Development ideologies, economic linkages and foreign policy were broadly pro-Western. During the second period, extending from 1956 to 1977, assistance diversified because of the development of relations with the Soviet bloc and China. Non-alignment was the dominant theme in foreign policy. Economic links with the socialist bloc were established, and the role of the state in the economy expanded within a broad capitalist framework. In this period, there were setbacks to development assistance from Western countries.

However, there was agreement as to what should be done when it came to internal conflicts that challenged the existing state. There was support to the state irrespective of the ideological orientation of the donor countries. There was no discussion of the type that is found at present, where states affected by conflicts are seen as collapsing or failing states. This was demonstrated during the 1971 insurgency, which was the first serious violent challenge to the post colonial state. During this crisis, the Sri Lankan government received military support from the developed West, the east European bloc and China.

The third period began in 1977, when the Sri Lankan economy began a process of integration with global markets and global capitalism. This continues up to the present. During this period, precisely because of changes in development policies, there was a dramatic expansion in the flow of aid, and Sri Lanka got locked firmly into the aid industry based in the developed West and Japan. Along with this expansion, aid agencies have increased their areas of involvement. Currently the agenda covers a range of subjects, which cumulatively amount to restructuring society as a whole.

History and politics of foreign aid

1948 to 1956 – Dependence on the West

The centre-right United National Party (UNP), which inherited power from the British, was happy to continue with the structures of the plantation-based economy that Sri Lanka had inherited from its colonial masters. The fundamental ideas that governed the UNP in its development policies differed very little from the ideas that dominated the latter period of colonial rule. There was no intention of tampering with the British owned plantation sector and other foreign investments in the country. In trade, the linkages developed during the colonial period were further strengthened.

The foreign policy of the new ruling elite was also pro-Western. Although Sri Lanka did not figure prominently in any strategic calculations of Western countries, the new rulers of independent Sri Lanka were happy to align themselves with the West in the context of Cold War politics that was rapidly taking shape. The independence arrangement itself left a number of linkages with Britain. In 1948, Ceylon became a dominion within the British Commonwealth. The Queen of England still remained the Head of State, represented by an appointed Governor General. The highest court, the Privy Council, was still located in the United Kingdom.

When it came to defence, the political elite of newly independent Sri Lanka looked towards the former colonial master, Britain. Speaking in the House of Representatives on the Motion of Independence of Ceylon, the first prime minister argued about the difficulties faced by the newly independent country in organising its own defence, and declared that Great Britain was the only country that had sufficient interest to defend us (Jayawardane (ed.) 2005).[1] Therefore

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[1] Prime Minister D.S. Senanayake's speech in the House of Representatives on the Motion on the Independence of Ceylon, in Jayawardane (ed.), 2005 Document No. 46.

> the grant of Independence to Sri Lanka was accompanied by the signing of the Defence and External Affairs Agreement between Sri Lanka and the UK which allowed the latter the use of the naval base of Trincomalee and of the Royal Air Force base at Katunayake and provided for mutual defence arrangements between them. Under it, UK assumed responsibility to give military assistance for the defence of the island and to protect it from aggression and safeguard its vital communications. (Mendis 1986:16)

The presence of British military facilities in the island even gave rise to speculation about Sri Lanka becoming a part of the new military blocs that were emerging in the context of Cold War politics. The concern was that if Britain began to support the new military blocs led by the US, Sri Lankan facilities would become a part of these structures. There were concerns that Sri Lanka would get linked to the South-East Asia Treaty Organisation in this manner (Jayawardane (ed.) 2005). [2]

The direction of external assistance and foreign aid dovetailed with these trends in development policy and foreign policy. Development assistance came either through linkages with the former colonial power, Britain, or the new superpower, the US, which was fast replacing Great Britain as a major influence in Asia. When it came to the flow of assistance from Britain, the establishment of the Colombo Plan was an important landmark. The idea of setting up a mechanism that would channel assistance from the more developed Commonwealth countries to the less developed ones was first raised during the Foreign Ministers' Conference held in Colombo in 1950. The first finance minister of independent Sri Lanka, Mr. J.R. Jayewardene, who later gave

[2] Mr. P.G.B. Keuneman's (Communist Party) Speech on the Proposed South-East Asia Treaty Organization and its Implications for British Bases in Ceylon, in Jayawardane (ed.) 2005, Document No. 54.

leadership to a much greater flow of foreign aid to Sri Lanka, played a critical role in promoting this idea. The meeting of Commonwealth Heads of State held in London during the same year adopted this idea as a concrete plan of development under the title, 'The Colombo Plan for Co-operative Economic Development in South and South-East Asia' or 'Colombo Plan' for short. This programme became a major source of assistance from the Commonwealth countries (Jayawardane (ed.) 2005).[3]

The foundation for assistance from the US was laid through the so-called 'Point Four' agreement signed in 1950. Much of the assistance was for development of economic infrastructure. The establishment of the Central Bank was also supported by the US. The same year Sri Lanka joined the Bretton Wood twins, the International Monetary Fund (IMF) and the World Bank, that had been set up to manage the post-war international capitalist order. While aiming to strengthen Sri Lanka's linkages with global capitalism, some of the US support to the country was directly linked to Cold War politics. For example, through an agreement signed in 1951, the US managed to obtain facilities within the government owned Radio Ceylon for the transmission of Voice of America broadcasts. This was an important tool in Cold War politics directed by the US State Department.

A landmark event in external assistance to Sri Lanka was the arrival of the World Bank mission in 1951:

> The mission arrived in Sri Lanka in October 1951 and remained until December. Its report, published in 1953, ran to 807 pages (without the index) and was in two parts – Part One (seven chapters) on an overall

[3] See Mr. J.R. Jayewardene's Account of the Birth of the Colombo Plan (An Article Written on the Occasion of its Tenth Anniversary), in Jayawardane (ed.) 2005, Document No. 64. It is interesting to note that Japan also joined the Colombo Plan. The assistance given by Japan through the Colombo Plan to Sri Lanka was one of the first exercises in development assistance by post-war Japan.

> programme of development and Part Two (twelve chapters) on selected fields. The development thinking and strategy embodied in it influenced state policy to a great extent during 1953-56 period and was embodied almost in toto in the Six Year Programme of Investment that was adopted in 1955 (Government of Ceylon 1955). (Lakshman 1987:58)

The ideas promoted by the World Bank mission of 1951 had a far greater political impact on the country than the mission ever expected. As argued by W.D. Lakshman, the recommendations of the World Bank mission were evident in two specific policy developments at that time:

> The first was the gradual closure of a number of public sector industrial ventures started during the Second World War. The second, which was politically and socially more important, was the elimination of food subsidies in 1953. (Lakshman 1987:62)

No doubt faced with an acute budget deficit, the UNP government's budget for 1953 proposed more drastic reductions in food subsidies than the gradual approach the mission recommended. But the intellectual legitimisation for cuts in subsidies provided by the World Bank mission strengthened the position of those sections of the ruling elite that supported the budget proposals.

The budget proposals of 1953 led to the first mass agitation of independent Sri Lanka. It was the first politically significant conflict precipitated by economic policies. Locally called a *hartal,* it had all the characteristics of what is now called an 'IMF riot'. In the south-western part of the country, mass agitation went beyond the strikes that the Lanka Sama Samaja Party (LSSP), which led the protest campaign, planned. In some parts of the country roads were blocked, rail tracks removed and buses burned. The government had to use its full force to quell the riots. At the

end of the *hartal*, thousands of people were arrested and detained and several hundred wounded.[4]

The long term political outcome of the *hartal* was much more significant than the violence of the event per se. It led to the resignation of Mr. Dudley Senanayake, the prime minister and leader of the UNP. He had been elected just a year before with an improved majority. In the long run, the *hartal* was the beginning of a series of events that led to the defeat of the UNP in the 1956 elections, and the coming to power of the Mahajana Eksath Peramuna (MEP) led by Mr. S.W.R.D. Bandaranayake. He made use of the prevailing socio-economic discontent and the rising ideology of Sinhala nationalism to defeat the UNP. This political change had a profound influence on development policies, foreign policy and on the flow of foreign aid.

Finally, despite this overall Western orientation in development ideology and foreign policy of the first UNP government, this initial period already showed the link between foreign aid and strategic interests of donor countries. An example is the Rubber-Rice Pact that Sri Lanka signed with China in 1952. 'Under it Sri Lanka obtained a very attractive price for its rubber and purchase of its rice supplies at reasonable prices for a period of five years in the first instance' (Mendis 1986:21). Both these were crucial for a country that was facing a balance of payments crisis. 'However it invited reprisals from USA which subjected Sri Lanka to penalties under the Battle Act' (Mendis 1986:21). This was the time of the Korean War, and Sri Lanka's improved trade relations with China were not considered favourably by the US. Thus Cold War politics made its mark on foreign aid despite the overall pro-Western orientation of the Sri Lankan government. As we shall see below, this was only the first instance when the aid programme to independent Sri Lanka was affected by Cold War politics. Sri Lanka faced several such instances in the years to follow.

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[4] See Amarasinghe (1998) for a fuller account of the 1952 *hartal*.

The 1956 electoral victory of the MEP marked the beginning of a new era in development thinking and foreign policy. In the area of development, it was the beginning of state-centric policies within an overall capitalist framework. Some of the identifiable features of these policies were giving prominence to the state sector as the motor of economic development, establishing state enterprises, especially in order to develop an industrial base, and to substitute imports. State interventions to secure and improve the welfare standards of the population also became a central part of this policy package.

The victory of the MEP also introduced two new elements into foreign policy that had a long-term consequence. First, the search for a more neutral position in relation to Cold War politics. This ended up with Sri Lanka playing a prominent role in the Non-Aligned Movement. Second, the establishment of diplomatic, trade and other relations with the Eastern European countries led by the Soviet Union and China. The essence of these trends was to balance the overtly pro-Western orientation of the pre '56 period with the expansion of relations with socialist countries.

In 1957, diplomatic relations were established with the Soviet Union and the People's Republic of China. In 1958, an agreement on economic and technical co-oporation was signed with the USSR. In the sixties and seventies, trade relations and foreign aid programmes with Eastern Europe and China expanded. A number of projects were begun in the state sector with the assistance of countries of the socialist bloc, including state-owned factories producing steel, tyres, sugar, hardware and plywood. The principal economic argument for this type of assistance was the need to build an industrial base so that the economy could be diversified from the economic structure inherited from the colonial period. This would strengthen the state sector and save valuable foreign exchange. Politically, it had the objective of increasing the influence

of the socialist bloc in Sri Lanka, and loosening the links with the West which were established in the colonial period.[5]

Along with the flow of development assistance, cultural links between these countries and Sri Lanka also expanded. One important aspect of this was the increase in the number of students who began to get higher education in the Eastern European bloc. Most of these were scholarships at undergraduate level, channelled through the Ministry of Education in Sri Lanka. The largest number went to the Soviet Union, and the bulk was trained in professional and technical fields. There was also a reverse flow of cultural links with Sri Lanka, such as establishing facilities to learn Russian, and expanding cultural exchanges between Sri Lanka and the socialist bloc.

The biggest impact of establishing diplomatic relations with Eastern Europe and China, and expanding the aid programme with these countries, was at the ideological level. This was more important than the actual level of assistance that Sri Lanka received from these countries, or the specific impact of projects carried out through this assistance. The very fact that Sri Lanka deviated from the Western bias in foreign relations at the time of independence had a popular appeal in the country. The ready assistance that post '56 governments obtained from these countries made it possible to operationalise the state-led industrialisation strategy. Implementation of projects was accompanied by opening ceremonies, media supplements, exhibitions, et al, which painted a success story for these strategies in socialist countries. These, together, contributed to strengthening the discourse about the role of the state in the economy in general, and the virtues of state-led industrialisation in particular.

These shifts in development policies and foreign relations had an impact on the flow of aid from Western governments. In general, the impact was to freeze the level of assistance from Western countries. There were hardly any new initiatives. The

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5 See Ivanov (1969) for discussion of support from the socialist bloc.

development strategies followed, with the introduction of state-led import substitution policies, did not give importance to large scale mobilisation of foreign assistance as an important element of development policy (Gunatilleke 1993). Secondly,

> owing to its reliance on state enterprise and the nationalisation of several activities such as transport, banking, insurance, petroleum import and distribution, the government alienated the Western market economy countries which might have been prepared to give aid. (Gunatilleke 1993:15)

An event which had a significant impact on the reduction of external assistance from Western governments during this period was the discontinuation of assistance from the US government. This was a result of the nationalisation of petroleum distribution and the establishment of the state owned Ceylon Petroleum Corporation, responsible for the distribution of petroleum products. A part of the nationalised petroleum distribution was in the hands of two US companies - Esso Standard Eastern Inc. and Caltex (Ceylon) Ltd. The Sri Lankan government and the US companies disagreed about the level of compensation to be paid. In retaliation, in 1963 the US government discontinued its development assistance programme. Due to this action, Sri Lanka lost assistance to the tune of $ 1.51 million. Only the assistance covered by the PL480 agreement and supply of flour and milk through Cooperative for American Relief Everywhere (CARE) continued.[6]

[6] See Finance Minister P.B.G. Kalugalla's Statement on the Suspension of the U.S. Aid to Ceylon, in Jayawardena (ed.) 2005, Document No. 46. Under PL480 Sri Lanka could purchase wheat from the US, paying for it with Sri Lankan rupees. The rupee collection generated was available for the US government to be used in Sri Lanka for whatever purpose decided by the US authorities.

The World Bank followed the US government in suspending its lending. The World Bank began its operations in 1954 with support to the power sector (World Bank 1987). Within two years the Bank found a government in power with policies contrary to its own thinking. Reversal of the Bank's policies followed. 'At first the Bank continued lending to the power sector, under the SLFP (sic)[7], but with petroleum nationalization in 1961-62 lending was suspended' (World Bank 1987:6). The Bank playing a negligible role during these years, partly due to its opposition to nationalisation, and dissatisfaction with the policies followed by the SLFP (World Bank 1987).

To a certain extent these trends in development assistance were reversed after the centre-right UNP came back to power in 1965, demonstrating once again the critical role played by the ideological orientation of the ruling party in the flow of foreign aid. The most notable development during the 1965-70 period was the establishment of the Paris Aid Group, which brought together all the major donors supporting Sri Lanka under the auspices of the World Bank. The UNP regime 'sought the help of the World Bank in organizing the Ceylon Aid Group for the purpose of obtaining external assistance'(World Bank 1987:7). The first meeting of the Aid Group was held in July 1965. An important step preceding the establishment of the Aid Group was settlement of the compensation dispute with the US. As a result of these developments, multilateral agencies and Western donors began to have a greater influence on the government's policies. 'The net aid flows increased substantially during the 1965-70 period, rising from a meagre Rs. 73 million in 1960 to Rs. 261 million in 1970' (Gunatilleke 1993:17).

However 'the aid programme during this period was not tied to any well-defined programme of conditionality' (Gunatilleke 1993:17). The IMF/World Bank prescriptions at these times

> While tolerating the existing import/exchange controls, (it) considered it sufficient at this juncture to impose

[7] Sri Lanka Freedom Party.

> conditions pertaining mainly to domestic fiscal and monetary management. (Lakshman 1987:70)

The government was asked to review subsidies and welfare expenditures, to keep inflationary financing in check, eliminate operating losses from state sector ventures, to raise revenue by extending taxation to the agricultural sector, to restrain the growth of bank credit to the public sector, increase interest rates and promote the private sector (Gunatilleke 1993).

All these recommendations did not have any appreciable impact on the direction of development policies of the 1965-70 UNP government. The government was a coalition that was preoccupied with many political issues. A major focus of the government's development policies was the promotion of green revolution strategies in paddy agriculture. The state sector continued to expand. In the field of foreign aid some of the earlier trends were checked, but without any major donor influence in the country's programmes.

The next landmark in this history of the politics of foreign aid was the general election of 1970. In this election, keeping to the traditions of the Sri Lankan electorate, the UNP was thrown out of power. A government led by the United Left Front (ULF), that consisted of a coalition of the centre-left SLFP, Communist Party and the Trotskyite LSSP, came into power. This government pushed the policies of state capitalism to an extreme. The culmination of these policies was nationalising the plantation sector. The role of the state expanded to include most areas of production and distribution. The idea of an interventionist state in the welfare sector was firmly accepted. Politically, Sri Lanka broke away from dominion status by enacting a republican constitution.

In international relations, diplomatic relations were established with the German Democratic Republic, People's Republic of Korea and People's Republic of Vietnam. Diplomatic relations with Israel was suspended. Sri Lanka's role in the Non-Aligned Movement expanded. The latter culminated in Sri Lanka holding the Non-Alignment Summit in Colombo in 1976. One other important

development in foreign policy was promoting the idea of the Indian Ocean as a Zone of Peace. This was an attempt by Sri Lanka's political leadership to keep the Indian Ocean free of superpower rivalry. In 1972 Sri Lanka formally presented a resolution on this issue to the UN General Assembly. It was accepted with a large number of abstentions (Mendis 1986). A UN Ad Hoc Committee was appointed to implement this resolution. These steps did not find favour with Western powers.

Although the ULF government had a state-centric orientation in its development policy, the finance minister, who was from the Trotskyite LSSP, was realistic enough to see that Sri Lanka could not break away from aid agencies of the West without a severe social dislocation. Stating his position in his first budget speech, he argued for a position 'between undiluted acceptance of the terms and conditions of foreign institutions and the foolhardly rejection of all aid' (Lakshman 1987:75). Elaborating further he stated that the 'aid arrangements must be concluded in terms consistent with our self respect, our independence and our sovereignty' (Lakshman 1987:75). This political position guided most of the dealings with aid agencies during the time the LSSP was in government, and Dr. N.M. Perera was finance minister.

During the 1970-77 period, the Aid Group functioned, and the Sri Lankan government had regular dealings with donors. Assistance from the socialist bloc also continued. Some European countries with social democratic traditions began new projects. But the relationship with multilateral agencies was characterised by resistance to the fundamental orientation demanded by them. These demands included a move away from controls, from the large role allocated to the state in the economy, and the generous welfare budget.

> Throughout the period their 'character certificates' were chequored with reservations about the viability of the strategy, and the World Bank-organised Aid Group's contributions to the Sri Lankan regime were consequently low. (Lakshman 1987:79)

As a result of these disagreements there were no new commitments from agencies like the World Bank. 'The Bank became concerned about the specific arrangements for compensation for nationalized foreign plantations' (World Bank 1987:7). There was also a reduction in the aid flow from countries such as the UK, US, and FRG. As a result, support from the Eastern European countries increased during some of the years when the ULF government was in power.

Table 2.1 below summarises data for aid commitments from 1970 to 1977. It shows the comparative position of aid flows from the countries belonging to the Aid Group and centrally planned economies. For example, from 1970 to 1972 aid commitments from centrally planned economies were close to 40 per cent of the total aid committed to Sri Lanka. It is interesting to note that this

Table 2.1 Aid commitments from selected countries (1970-1977) ($ million)

	1970	1971	1972	1973	1974	1975	1976	1977
Total Aid Group	**68.0**	**87.4**	**48.3**	**87.5**	**112.5**	**249.7**	**78.1**	**227.1**
World Bank Group	29.0	0.0	0.0	6.0	24.0	29.5	0.0	46.0
UN Group	0.3	4.6	0.9	6.6	2.6	22.3	19.6	15.1
United States	15.3	17.2	14.7	7.0	3.2	37.4	67.4	14.0
Japan	0.1	8.3	11.4	14.0	14.7	16.6	16.7	25.6
EU countries	12.1	31.3	5.1	33.0	51.9	77.6	52.2	74.2
ADB	6.3	7.8	9.3	2.8	2.5	30.0	0.0	22.6
Non Aid Group	**24.2**	**38.2**	**84.6**	**0.0**	**49.3**	**127.1**	**20.1**	**22.4**
Centrally Planned Economies	24.2	38.2	84.6	0.0	37.2	60.2	3.5	4.1
Total	**92.2**	**125.6**	**132.9**	**87.5**	**161.8**	**376.8**	**198.2**	**249.5**

Source: Data compiled from World Bank (1984) and World Bank (1992).

was higher than the total commitment from countries of the European Union.[8]

Foreign aid, state and conflict –Sri Lanka pre '77

In the pre '77, less globalised, Sri Lanka, the principal partner for official development assistance was the Sri Lankan state. The varied policies and attitudes of donors depended on the development ideology of the regime in power, and its foreign policy directions. There was no question of cultivating non-state actors of any sort for the purpose of channelling official development assistance either from bilateral or multilateral sources. This state centrism was evident even in the case of donors who advocated markets and the private sector. Western countries desired a state that would be friendly towards the West and give greater emphasis to the private sector and markets.

Secondly, the primary purpose of development assistance was various facets of economic development. This was true whether the assistance came from the socialist bloc, Western capitalist societies or Japan. There was very little emphasis on any other aspect of Sri Lankan society, be it democracy, human rights, governance or the numerous other areas which preoccupy donors at present. Hence the fundamental objective was to support the state in developing the economy. Debate focused only on what direction the economy should take, and how much Sri Lanka should agree with the foreign policy directions of donor countries.

The operation of the state-centric ideology in development assistance was exemplified when Sri Lanka, for the first time, faced a threat to the security of the state with the 1971 insurgency. When the insurgency broke out, the Sri Lankan government appealed for international support in order to meet the threat. It received an astounding range of direct military support from a wide variety of

[8] Countries included under the EU include all the countries who are currently members of the EU.

countries. This included Bell Jet rangers from the UK, helicopter spare parts from the US, arms, counter-insurgency experts and helicopters from both India and Pakistan, arms from Australia, weapons, Mig-17s and armoured cars from the Soviet Union, mountain artillery from Yugoslavia and a soft loan from China (Halliday 1975). The ability of Sri Lanka to obtain such support from a wide range of sources was hailed as a success story for its non-aligned diplomacy.

Sri Lanka's experience demonstrates how external assistance operated in the context of conflict during the Cold War period. The international response was direct military support for the security of the state, irrespective of the ideologies and interests that various countries represented. Whatever disagreements there might be on economic ideology, when the state was threatened it had to be protected. Although there were significant human rights violations, these did not figure when this assistance was given. Probably the ability of Sri Lanka to get support from so many sources reflected the concern of various international actors about the motivation of their rivals who were willing to help Sri Lanka. Each was concerned that their rivals would make use of the instability in Sri Lanka to increase their influence in the country.

For the purpose of our discussion, it is important to note the contrast with the experience during the post '77 period, when Sri Lanka faced a worse threat to its survival. The nature of international support has been much more complex. and conditional. What is more, only a small portion has been motivated by direct military support to the Sri Lankan state. This reflects the much more complex relationship between development assistance and conflicts in the post Cold War period.

Post '77 – Liberal capitalism and the expanding role of foreign aid

The 1977 general election brought about an irreversible break in this history of foreign aid. The centre-right UNP won the election

with an overwhelming majority. This regime change marked the beginning of a new phase of Sri Lankan capitalism. Development policies took a decisive turn towards emphasising markets, the private sector, and integrating into the world economy. Policy measures that would liberalise markets and reduce the role of the state became the norm.

Subsequent developments have shown that 1977 is a watershed in Sri Lanka's development policies. The UNP, which ushered in the liberal phase of capitalism, was defeated in 1994. Since then, except for a brief period of two years from 2002 to 2004, the UNP has been out of power. The country has been ruled by the opposition which broadly has a centre-left orientation. They have ruled with coalition partners who have come either from the left parties or minority parties. These political changes have not resulted in any significant reversal of the direction of development inaugurated in 1977. Given the ideological orientation of the regimes, the economic reform process towards further liberalisation of the economy has not been as robust as during UNP regimes. There have been ups and downs, and sometimes the reversal of policies implemented by the UNP. However all this has taken place in a context of broad acceptance of the direction inaugurated in 1977. There has not been any inkling of nationalisation or expanding the role of the state, as was the case before 1977. All governments propagate the key role of the private sector as the engine of growth. There are no signs of any change in the openness towards global capitalism. Therefore the shift in the direction of development policies inaugurated in 1977 is of a structural nature. It is a new phase of capitalist development, characterised by liberalising market relations, promoting the private sector as the engine of economic growth and greater linkages with global capitalism.

Mobilising foreign aid was a central plank in this new strategy of development. In order to achieve this, the UNP quickly fulfilled some of the vital reforms demanded by aid agencies.

> A sharp devaluation of the rupee in November 1977 was followed by IMF approval for 'the comprehensive

> program of economic reform'; approval concretely meant a standby arrangement of SDR 93 million (*IMF Survey* 6 1977:23). With this endorsement, the finance minister visited groups of investors and officials of aid-giving nations and agencies. In the first full year of the new policies, official loan commitments more than doubled the 1977 level, in marked contrast to the experience of other developing nations after the onset of aid weariness. (Herring 2003:145)

'The Sri Lankan Aid Group and the IMF responded with unprecedented amounts of financial assistance' (World Bank 1987:8). Aid flows after 1977 reached new heights. As stated in a Central Bank report produced on the occasion of 50 years of Sri Lanka's independence,

> Sri Lanka received very little aid from the donor community during the period prior to 1977. The total outstanding aid to Sri Lanka from the IBRD/IDA as at end 1976 amounted to US dollars 65 million. As at 30 June 1997, a total of 84 loans amounting to over US dollars 1.900 million had been disbursed and remained outstanding with over 95 per cent being concessional assistance from the IDA. (Central Bank of Sri Lanka 1998:205)

Data in the same report shows that around three-quarters of all funding facilities that Sri Lanka has drawn from the IMF since independence have come during the post '77 period.

This picture has been confirmed by other studies using diverse periods for calculation. For example, a review commissioned by the Norwegian government concluded that, 'Of the total of $6,140 million received between 1960 and 1985, 70% was received in the period 1978-85' (Sorbo et al 1987:36). Similarly another study pointed out that during 1977-2001 aid flows to Sri Lanka increased

more than 100 times, compared to the 1970-76 period (Ratnayake 2004).

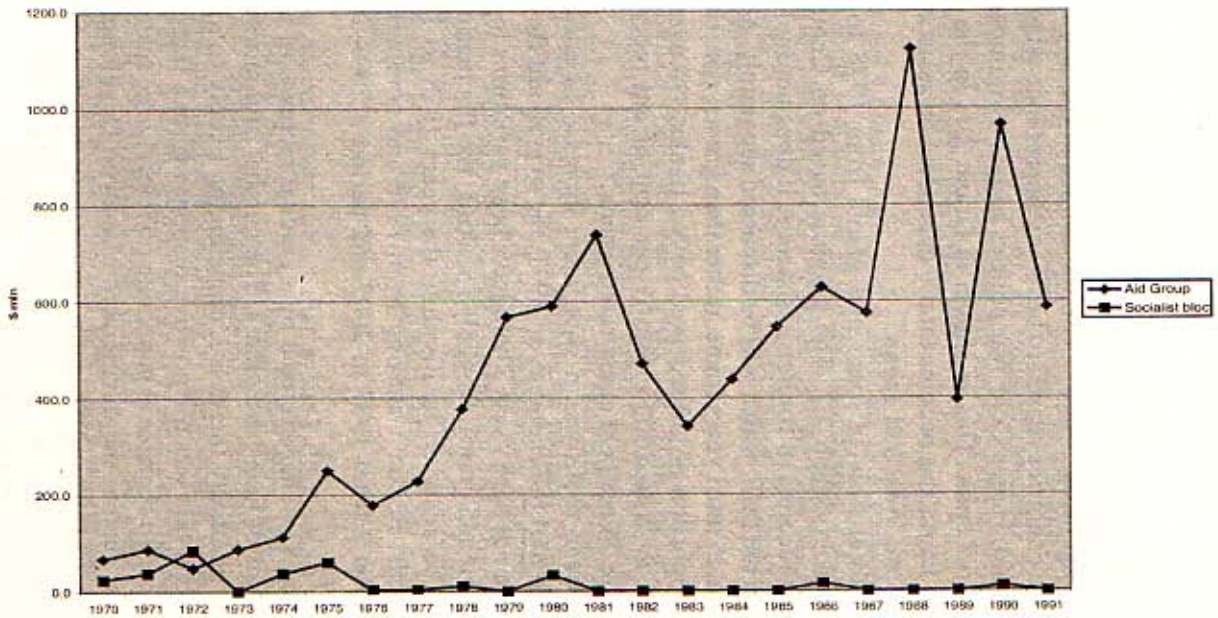
Parallel to this increase of aid from the developed West and Japan, the proportion of assistance received from the Soviet bloc and China declined. Finally, with the demise of the Soviet bloc in 1989, these countries ceased to be of any importance when it came to foreign aid. Hence Cold War politics had its own impact on aid flows to Sri Lanka. This is shown in Graph 2.1. In the post '77 period, Sri Lanka has become totally dependent on assistance from the developed West and Japan.

The total flow of loans and grants from 1978 to 2005 is summarised in Graph 2.2. The graph is based on Central Bank data on net receipts of foreign assistance. It does not included aid flows from the IMF, which will be discussed separately. According to this data, in most years loans, rather than grants, constituted the greater proportion of aid received by Sri Lanka. On average, for the period 1978 to 2005 close 65 per cent of aid received was loans, while 35 per cent constituted grants.

Although there was a significant increase in aid after the liberalisation of the economy in 1977, the overall aid flows to Sri Lanka have not been even. There have been variations in the flow both of loans and grants. Roughly speaking, the fluctuations in aid flows can be analysed by dividing the years 1978 to 2005 into three periods: Period 1 starting from 1978 and continuing up to 1986; period 2 from 1987 to 2002 and period 3 2003-2005 (see Graph 2.2).

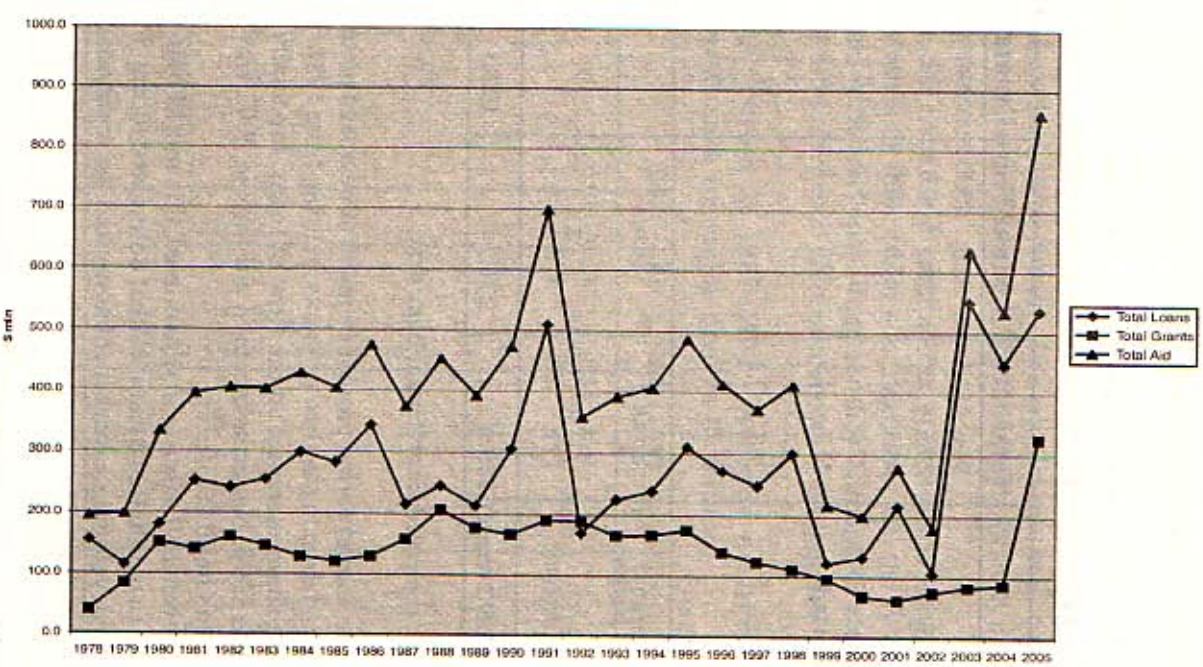
Period 1 is characterised by a gradual increase of aid flows both in terms of loans and grants. The number of donors active in Sri Lanka gradually increased, contributing evenly to aid flows. By and large, this was the positive response from a large number of donors due to changes in economic policies. Large scale funding for projects such as the Accelerated Mahaweli Development took place during this period. It is also important to note that during this period, donors such as Sweden (21.2% of total grants) and UK (26.2% of total grants) played a significant role in the grant

Graph 2.1 Aid commitments – Aid Group and socialist bloc



Source: compiled from World Bank (1984) and World Bank (1992).

Graph 2.2 Net receipts of foreign assistance



Source: compiled from various *Annual Reports* of Central Bank of Sri Lanka.

component of aid flows (see Table 2.2). These flows get significantly reduced during subsequent years.

Table 2.2 Period 1: 1978-1986 - Average net receipts of foreign assistance by major donors ($ million)

	Total	%	Loans	%	Grants	%
Japan	51.6	14.3	32.6	13.8	19.0	15.4
Germany	25.5	7.1	23.3	9.9	2.2	1.8
USA	45.5	12.7	44.6	18.9	0.9	0.7
Canada	22.0	6.1	12.3	5.2	9.7	7.9
Netherlands	17.7	4.9	9.6	4.1	8.1	6.6
Norway	5.4	1.5			5.4	4.4
Sweden	26.1	7.3			26.1	21.2
UK	32.3	9.0			32.3	26.2
Australia	3.5	1.0			3.5	2.8
ADB	19.4	5.4	19.4	8.2		
United Nations	3.2	0.9			3.2	2.6
IDA	46.4	12.9	46.4	19.6		
Euro-Currency	19.8	5.5	19.8	8.4		
Total aid (average)	**359.6**		**236.3**		**123.3**	

Source: computed from Central Bank data

The second period provides a much more mixed picture. There is a gradual drop in the flow of grants, starting from 1988. However there are sharp increases in the flow of loans, especially in 1991, 1995 and 1998. Nevertheless total aid flow in 2002 was less than 1978 (see Graph 2.2).

As we shall discuss in detail later, this mixed bag had to do with the two principal dynamics that dominated recent Sri Lankan history - developing a market economy and the reality of conflicts. The high points of loans coincided with steps taken to promote the economic agenda. The drop in grants was directly related to growing concerns about conflicts.

Another important feature of this period is the emergence of a few dominant donors in aid flows to Sri Lanka. These were Japan, IDA loans from the World Bank group, and the ADB. They accounted for 36.7%, 20.0% and 24.5 % of total aid flows respectively (see Table 2.3). This means around 81% of total aid depended on these three donors. This picture has been confirmed by calculations on the basis of aid commitments. A study published in 1994 concluded that:

> The Sri Lanka aid programme at present is heavily dependent on three major donor agencies, i.e. the World Bank, ADB and Japan. Together they account for about four fifths of the total aid commitments. (Kuruppu 1994:8)

Table 2.3 Period 2: 1987-2002 - Average net receipts of foreign assistance by major donors ($ million)

	Total	%	Loans	%	Grants	%
Japan	140.1	36.7	87.7	36.6	52.4	36.8
Germany	4.6	1.2	1.9	0.8	2.7	1.9
USA	22.6	5.9	0.6	0.3	22.0	15.5
Canada	1.6	0.4	-2.8	-1.2	4.4	3.1
Netherlands	4.8	1.3	-3.2	-1.3	8.0	5.7
Norway	11.1	2.9			11.1	7.8
Sweden	4.5	1.2			4.5	3.1
UK	6.1	1.6			6.1	4.3
Australia	1.3	0.3			1.3	0.9
Switzerland	1.3	0.3			1.3	0.9
ADB	93.4	24.5	91.3	38.1	2.1	1.4
United Nations	7.2	1.9			7.2	5.1
IDA	76.3	20.0	76.3	31.9		
Euro-Currency	-3.5	-0.9	-3.5	-1.5		
Total aid (average)	**381.7**		**239.6**		**142.2**	

Source: computed from Central Bank data

The dominance of these three donors continues even now.

The third period began in 2003 and continues up to now (see Table 2.4). From 2003 there was a sharp increase in the flow of overall aid - $ 675.7 million compared to $ 359.6 million and $ 381.7 million during periods 1 and 2 respectively. In this increase loans were more important than grants, except for 2005 when the grants picture improved because of the increase from UN sources. The peace process, and later on the flow of funds due to the tsunami, contributed to this increase. The sources also get diversified. As a result the proportion from key donors such as Japan, IDA and ADB gets reduced. They account for about 68% of total aid flows. Nevertheless, this high proportion reflects the fact that a significant proportion of aid came into the country because of the economic agenda.

In addition to this assistance from bilateral and multilateral donors, Sri Lanka received regular support from the IMF. Table 2.5 summarises the different types of loans that Sri Lanka received from the IMF. These IMF loan agreements are important due to several factors. First, the IMF is the only source from which Sri

Table 2.4 Period 3: 2003-2005 - Average net receipts of foreign assistance by major donors

	Total $ mln	%	Loans $ mln	%	Grants $ mln	%
Japan	208.9	30.9	184.5	36.1	24.4	14.9
Germany	20.9	3.1	4.0	0.8	16.9	10.3
USA	-14.9	-2.2	-22.5	-4.4	7.6	4.6
Canada	-2.2	-0.3	-2.2	-0.4	0.0	0.0
Netherlands	4.1	0.6	-4.1	-0.8	8.2	5.0
Norway	4.0	0.6			4.0	2.4
Sweden	7.7	1.1			7.7	4.7
Australia	1.5	0.2			1.5	0.9
Switzerland	2.4	0.4			2.4	1.5
ADB	166.4	24.6	159.6	31.2	6.8	4.1
United Nations	37.5	5.5			37.5	22.8
IDA	89.6	13.3	89.6	17.5		
Citibank International	26.2	3.9	26.2	5.1		
Other*	47.3	7.0			47.3	28.8
Total	**675.7**		**511.4**		**164.3**	

Source: computed from Central Bank data
* Sources other than traditional donors

Table 2.5 IMF loans 1977-2005

Year	Type of loan
1977/78	SDR 133.6 million under a Stand-by Arrangement
1979	IMF drawings of SDR 29.7 million
1980	Extended Fund Facility arrangement for SDR 55.1 million
1981	SDR 176 million under Compensatory Financing Facility and Extended Fund Facility
1982	Compensatory Financing Facility for SDR 39.2 million
1983	Buffer Stock Financing Facility, Stand-by Arrangement and Reserve Tranche for SDR 35.8 million
1984	SDR 20 million under a Stand-by Arrangement and Reserve Tranches
1988	Compensatory Financing Facility and Structural Adjustment Facility for SDR 153.4 million
1989/90	SDR 111.5 million under a Structural Adjustment Facility
1991/94	Enhanced Structural Adjustment Facility for SDR 280 million
2001	IMF approves $253 million Stand-By Arrangement for Sri Lanka
2003	IMF approves $567 million PRGF/EFF Credit Arrangement
2005	IMF approves $157.5 million in Emergency Assistance

Source: compiled from various Annual Reports of the Central Bank of Sri Lanka and reports of the IMF.

Lanka can get concessionary loans for general budget support. Second, an agreement with the IMF sends positive signals to other donors, as well as investors, regarding the health of the Sri Lankan economy. More than any other donor, IMF loans are based on conditionality that demands fiscal discipline and structural reforms. In the post '77 period, there were several instances when aid flows from the IMF did not materialise despite agreements, due to the failure on the part of the Sri Lankan government to carry out the reforms demanded by the IMF.

Despite this significant increase in aid flows since the inauguration of liberal capitalism in 1977, the impact of foreign aid during this period cannot be understood by focusing on monetary resources alone. Its influence is much more widespread and varied. These aid flows are part and parcel of a larger process of integrating Sri Lanka into the structures of global capitalism. This process has an impact on almost every aspect of the post '77 Sri Lankan society. Hence there is a need for a much more comprehensive framework, which not only covers diverse aspects of the influence of foreign aid, but also understands its politics. In the rest of this chapter, we shall try to map out some of the key elements of this comprehensive framework.

Resource base of the state and the policy making process

Since 1977, foreign aid from the developed West and Japan has had a tremendous influence on the resource base of the Sri Lankan state. As shown in Table 2.6, the increase in dependence on external funding rose sharply after 1977. For example, during the period 1978 to 1987 foreign sources accounted for almost 45 per cent of deficit financing. It has remained at a high level thereafter. Similarly between 1985 and 1990, on average close to 60 per cent of public investment was supported by external assistance (see Table 2.7). At present there is hardly any new project undertaken by the government without resorting to external assistance.

Table 2.6 Composition of deficit financing (after grants)

	1948-57	1958-67	1968-77	1978-87	1988-96	1948-96
Overall deficit (after grants) (as a % of GDP)	-2.4	-5.8	-6.1	-11.5	-8.4	-6.8
Financing (as % of deficit)						
Foreign	2.5	12.9	24.2	44.9	32.8	28.4
Domestic	97.5	87.1	75.8	55.1	67.2	71.6
Banks	45.8	36.2	18.0	22.6	7.1	20.7
Central Bank	12.5	39.7	14.8	21.7	7.1	19.1

Source: Central Bank of Sri Lanka, 1998: 229.

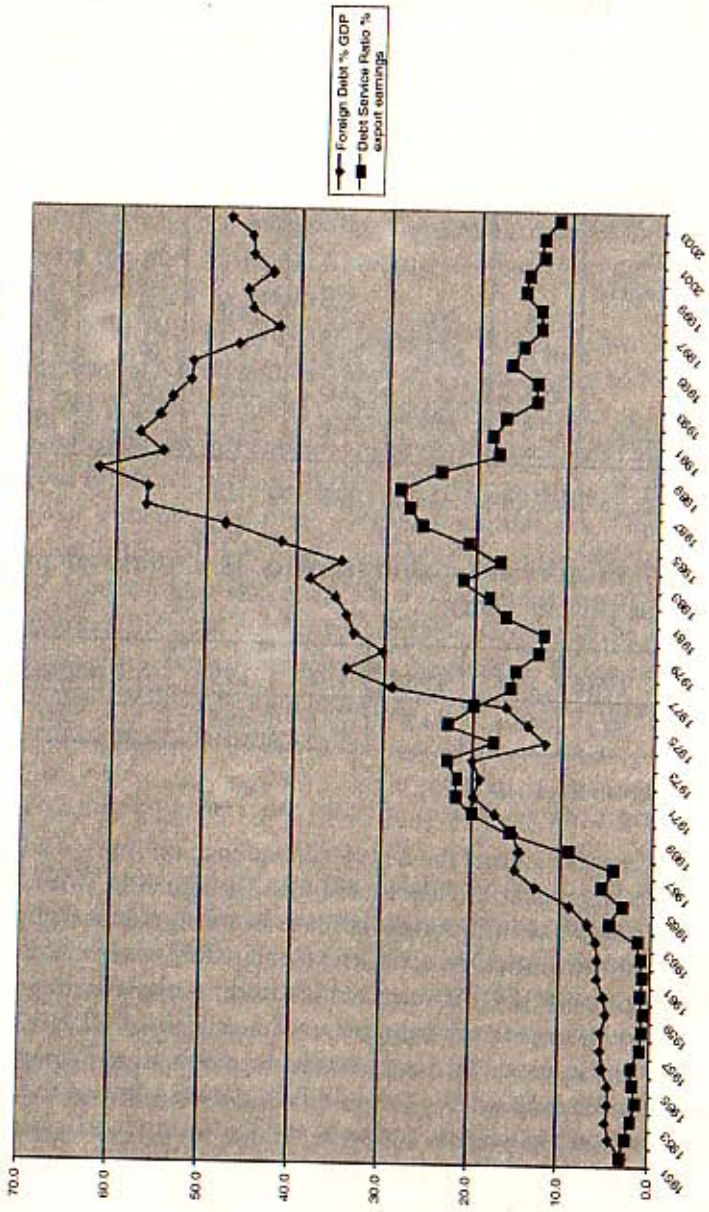
Table 2.7 Project aid disbursements as a share of public investment (in per cent)

1985	1986	1987	1988	1989	1990	Av. 1985-1990
54.4	59.7	54.1	54.2	68.6	66.8	59.6

Source: World Bank 1992:77.

The reverse side of the heavy dependence on foreign sources of funding has meant a sharp increase in foreign debt since 1977. Graph 2.3 shows a continuous increase in foreign debt beginning from the mid seventies. In 1975, the foreign debt of Sri Lanka was 19.2 per cent of GDP. Three decades later, under the impact of liberal capitalist policies, it has risen to 48.3 per cent of GDP (Central Bank 2005). However Sri Lanka has had a much more manageable situation in the debt service ratio. In fact, during some of the years of state centric capitalism, the debt service ratio was higher than during the period of liberal capitalism, e.g., in 1976, debt service ratio amounted to 23 per cent of earnings from merchandise exports

Graph 2.3 Foreign debt and debt service ratio



Source: compiled from special statistical appendices from Central Bank of Sri Lanka *Annual Reports 2002* and *2003*.

and services. This is a reflection of factors such as the growth of an export economy, and Sri Lanka's ability to secure concessionary loans.

Nevertheless, the significant foreign debt burden means Sri Lanka is now firmly locked into a dependency relationship with international financial institutions. The country has to ensure that commitments in loan repayments are regularly met so as to be in the good books of these institutions. This limits the freedom that the Sri Lankan state has in its economic decision making.

Along with expansion of the flow of aid, the aid agencies have become extremely influential in the policy making process within the state. With the introduction of structural adjustment, policy based lending became the norm. The objective was not only to provide funds, but also to reform institutions managing the economy and introduce new ideas of how the economy should be managed. For this purpose, aid agencies have an active presence in the country. Many of the key agencies have established offices in Colombo. Most of this took place during the post '77 period. Studies, consultancy reports, memos, etc., of aid agencies have become influential in the policy making process. Within the Sri Lankan state, institutions like the Treasury and the Ministry of Finance, which regularly interact with these agencies, have become important in this policy making process.

The influence of donor agencies in the policy making process has increased to such an extent that sometimes, to understand policy changes, it has become more important to keep tabs on reports coming from these agencies, rather than, for example, to follow debates in the parliament, which should be the policy making body in a democracy. It has become crucial to monitor reports provided by the World Bank for the annual Aid Group meeting, or outcomes of the annual Article IV consultations with the IMF, in order to understand government policies. The latter is a regular annual event with the participation of an IMF mission. These consultations cover a general discussion on the state of the economy, and a review of the implementation of conditions that Sri Lanka has agreed to follow, in return for support from the IMF.

The impact of foreign aid in the policy making process extends beyond the key policy making institutions and processes within the capital. Many of the donor supported projects implemented in the regions are shaped by ideas promoted by aid agencies. For example, at one time Sri Lanka had what were called Integrated Rural Development Projects (IRDPs) covering many parts of the country (see Table 2.8). If we take a look at what went on in these projects, it is clear the term IRDP was some kind of shell into which ideas came from the studies, consultancies and interventions carried out on the initiative of the donor. Hence it was possible at one time to get a fairly good idea of the emphasis of these projects by looking at who was funding them. Hence in the early period of IRDPs, World Bank funded projects used to focus on infrastructure, and

Table 2.8 Integrated Rural Development Projects

Inaugurated on	District/Province	Donor/Technical assistance
1979	Matara	SIDA
1979	Hambantota	NORAD
1979	Nuwara Eliya	Netherlands
1981	Badulla	IFAD/SIDA/UNDP
1984	Ratnapura	Netherlands
1984	Monaragala	NORAD
1986	Kegalle	IFAD
1987	Kalutara	FINNIDA
1987	Kandy	Germany /GTZ
1989	Gampaha	JICA
1991	Southern Province	ADB
1992	Anuradhapura	SIDA
1992	Puttalam	UNICEF
1993	Dry Zone	IFAD/GTZ
1994	Dry Zone	CEC

Source: Central Bank of Sri Lanka 1995:68.

projects funded by donors like SIDA and NORAD used to emphasise participatory development.

Foreign aid and socio-economic processes

The impact of foreign aid is seen on a variety of socio-economic processes even at the most local level and in the remotest of villages. This is a new development since 1977. If one looks at village studies carried out in the seventies, there was hardly any discussion about the impact of foreign assistance. But today it is impossible to ignore it.

This influence comes from two directions. First, the impact of macro-level policies promoted by aid agencies can be observed in production relations even at village level. The fate of smallholder paddy production can be taken as a major example of this phenomenon. Up until 1977, Sri Lanka had a set of policies that attempted to support smallholder paddy production at all levels. The policy package included provision of land, regularising tenure arrangements, subsidising factors of production such as seed paddy, fertiliser and agrochemicals, providing facilities for paddy storage and guaranteeing a price through state interventions. In order to implement these policies, a network of state institutions extending to village level was set up.

In the post '77 period, many elements of this structure were either dismantled or weakened. Foreign aid and donors had a major role to play in this development. The impact of these changes on the profitability of paddy production has been captured in studies carried out towards the end of the nineties. These show that the gross income from paddy production decreased by about 17% in the nineties, compared to the situation in the eighties (Dunham and Edwards 1997). Currently the major preoccupation of donors is to strengthen property rights on land so as to develop land markets.[9] This is another step in the direction of deepening capitalist relations. This is bound to have far reaching consequences in rural areas.

[9] The rationale for this policy is found in World Bank (1996).

Second, during the post '77 period, donors have supported numerous projects, covering a bewildering array of subjects. These projects, implemented either by government or non-government agencies, reach out to the remotest parts of the country. Compared to the seventies, it is almost impossible to carry out any village study without looking at these projects. The IRDPs are an example of such projects implemented through state agencies. Most of the IRDPs have now come to an end, but have been replaced by other interventions with varied focuses. In addition, in recent times, making use of the space provided by the peace process, donors have expanded their interventions to the North/East as well. Thus, on the whole, post '77 has resulted in a multiplicity of donor supported interventions having an influence in all parts of the country.

Foreign aid and reconstitution of the civil society space

A major development since 1977, due to the expansion of the role of foreign aid, is the emergence and establishment of a large number of civil society organisations. Sri Lanka has a long history of civil society activism going back to the pre-independence period. These organisations played an important part even in the independence struggle. However the expanding role of foreign aid provided a new role to some civil society organisations, and led to a reconstitution of civil society space.

In Sri Lanka today,[10] externally funded civil society organisations are involved in a whole range of activities covering poverty alleviation, micro-credit, protection and rational use of natural resources, promoting human rights, rights of women, democracy, good governance, monitoring election violence, conflict

[10] This discussion ignores the entry of NGOs for tsunami reconstruction. In the short term this would have significantly altered the picture provided here. But it is quite possible that many of the agencies who came to Sri Lanka focusing on humanitarian aid will leave the country soon after their task is over.

resolution, taking care of the social costs of the conflict and peace building. The expansion of donor supported civil society has been such that it is difficult to get even basic data on it. Table 2.9 is from a recent study (Fernando 2003) that has attempted to provide a summary of the available data. Numbers in the table indicate an interesting history. The numbers in the first three categories, where there seems to be more accurate figures, are probably what were traditionally considered as the civil society sphere covering social service organisations. The IRED report represents the period when these organisations were considered an important partner of development. At this point we can still get some sense of the number of organisations. At the end of the Table comes the period of explosion, when it is difficult to get clear numbers.

The problem of obtaining even the basic statistics of these organisations extends to the funding situation as well. There are hardly any sources that have an overview of the flow of funds to

Table 2.9 Estimates on the number of NGOs

Source	Estimate
Department of Social Services	2,167
Department of Probation & Child Care Services	515
Approved charities	889
Ministry of Policy Planning & Implementation (quoted in Samaraweera 1997)	47
Development NGOs in Sri Lanka (IRED 1991a)	293
Foreign NGOs in Sri Lanka (IRED 1991b)	50
Wickramasinghe (2001)	4,000
Fernando and de Mel (1991)	300
Kloos (1999)	20,000-30,000
NGO Commission Report (1993)	25,000-30,000
USAID (1997)	50,000
Asian Development Bank (1997)	25,000

Source: Fernando 2003:12

these organisations. One of the few sources that mentioned a figure is the report of the NGO Commission published in 1993. This gave the figure of 22 per cent as the proportion of total foreign aid to Sri Lanka channelled to NGOs (quoted in Wickramasinghe 2001).

Much of the discussion about these organisations centres on the various objectives that they are meant to achieve, and to what extent they have succeeded in the tasks that they have set themselves. But the impact is wider than what is implied by this discourse. As we have argued, the proliferation of civil society organisations, as a result of the increase of aid flow, amounts to a reconstitution of civil society space. Not only has this space been reconstituted, but these organisations have begun to redefine issues, and thereby have a tremendous impact at the ideological level. As argued by Wickramasinghe,

> At a discursive level, the new institutions have been shown to be involved in redefining security, development, governance, civil society and state sovereignty, and gradually imposing these concepts as conceptual frameworks. (Wickramasinghe 2001:167)

Today the new meanings assigned to these concepts by civil society, 'dominate all fields of discussion and debate among policy-makers, administrators, public servants and politicians' (Wickramasinghe 2001:167). Hence the very establishment of these new actors in civil society has been a significant social change. Their impact on society is seen both at material and ideological levels.

Foreign aid and ideological impact

The ideological role played by the newly constituted civil society, with the support of donors, is a part of a much larger process of the flow of ideas as a result of the expanding influence of foreign aid. Along with the increase in aid flows, there has been a parallel expansion of external organisations, agencies, consultants, etc..

operating in the country. As a result, the concepts, ideas and discourses expounded by these agencies have become influential in the country. Today it is almost impossible to conduct political debates in Sri Lanka outside the ideas generated by the influence of external assistance. Hence foreign aid is not only a source of resources, but also of ideas and concepts.

The ideological impact of foreign aid is seen within a range of institutions in Sri Lanka, both at the level of the state and society. Within the state, notions of good governance, transparency and accountability, in the manner promoted by aid agencies, have almost become the norm. These are the norms through which the Sri Lankan state hopes to reconstitute itself. They are propagated through various donor funded projects within the state. Similarly, within society, much of the research agenda of many institutions involved in research and production of knowledge have been influenced by concepts and ideas brought in by donors.

Foreign aid and mainstream politics

Mainstream politics has not been immune to the impact of this ever expanding agenda of foreign aid since 1977. For example, the role of external assistance has become so important for the maintenance of the Sri Lankan state, that the ability to mobilise external assistance has even entered the electoral politics of the country. During recent elections, the UNP attempted to mobilise support for itself by pointing out its ability to secure donor support. The argument was that donors had greater faith in their policies, and if they won they could ensure significantly higher amounts of external assistance. They argued that donors are likely to be less committed if the other side wins. Although trying to make use of donor dependency as an electoral slogan can be counterproductive, the important issue to note is that foreign aid has become an issue in electoral politics during the post '77 period.

In recent times, aid agencies have taken strengthening of democracy as a major area of their funding. Of course, what they

mean by democracy here is liberal democracy. As a result of this interest, many agencies are involved in funding projects to monitor elections, reforming various institutions and promoting a democratic culture. These projects are legitimised through varied arguments, such as promoting economic growth, social justice, the rights of women and gender. These interventions have expanded so much that a significant amount of time is spent understanding the impact of these projects, rather than the larger social and historical processes that establish democracy.

This expanding role of foreign aid, seen through its impact on the resource base of the state, the state policy making process, socio-economic processes, ideological debates and mainstream politics, is a part of the larger process of the impact of globalisation. Today Sri Lanka is linked to global structures through a number of processes. The economy depends on expansion of trade linkages, investments, flow of tourist traffic and remittances from employment abroad. All these have an impact on livelihood patterns and the social structure. The impact of communication technologies is seen even in the remotest parts of the country. Post '77 liberalisation has changed the structure of the mass media significantly. All these reflect the extent to which the country is already locked into global structures. In other words, although there are still ongoing debates about globalisation in Sri Lanka, the impact of these processes demonstrates that we are already part of it.

The wide ranging influence of foreign aid that we have mapped out above is yet another aspect of this globalisation process. Through the impact of these processes, aid agencies today are involved in a large number of other areas of work. These include alleviating poverty, changing the way the poor engage in economic activities, promoting rights of women, reforming the relationship between the state and individuals through human rights, promoting democracy, protecting the environment, changing attitudes towards new diseases like Aids, resolving conflicts and redefining what is security. Therefore the agenda of foreign aid today is much larger than economic development, as was the case before 1977. In fact it is an agenda of the total transformation of Sri Lankan society.

This new role of foreign aid becomes even more significant if we focus on the international dimension. Foreign aid not only provides resources from a number of actors in the international system, but is also a means of securing legitimacy within institutions of global governance. For example, the IMF's assessment of the economy has a wide ranging impact internationally. It sends signals about the state of the economy to other donors as well as investors. The mere presence of a large number of donors in a country gives the message of things being at an acceptable level in the recipient country. In the parlance used by many foreign policy experts of the West, a country where a large number of aid agencies are operating is not a 'rogue state'. Therefore aid confers not only finances, but also recognition and legitimacy.

The combined effect of all these elements has an impact on the overall security of the state. For a small, underdeveloped country like Sri Lanka, obtaining foreign aid is important for its own security. In the globalised world, an inability to secure foreign aid can mean undermining the resource base of the state, blacklisting by powerful international policy making institutions and losing legitimacy in the eyes of institutions of global governance. The combined effect of these could jeopardise the security of the state, and even its very existence.

CHAPTER 3

Post '77 - Liberal capitalism, political violence and conflicts

While there was a dramatic increase in foreign aid and its influence after 1977, this period is also characterised by the undermining of democratic institutions, a high level of political violence and a conflict that has devastated the North/East Province. Since independence post '77 has been the bloodiest period, with devastating consequences. A conflict where the LTTE and Sri Lankan armed forces were the main actors, an insurgency in the South with an equally ferocious counter-offensive by Sri Lankan armed forces, and violence around electoral politics, characterised this period. It has been a period of great insecurity for the population, although the dominant rhetoric of the ruling classes has been national security.

This chapter analyses the reasons for this violence and instability by focusing on two types of violence that Sri Lanka witnessed during the post '77 period. The first of these is linked to the electoral politics of the South, and the second to the conflict arising from the deteriorating relationship between Sri Lankan Tamils and the Sri Lankan state.

In order to place these issues in a historical context, this chapter begins with an analysis of the impact of electoral politics on class and ethnic politics of post-colonial Sri Lanka. It argues that electoral politics broadened the social base of the ruling elite that ruled Sri Lanka after independence. Key beneficiaries of the institutionalisation of electoral politics were representatives of diverse social groups largely from the middle class from the rural Sinhalese. The entrenchment of electoral politics helped these classes to share power with the Westernised colonial bourgeoisie, who benefited from the colonial economy.

The entry of these social groups to the ruling bloc had an impact both on development policies and ethnic relations. In the case of development policies, we focus on the expansion of the state sector in the economy within a broad capitalist framework, an expansion of education to rural areas and the development of a range of policies to protect smallholder paddy agriculture. Pressure brought through electoral politics has played a significant role in the evolution of these policies. When it comes to ethnic relations, the rise of intermediate classes resulted in the hegemony of Sinhala Buddhist nationalism in state policies and deteriorating ethnic relations. The end result of this was that Sri Lankan Tamils put forward a demand for a separate state, and a militant wing of Tamil politics took up arms to achieve this goal.

Thus the centre-right UNP political leadership, which inaugurated more market oriented liberal economic policies after their electoral victory in July 1977, had two important political issues to manage if they were to go ahead with the new phase of capitalism characterised by liberalising the economy, promoting markets and the private sector as the engine of growth. First, they had to manage electoral politics and social pressures arising from it, and, second, they had to find answers to the fast deteriorating situation on the ethnic front. Both these were important to ensure stability and to pursue new directions of the economy.

Our central argument in explaining the violence, instability and conflict during the post '77 period focuses on the strategies adopted by the ruling classes in meeting these twin political challenges faced in the period of liberal capitalism. We argue that violence has a lot to do with the manner in which the ruling classes met these challenges. As our survey shows, this was a mixture of institutional design and authoritarian politics. These strategies have resulted in large scale violence and instability.

The politics of the ruling elite have given rise to countervailing anti-systemic movements which have been equally violent. This violent anti-systemic politics was represented by the Janatha Vimukthi Peramuna (JVP) in the South, and the LTTE in the North/

East. The politics of both these political formations, and counter-attacks by the state, have resulted in large scale death, destruction and human rights violations. However one of the positive aspects, which has to be noted, is the entry of the JVP into mainstream electoral politics, showing the capacity of electoral politics with all its imperfections to absorb even violent dissent.

Electoral politics, class and ethnicity in post-colonial Sri Lanka

Universal adult franchise was established in Sri Lanka in 1931, long before independence. The colonial bourgeois leadership of the country actually opposed the establishment of universal franchise. For the Sinhala bourgeoisie, the masses were not yet ready to exercise universal franchise, an argument put forward by the elite in many countries. The Tamil elite had a genuine worry of what would happen to their rights once Sinhala masses begin to exercise electoral power. Universal franchise was established despite this opposition. The liberal attitudes of the British commissioners and representations by certain sections of Sri Lankans, such as labour leaders, prevailed.

The electoral system that was established was the 'first-past-the-post system', similar to that of Britain. There was no discussion of any other system. What prevailed in England determined the limits of the discourse in designing the electoral system. The key debate was around the issue of 'communal electorates' versus 'territorial electorates', which was linked to the question of representation of minorities. The minorities demanded separate electoral registers, and representatives elected on this basis, so that they could have adequate representation in a parliament that was bound to be dominated by the Sinhala majority. The territorial argument opposed this, and asked for a common electoral register.

The territorial argument won mainly because the British favoured it. British commissioners who came to the country took the view that the establishment of communal electorates would entrench communalism, which according to them was not a

desirable status for the future of Sri Lanka. On the other hand, they believed that territorial electorates would motivate the electorate to get over traditional backward features like 'communal identities', and to exercise franchise as individuals. As often happens nowadays, this was a conceptual assumption of electoral designers influenced by liberalism. It was a vision of social transformation that dominated modernisation theory later, and an idea which still dominates the minds of advisors on electoral design. Sri Lankan history has proved these assumptions to be totally wrong. In order to ensure rights of minorities, the seats in parliament were distributed so that there was some degree of balanced representation between majority Sinhalese and all minorities. Multi-member constituencies in electorates with pockets of minorities were one device used to ensure this end. Delimitation commissions were to be established after each census so that these arrangements could continue. Another device was to appoint a small number of members to parliament to represent groups that were not adequately represented.

The electoral arrangements that were meant to protect the rights of minorities were given a body blow by one of the very first acts of independent Sri Lanka, which defined who were the citizens of this newly independent nation. Immediately after independence, Sri Lanka enacted the Citizenship Act of 1948 and the Indian and Pakistani Resident (Citizenship) Act of 1949. These laws created two categories of citizens: citizens by descent and citizens by registration. The latter category was aimed at deciding the status of so-called recent immigrants. These were mainly people who had come into the country in the wake of economic changes carried out by the British. Most of them formed the working class in the plantation sector. They had to fulfil extremely stringent criteria to qualify for Sri Lankan citizenship.

The political outcome of the legislation was to make the bulk of the Indian Tamil population stateless and therefore disenfranchised. This diminished their influence in parliament and had an important impact on balanced representation, which was

one of the safeguards for minority rights agreed to during independence. Balanced representation would have meant that there would have been a sizeable number of minority representatives, so that the ruling political parties which represented the majority could not ignore them. The disenfranchisement of the majority of Indian Tamils undermined this notion.

Many indicators show how electoral politics got entrenched in Sri Lankan society. After independence, eight elections were held under the first-past-the-post electoral system. Voter participation has been extremely high compared to international standards. As pointed out by Amita Shastri, the average voter turnout of 77 per cent during the first-past-the-post period,

> places Sri Lanka tenth, between the United Kingdom and Canada, in a rank ordering of countries world-wide which have had democratic elections continuously since 1945/1950, have a population of over 3 million persons, and have voluntary voting. The Sri Lankan case is noteworthy in that turnout increased from 55.1 per cent in 1947 to 86.2 per cent in 1977, an astounding increase of 31.1 per cent! This figure puts it far beyond all other increases in turnout - the highest increase being that of Sweden of 10.6 per cent. (Shastri 1991:330)

Political parties that sought power through the electoral process ranged from those espousing left wing ideologies, to those with a right wing orientation. Parties representing various ethnic groups were also established. The most important indicator of a functioning democracy was the fact that the electorate managed to change the party in power through the electoral process. During the period when the first-past-the-post electoral system was in operation, the governing party was thrown out of power five times. Power alternated between two major political formations - the centre-right United National Party (UNP), and coalitions led by the centre-left Sri Lanka Freedom Party (SLFP), in which some of the left oriented parties participated.

Electoral politics gave a pre-dominant position to the rural Sinhala voter in deciding who would come to power. The simple demographic factor of rural Sinhalese being the majority translated itself into electoral power. Winning the support of the Sinhala rural electorate became an essential factor for those who aspired to rule the country. The political elite from all backgrounds could not ignore them. Therefore the Sinhala elite that ruled the country built a special electoral relationship with its rural counterpart in order to be successful in elections.

In addition to the simple demographic factor, the delimitation of electorates had a bias in favour of underdeveloped rural areas. Delimitation of electorates resulted in rural areas gaining a greater weighting than the urban areas. The argument that less urbanised, underdeveloped rural areas should be given a greater weighting in designing the electoral system was widely accepted. It was hoped that this would result in a parliament that would be more responsive to rural needs. As a result of this deliberate bias, there was a great degree of unevenness in the electorates. But the most important outcome was that governments could be voted out with a change of opinion in less populated rural areas.

One of the direct outcomes of the entrenchment of electoral politics was the broadening of the social composition of the ruling class. The political elite who inherited power from the colonial masters were drawn largely from those families who accumulated wealth during the colonial period, or acquired elite positions through various opportunities provided during this period. For example, when we look at the social background of those elected in 1947 - the election to the first parliament in independent Sri Lanka - a significant proportion of the representatives came from these families. This was the English speaking Westernised colonial bourgeoisie.[1] The exceptions were some of the left leaders, and leaders who represented the plantation working class.

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[1] See Jayawardena (2000) for an analysis of the rise of colonial bourgeoisie.

With the entrenchment of electoral politics this narrow social base of the ruling bloc could not be maintained. The ruling bloc broadened to include other social groups as well. The 1956 elections, which defeated the UNP that was elected to power at the time of independence, and created a two party system in Sri Lanka, was a turning point in this process. It signified the entry of new social groups into the class bloc that ruled Sri Lanka.

There are two conceptual frameworks that have been used to understand the changing social composition of the political class and social characteristics of the new social groups that entered the ruling bloc. The first is based on studying sociological characteristics of the political elites. The second trend, broadly within a Marxist framework, tries to characterise the new entrants on the basis of their relationship to the overall social structure of a capitalist economy.

One of the earliest studies in the first tradition was by Marshall R. Singer, a scholar from the US. Singer's conclusions captured the post '56 changes within the Sri Lankan political class. The most important conclusion that Singer arrives at was the entry of 'middle level' landowners from a rural background as a part of the political elite. As stated by Singer,

> A new type of landowner has emerged within the political elite. Neither extremely wealthy (as were his British and earlier Ceylonese counterparts) not relatively poor (as are the overwhelming majority of landowning Ceylonese peasants), the landowning members of the emerging elite are again, in the broadest sense, 'in the middle'. (Singer 1964:87)

Tara Coomaraswamy's unpublished Ph.D. thesis, *Parliamentary representation in Sri Lanka 1931-1986*, is a more recent study within the same tradition. She compares the composition of the legislature in the 1931 state council, 1947 parliament and 1986 parliament. The 1986 parliament was during

the second J.R. Jayewardene regime. Hence it covers a parliament during the post liberalisation period. Coomaraswamy comes to similar conclusions to Singer, although using different social categories in her analysis. She concludes,

> Between 1931 and 1986 considerable changes have taken place in the composition of the legislature. Middle class and lower middle class MPs of more rural origin now predominate, in place of the Westernised upper class. The relatively unified 'national' political elite of 1931 and 1947 has been replaced by more heterogeneous and regionally based elites, with property, influence and family connections in towns and villages around the country. (Coomaraswamy 1988:109)

Commenting on the occupational background of members of the legislature, she points out,

> The greater occupational diversity of Parliament also reflects the rise of new occupational categories among the population since 1931 and 1947. Two categories which have expanded rapidly since Independence, teachers and lower level government servants, have gradually achieved a larger presence in Parliament, especially under SLFP governments. Another increasingly important group since Independence, small town *swabasha*-speaking businessmen (*mudalalis*), are also represented.[2] (Coomaraswamy 1988:112)

The debate among those scholars who have utilised Marxist class analysis has been about the entry of intermediate classes into the ruling bloc (Shastri 1983, Gunasinghe 1996, Uyangoda 1999). Intermediate classes are those social groups that occupy

2 *Swabasha* means vernacular. *Mudalalis* are the trading class.

an intermediate position to the capitalist class and working class which form the principal classes of capitalism. These intermediate classes included middle level landowners, sections of the trading classes, those employed in minor positions within government employment and vernacular intelligentsia. A large section of these intermediate classes came from rural areas.

The broadening of the social base of ruling elite, and the entry of the intermediate classes to the ruling bloc, had a profound impact both on the rights of minorities and development policies. With the assertion of the power of these social groups, many of the elements that were established to protect minority rights gradually got dismantled. When it comes to development policies, a highly centralised state began to play a dominant role within a broad capitalist framework. This was legitimised through social justice as well as nationalist arguments. Hence the rise of intermediate classes was reflected both as a nationalist as well as a class issue. In both these aspects there was a mixture of class and Sinhala nationalism.

The changing social composition of the ruling elite and minority rights

At the time of independence, in 1948, Sri Lanka inherited a highly centralised state. Although in the late '20s some of the political leaders and representatives of certain ethnic groups put forward the idea of a federal constitution for Sri Lanka, the concept of regional autonomy was not accepted in forming the state structure of the newly independent country. Instead, it emerged as an independent nation with a centralised form of government, having the status of a dominion within the British Commonwealth. The constitutional structure was based on the Westminster model with two chambers, a prime minister with a cabinet of ministers having executive power, and an appointed governor-general remaining as the representative of the British Crown.

The quest for independence was led by the Ceylon National Congress, which had a multi-ethnic leadership. The colonial

bourgeoisie which led this organisation came from different ethnic groups, but they shared common class interests and a Westernised outlook. However, the beginnings of the politics of Sinhala Buddhist nationalism, which was to dominate post-colonial Sri Lanka as a state ideology, were already seen during the colonial period.

Rights of minorities were a major issue debated prior to independence. For this purpose, several mechanisms, which amounted to checks and balances at the centre, were adopted: an electoral system that ensured a balanced representation in parliament, a second chamber into which minority representatives could be appointed and a special clause in the constitution, 29(c), made it unconstitutional to 'confer on persons of any community or religion any privilege or advantage which is not conferred on persons of other communities or religions'. By this it was hoped that the constitution could prevent special privileges being granted to the majority community.

Post-independence history of Sri Lanka is a history of the undermining of these checks and balances, with the rise of the Sinhala rural intermediate classes into the ruling position. The bias towards the rural Sinhala voter had a direct impact on the ethnic composition of parliament. As we have argued, disenfranchisement of the plantation working class undermined the notion of balanced representation, and skewed the ethnic composition of parliament towards the Sinhalese.

> Their disfranchisement enhanced the representation of the majority community, the Sinhalese, who constituted 70 per cent of the population but could thenceforth dominate 80 per cent of the seats in Parliament. (Shastri 1991:330)

Subsequent changes in delimitation shifted the political balance in parliament towards the majority to a very significant degree.

As we have argued, the 1956 general election led to the broadening of the social composition of the ruling bloc. This was

also the beginning of a process of entrenchment of Sinhala-Buddhist nationalism of the majority community as state ideology. A critical step in this process was the passage of legislation in 1959 to make Sinhala the only official language of country. This undermined the two language formula that was agreed upon prior to independence. It also showed the ineffectiveness of Section 29(c) of the constitution, which was enshrined to protect the rights of minorities. The enactment of the Sinhala Only Act was marked by the first serious 'ethnic riot'[3] in post-independence Sri Lanka. Peaceful protests of the Tamil leadership against this Act led to violence, both in Sinhala dominated and Tamil dominated areas. It was the first significant violent incident in post-independence Sri Lanka linked to the question of ethnic relations, laying a foundation for what was to come.

The process of undermining the rights of minorities continued with the enactment of the first republican constitution in 1972. This constitution ended the dominion status of Sri Lanka. It created a political structure that ensured the superiority of the legislature dominated by the Sinhalese. Framers of this constitution had little regard for minority demands. They removed the safeguards in the previous constitution, gave a pre-eminent position to Buddhism in addition to the Sinhala language, and, most importantly, concentrated all power in the Sinhala-dominated legislature. The ethnic polarisation at this time was such that scant attention was given to any demand for regional autonomy. The Federal Party, representing the Sri Lankan Tamil minority, put forward a proposal based on the concept of regional autonomy. The constituent assembly that formulated the new constitution rejected this proposal, and representatives of the minority boycotted the proceedings.

[3] The term 'ethnic riot' usually denotes an unorganised conflagration between ethnic groups. It gives the picture of a civil commotion, in which members of one ethnic group attack the other. However so - called ethnic riots are better understood as a form of political intervention dealing with political questions. They also have an element of organisation supported by interested parties.

The response of the minorities to this emerging hegemony of Sinhala Buddhist nationalism led by rural intermediate classes came primarily from the Sri Lankan Tamils. Numerically they formed the biggest minority. They also had the advantage of having a concentration of their population in the North/East Province. The Tamil political leadership agreed to the safeguards at the centre at the time of independence, although some of their leaders had wanted more than was agreed. With the ascendance of Sinhala Buddhist nationalism, the demands soon changed to ones based on regional concepts. In 1949 the Federal Party was formed, and Tamil political representatives put forward the demand for a federal system of government. This was a direct outcome of developments around the Citizenship Act.

During this period there were several attempts by political leaders to find answers to Tamil grievances. The Bandaranaike-Chelvanayagam Pact, signed in July 1957, and the Senanayake-Chelvanayagam Pact, signed in 1968, were two significant attempts to work out a form of regional autonomy as an answer to Tamil grievances. Both these attempts were opposed by the Sinhalese. The campaign was led by whichever party was in opposition. The UNP spearheaded the opposition campaign in 1958. The SLFP, with the support by some of the left parties, opposed the Senanayake-Chelvanayagam Pact in 1965. They were joined by various sections of Sinhala extremist opinion which often included sections of the ruling regime.

The emergence of the separatist demand coincided with the enactment of the first republican constitution in 1972. Several other events in the seventies contributed significantly to deteriorating ethnic relations. These included an incident involving shooting by police in Jaffna at the time of the Tamil Researchers Conference, and the introduction of new admission schemes for entrance into the universities. These admission schemes had discriminatory elements vis-à-vis Tamil students. In the context of these developments, in 1976 the Tamil United Liberation Front (TULF), which had replaced the Federal Party as the major political representative of Sri Lankan Tamils, adopted a resolution

demanding a separate state comprising the Northern and Eastern Provinces of Sri Lanka at a party convention held at Vadukkodai.

This period also saw the beginning of activities of Tamil militancy. Sporadic attacks by Tamil militants on police stations, killing of informants, etc., indicated the beginning of a new form of political struggle among Tamils. With armed militancy as the dominant form of political struggle, a new political leadership emerged among the Sri Lankan Tamils. The new leaders had a different social background to that of the Tamil political leadership at the time of independence. They were less Westernised, and were based in the North. Several militant groups took up arms as a means of achieving a separate state. Of these, the Liberation Tigers of Tamil Eelam (LTTE), People's Liberation Organisation of Tamil Eelam (PLOTE), Eelam People's Revolutionary Liberation Front (EPRLF), Eelam National Democratic Liberation Front (ENDLF) and Eelam Revolutionary Organisation of Students (EROS) were the main ones. Subsequent developments gave birth to another political group called the Eelam People's Democratic Party (EPDP).

By the time Sri Lanka held the July 1977 general election, the Tamil political demand had evolved decisively towards winning power over the North/East of the country. In the 1977 elections, the TULF, which fought the election on a separatist demand, not only swept the electorate in the North and to a lesser extent in the East, but also became the major opposition party. For the first time in Sri Lankan post-colonial history, parliament reflected the ethnic polarisation in the country. The UNP, with a five-sixths majority obtained largely from the Sinhala majority, formed the government. The TULF led the opposition after winning the Tamil vote on a separate state demand.

The changing social composition of the ruling elite and development policies

The changing social composition of the ruling elite, and the entry of new social groups, especially from rural areas, into the ruling

bloc, saw the consolidation of a number of development policies. There are two important areas of policy that need to be mentioned: first, spreading education in rural areas, promoting national language education and ensuring state sector jobs for those who managed to obtain tertiary educational qualifications; second, a range of policies that amounted to promoting and protecting the rural peasantry and their principal means of livelihood, paddy production.

During the colonial period, access to Western education provided by schools, established largely by Christian missionaries, was an important weapon in the hands of the colonial bourgeoisie in order to maintain their elite position. Steps to challenge this mechanism were already taking place at the end of the nineteenth century, when the Sinhala Buddhist middle classes established their own modern educational institutions. Nationalist rhetoric was also a part of these developments. An argument for establishing these schools was to counter the influence of Christian missionaries and their attempts at proselytising through the education system. This process continued after independence, making use of the newly acquired state power.

As a result, several steps were undertaken to improve the access of the rural middle classes to modern education. These included expanding resources allocated to state education, establishing a wide network of state schools which ensured education up to the point of entering university, providing education up to the level of the university without levying fees, switching to education in national languages at university level, expanding the intake in universities especially for liberal arts education, and in 1962 taking over what were called assisted schools - most of which were run by Christian organisations under the management of the education department. The strategy was to bring education under the centralised state, and to try to provide education up to university level making use of state resources. The group that benefited most from these policies were children from rural areas, who had the opportunity of reaching up to the level of university education.

Therefore it became a principal means of social mobility for rural middle classes. This strategy of expanding educational facilities was legitimised using the populist rhetoric of 'free education', which actually meant doing away with any kind of tuition fees in state schools. State education policies based on these principles of free education have become a holy cow that no politician dare question.

The next step in this strategy is access to state employment, especially for those who managed to obtain higher educational qualifications. In this policy rhetoric, it is widely accepted that the state has a duty to provide employment to the younger generation whom it had educated through state resources. Hence the model is: the state educates the rural middle classes free of charge, and provides state sector employment once they are qualified. The vision of rural youth getting qualified through the state system and getting a job in the state sector as an administrator, who gets promoted through the bureaucratic ladder, is a standard picture of social mobility for the rural middle class.

This strategy, of ensuring state sector employment for the rural youth who obtains a higher education qualification, is one of the factors that contributed to the expansion of the state sector, and is sustaining it even at present. The state sector expanded both through taking over private sector enterprises and establishing new state owned ventures. From the mid fifties there was a string of takeovers of private businesses covering transport, banking, insurance, wholesale trade and finally plantations. State sector ventures were established both in the industrial and service sectors. Apart from this, the sheer numbers in the public administration expanded. State education also became a major source of employment for the educated rural population.

These policies had adverse effects on the opportunities that the minorities enjoyed in education, as well as state employment. As already mentioned, an important element of the state expansion in education was taking over what were called 'state assisted' schools. These were schools run largely by Christian organisations, but salaries were paid through the state budget. The government

withdrew this support, forcing these schools either to run totally privately or to hand them over to the government. Many of the schools were handed over to the government, and the minorities lost one of the facilities that they enjoyed which helped them to maintain their culture and bring up children according to the values of their religion.

Another step that affected the access of minority communities to education was the introduction of so-called standardisation policies to select students to university. This time the target was the Tamil community, and their access to higher education. Making use of a conspiracy theory propagated by Sinhala nationalists - that students learning in Tamil language are given higher marks deliberately by their teachers in order to increase their numbers in university - the government introduced a scheme to regulate entry into universities. This effectively demanded a higher level of qualifying marks for Tamil students entering universities, compared to students learning in Sinhala. The special targets were the faculties such as Engineering and Medicine which were in great demand by the newly emerging Sinhala middle classes, especially from the rural areas.

An immediate outcome of making Sinhala the only official language was more opportunities for state employment for the Sinhala educated rural middle classes and less for the Tamil speaking minority community. Due to the spread of English education among the minorities, the Sri Lankan Tamils, especially, enjoyed a higher share of state employment than their share in the population. The advent of Sinhala nationalism and the power of the rural intermediate classes began to change this from the beginning of the fifties.

The second important strategy was policies to protect the rural peasantry as a class and to uplift paddy production, their principal livelihood. The beginning of these policies goes back to the colonial period. The advent of new social groups from rural areas into the ruling bloc in post-colonial Sri Lanka entrenched them firmly. Thus,

'Preservation of the peasantry' has remained one of the most persistent themes of agrarian policy in Sri Lanka for well over fifty years. It emerged out of the ferment of agrarian ideology of the 1920s and '30s, and represented a blend of perceptions found highlighted in many contemporary discussions of issues relating to the future course of national development. To isolate some of the more prominent strands of thought which prevailed at the time, there was, first, the widely perceived need to remedy the injustices perpetrated on the peasantry through the iniquitous land policies of the past. Secondly, there was the paternalistic notion that several centuries of neglect had made the peasantry the weaker segment of the country's population, one which needs to be 'protected against its own improvidence'. Linked to these was the view that the economic and social upliftment of the peasantry is the most crucial aspect of national resurgence. Above all, there was the frequently expressed commitment by the policy makers to the idea that the peasant in his values and behavioural norms epitomizes a way of life which is intrinsically worth preserving. (Pieris 1989:9)

These ideas were supported by numerous policy documents and academic studies, which painted a picture of misery and impoverishment among the peasantry. Thus, writing in 1957, a well-known classic of this tradition, *The Disintegrating Village* described the outcome of these processes as follows:

> The picture revealed by our survey is that of a vast mass of landless under-employed labourers with no definite means of livelihood, continually growing in number not only through natural increase but also through victimisation and exploitation of the middle classes, merchants and estate owners. The competitive laissez-faire economy as it operates in rural areas of Kandy (field work for the study was done in this area) today does not seem to achieve the best results for the community, but on the contrary, continually degenerates it, converting it into a machine that extracts more and more of rentier income rather than making greater and greater additions to output. (Sarkar and Thambaiyah 1957)

Two decades later, a book with the same title painted a picture of fragmentation of village life, decline of patron-client relationships, decline in the importance of the paddy economy, landlessness, social polarisation in the village, integration with the outside world and politicisation of village life (Morrison et al 1979). The message was that modernity and capitalism were destroying a traditional way of life. This theme of the 'disintegrating village' recurs not only in academic literature, but also in various forms of popular discourse.

In order to protect the peasantry and promote paddy production, the Sri Lankan state developed a range of policy measures. These included establishing land settlement schemes where state owned land was developed and distributed among the landless peasantry, tenure reforms that benefited the share croppers, subsidising inputs in agricultural production, credit at low interest, a state agricultural extension service that provided extension services free of charge, providing irrigation facilities free of charge, absence of taxation in the agricultural sector, and the state acting as a buyer in the paddy market so as to ensure a guaranteed price to the farmer.

Of these policies, the dry zone colonisation schemes became a major part of the grievances of Sri Lankan Tamils. In 1953, Sri Lanka implemented the first large land settlement programme. The bulk of the settlements were in the ethnically mixed eastern parts of the country. Right from the beginning there were Tamil grievances with regard to who had rights to land in these areas,

and who benefited from these schemes. During the 1958 'riots', these settlement areas were also scenes of violence. This issue became a major point of discussion during the Bandaranaike-Chelvanayagam negotiations, which were called to halt the deteriorating ethnic relations.

Therefore protecting the peasantry and paddy production was not just another development activity. It encompassed a whole range of objectives. It was a means of redressing a past grievance, and correcting a colonial injustice. It was expected to improve the living standards of the vast majority of the population. It was a means of protecting a way of life that truly reflects what Sri Lanka is. In other words, it was a principal foundation of the post-colonial state.

In the ideological constructions of Sinhala nationalism, rural areas occupy a privileged position. The Sinhala peasant cultivating paddy and living in a village is considered the authentic representative of the Sinhalese. The other elements in this idyllic Sinhala milieu consist of the village tank and the Buddhist vihara. This nationalist imagery is propagated through various means and by various actors, including academic writings. It has a powerful hold on society, and politicians across the spectrum uphold this ideology. Hence, building a special relationship with this part of Sri Lanka and those who populate it has been a central plank of the post-colonial nation building project.

Opening up the dry zone for settlement of people had a special relationship with idealisation of rural Sri Lanka and Sinhala nationalism. The opening of the dry zone areas through state intervention has been equated with restoring the 'glorious ancient civilisations of the Sinhalese', which existed in these parts of the country in ancient times. Peasantry and paddy cultivation formed the bedrock of this civilisation. Therefore the post-colonial state, with its special relationship to the rural peasantry, was to restore this civilisation. These historical memories are often evoked in legitimising these development policies. Most publications, both by government and other propagandists, evoke these nationalist myths when discussing these schemes. Politicians who have been in

charge of these development schemes have often compared themselves with kings who built these ancient irrigation schemes. Anthropological analysis has shown how these nationalist myths are even incorporated in modern day opening ceremonies of the irrigation schemes (Tennekoon 1988).

The principal outcome of these developments in post-colonial Sri Lanka has been to build a highly centralised state, ruled by a political class dominated by descendents of the colonial bourgeoisie and other social groups, especially from rural areas, and a range of development policies within underdeveloped capitalism which maintained a special relationship with the all-important rural electorate. The policies to maintain the peasantry and paddy production were critical in maintaining the relationship between the ruling classes and the rural support base. The educational policies and policies providing state employment did the same, in addition to being a means of social mobility for the rural middle class. Therefore in the state-society relationship rural Sinhalese occupied a privileged position. The overall legitimacy of the state was built on the relationship with this section of the majority community to the exclusion of others. For the ruling classes this special relationship was a critical factor in sustaining them in power.

Post '77 - The politics of liberal capitalism, political violence and conflict

The massive electoral victory of the centre-right UNP led by J.R. Jayewardene in July 1977 marked the beginning of a new period in Sri Lankan post-colonial history. This period, which continues up to now, is characterised by two realities. First, it marked the end of the development model characterised by dependence on the state for economic growth, control and regulation of markets, and the beginning of the period where there is an emphasis on liberal markets, private sector and opening up the economy to global capitalism. Second, it is also a period characterised by a conflict, which has pitted the Tamil militancy against the Sri Lankan state,

and widespread political violence in the South, which included an insurgency based on terror and counter-terror by the state. This instability and violence not only has taken a massive toll on Sri Lankan society, but also has made Sri Lanka a fragmented state.

Our central argument is that the violence of the post '77 period can be linked to the manner in which the ruling elite tried to deal with two political challenges faced by the new period of liberal capitalism. First, to manage electoral politics and social pressures emanating from the electoral process, which were not conducive for new economic policies. As we have argued in the first section, representation in the legislature included a wide range of social groups, whose interests did not always coincide with the demands of a liberal economy. In addition, the parliament was a source of populist pressures which had to be managed. Therefore implementing liberal economic policies demanded strategies for managing electoral politics.

The second political challenge arose from deteriorating relations between Sri Lankan Tamils and the Sri Lankan state. As we have shown above, during the 1977 elections, while the centre right UNP fought the elections with the objective of changing the direction of development decisively, Sri Lankan Tamils were asking for a mandate to form a separate state.

Finding answers to these two political challenges was essential to establish the political stability that the new model of development demanded. In contrast to the previous inward looking policies, the liberalised phase of capitalism opened up the economy to the world. The economy hoped to develop through linkages with the global economy. Attracting foreign investment, tourists and external assistance from developed countries were major planks of this development model. Political stability was an essential pre-requisite for strengthening and making use of these global structures.

As we shall show in this section, the ruling classes chose to deal with these political issues using two means - the design of new institutions and authoritarian politics. The UNP, which ushered in the liberalised policies, was responsible for both these trends.

Since then these have become the norm for the ruling regimes. The authoritarianism of the ruling classes was countered by equally violent politics of counter-state movements. The result has been large-scale violence that has engulfed the entire country. In the long run the strategy of the ruling elite has been counter-productive. Instead of political stability, the last 25 years have been characterised by violence and instability.

Managing electoral politics and violence

Jayewardene, who led the centre-right UNP to an overwhelming victory in 1977, was an admirer of the East Asian type of development model, with greater integration to international markets and a prominent role for the private sector. He had been advocating such policies even during 1965-70, when the UNP was previously in power. As noted by his biographers, Jayewardene, with the help of an Indian economist, proposed to the cabinet of the then UNP government economic proposals that included,

> a balanced budget; a floating rupee (i.e. a depreciation of the rupee); liberalization of imports and abolition of exchange control; and removal of all forms of government restrictions imposed on prices, production and distribution. He recommended a substantial reduction, if not elimination of, consumer subsidies, and a programme of privatization of government-owned enterprises as measures that would help balance the budget. (De Silva & Wriggins 1994:169)

However 'when J.R. recommended them to the cabinet, he got no support' (De Silva & Wriggins 1994:169).

Parallel to these reforms in the economy, Jayewardene wanted crucial changes in the political system that would facilitate the implementation of these economic policies. His proposal was a directly elected presidency that could act independent of the

legislature, and a proportional representation (PR) system of elections that would allow parties greater control over their members. He put forward these ideas during the same period as he proposed the more market oriented economic policies. In 1966, in the keynote speech to the 22nd annual sessions of the Ceylon Association for the Advancement of Science, he argued for a presidential system where

> the Executive is chosen directly by the people and is not dependent on the Legislature during the period of its existence, for a specified number of years. Such an executive is a strong executive, seated in power for a fixed number of years, not subject to the whims and fancies of an elected legislature; not afraid to take correct but unpopular decisions because of censure from the parliamentary party. (De Silva & Wriggins 1994:378)

In the same speech he proposed a PR system to replace the first-past-the-post system. Jayewardene wanted an electoral system that would give parties more power over individual members. Jayewardene had to wait 11 years before he could implement both his economic and political packages.

The essence of both the presidential system and the PR system is the introduction of a new set of institutions that can better manage the legislature and the social forces represented in it. The presidency creates an institution that can operate independent of the legislature. PR is an electoral system where parties can have greater control over the individual members, and, through them, the legislature. In other words, these were new rules of the political game of liberal capitalism, in order to manage the legislature and the social forces represented in parliament.

The UNP leadership was helped in the task of introducing new political institutions by the massive majority it obtained in parliament, due to peculiarities of the first-past-the-post system of

elections. In the July 1977 general election, the UNP secured 140 members, or 83.3 per cent, in an assembly of 168 members, although it polled only 44.4 per cent of the valid vote. The centre-left opposition alliance, which ruled the country prior to 1977, was decimated. Its leading party, the SLFP, won only 8 seats, and for the first time after independence there were no representatives of the left parties.

Making use of the power that he commanded in parliament, Jayewardene moved swiftly to enact the institutional structure that the UNP had planned. The election was won in July 1977. On 22nd September 1977, the government put through an amendment 'which radically altered the constitutional structure of the *First Republic*' (Wilson 1980:29). It established a directly elected president as the head of the state. Although it brought about a fundamental change in the existing constitution, the bill was not even discussed by the government parliamentary group. 'It was only taken up at Cabinet level, duly approved, and in addition certified by the Cabinet as a bill that was "urgent in national interest"' (Wilson 1980:30), and sent to the constitutional court for its approval. Under the provisions of the 1972 constitution, the constitutional court had to give its verdict within 24 hours for bills that are 'urgent in the national interest'. The constitutional court duly certified the bill. 'It was then adopted by the National State Assembly and certified by the Speaker on 20 October 1977' (Wilson 1980:30).

This was the manner in which the presidency, the most important element of the constitution under which Sri Lankans live today, was brought into force. It was a process tightly controlled by the UNP leadership. There was very little debate or consultation. Participation of any section of civil society was unheard of.

Although Jayewardene was in a hurry to establish the presidency, he did not assume office immediately. The presidency was established on 20th October 1977, but its implementation was postponed for a three and half month period until 4th February 1978. This allowed Jayewardene to be in parliament, and to be in

charge of the next stage of institutional reform - designing a whole new constitution through a select committee established in parliament.

This select committee was appointed in October 1977. It was primarily a UNP affair. The TULF did not participate in it, because it did not address the issues on the basis of which they fought the elections. The SLFP participated at the beginning, but withdrew later when they realised that they were involved in a process of replacing their own 1972 constitution and not in a process of reforming it. Since it was a select committee of parties in the parliament, none of the traditional left parties had any influence over it. The Ceylon Workers Congress (CWC), the UNP ally that had a cabinet post, was the only party other than the UNP that participated in the process.

The UNP had no serious plans to generate a public debate on the impending changes.

> The Select Committee held 16 meetings in all and based its findings on a questionnaire that had been issued to the general public and the evidence, oral and written, it obtained from various political, economic, social and religious organisations. (Wilson 1980:32)

The response to this was extremely limited. 'Only 281 responses to the questionnaire were received and sixteen organisations and a Buddhist priest presented evidence before the Committee' (Wilson 1980:32).

The 1978 constitution created a powerful, directly-elected president. The president was the head of state, head of the executive and commander of armed forces. The president was given powers to take over any number of ministries. The president could not be challenged through a court of law. If there was any controversy between the president and the government, the president had powers to dismiss the government. Although the principal party in opposition was critical of the institution, this

criticism got forgotten once they gained the presidency. From 1994 onwards, the opposition has been enjoying the power of the presidency.

The first proposals of the PR system, the other main institutional innovation, divided the country into 22 electoral districts for the purpose of electing members to the legislature. The boundaries of these were determined constitutionally. Regular delimitation commissions were done away with. The election was to be on the basis of lists submitted by parties. Parties had to obtain a minimum of 12½ per cent of the valid votes to be eligible for seats. The party that obtained the highest number of votes was entitled to a bonus seat. The balance seats were to be distributed among parties according to the proportion of votes that they had gained. The individual members to be elected were to be decided according to the hierarchy on the list submitted by the political parties. Once an MP was elected from a party list, he or she did have an option to change political allegiance to the party. If for some reason this happened, the party had the right to remove the MP, and replace him or her with the next one on the nomination list.

The political intentions of the designers of this new electoral system were to consolidate electoral power within the two major parties, and bring the MPs under the complete control of the party machinery. The 12½ per cent cut-off point would make it extremely difficult for smaller parties to have a say in politics without coming into coalition arrangements with larger parties. The bonus seat conferred on the party that obtained the largest number of votes would ensure a clear winner in each electoral district. Invariably this would be one of the larger parties. This was another measure that indirectly ensured the dominance of well-established larger parties at the level of electoral districts.

While consolidating the two party system, the proposed system would bring MPs under the firm control of the party. The party machinery would decide the hierarchy on the nomination list. Hence the MP would be dependent on the party for his or her

position. This, together with the anti-defection clause, would bring the MP firmly under party control. Geographically, the PR system shifted the balance of electoral power to the more urbanised south-west part of the country. The older idea of giving a weighting to rural, underdeveloped areas was done away with.

PR was intended to give a degree of stability to the system introduced in 1978 because it would do away with manufactured majorities in parliament. Given the established voting patterns in the country, it would be difficult for any party to have huge majorities in the legislature under the PR system. This was essential for consolidating the 1978 constitution, and the continuity of development policies inaugurated in 1977.

These institutional designs of the framers of the 1978 constitution for the electoral system did not go unchallenged. The two issues that generated opposition within the political elite itself were the 12½ per cent cut-off point, and parties being given the right to decide the order in the nomination list - and, through that, who had a chance to get elected. The opposition to the first came from smaller parties representing minorities, and there was opposition to the second provision even within the UNP. As a result the cut-off point was reduced to five per cent, and a select committee appointed in 1983 introduced a system of preference votes. In this system, voters were given the opportunity to choose who actually got into parliament.

These reforms have certainly complicated the process of politically managing MPs. The lower cut-off point has removed the possibility of the dominance of the two major parties. This has resulted in an era of coalition politics. The result has been an entrenchment of patronage politics, and a proliferation of ministries and departments in order to satisfy various fractions in the parties and coalition partners. This has seriously undermined the capacity of the state apparatus. Preference votes have led to competition within parties in addition to competition between parties. In a context of political violence and patronage politics, these innovations have had adverse effects. Despite these effects the PR system still remains in place.

In addition to designing institutions to manage the legislature and social pressures channelled through it, the UNP was ready to meet any opposition to its policies through repression and authoritarian politics. The main targets were the leadership of the principal opposition party, students, the intelligentsia and the working class.

In 1978, the government established a special presidential commission to investigate what was called abuse of power during the previous regime. Presidential commissions were a provision introduced through the new constitution. The target of investigation was Mrs. Bandaranaike, the leader of the principal opposition party, the justice minister and the secretary to the justice ministry of the previous regime. The presidential commission found them guilty of abuse of power, and in 1980 all three of them were deprived of civic rights for seven years. Although the proceedings had a legal façade, the objectives were political. It effectively removed the possibility of Mrs. Bandaranaike contesting the 1982 Presidential Election. By this, Jayewardene managed to remove the only candidate that could have provided an effective contest in the first election he faced after 1977.

Any type of protest or agitation against the new policies was met with violence and the repressive power of the state. There were a number of incidents when the police, as well as thugs supported by the government, were unleashed against this opposition. Members of the UNP sponsored trade union, Jathika Sevaka Sangamaya (JSS), played a special part in this violence. Special mention should be made of the 1980 general strike called by left wing political parties and trade unions against new development policies. The government mobilised a massive force against the strikers. Thugs supported by the government attacked pickets, killing a trade union activist. Close to 40,000 strikers were sacked.[4]

[4] See Obeysekere (1984) for a succinct account of the violence during this period.

A turning point of this authoritarian politics and undermining of democratic institutions was the events in 1982. During this year, Jayewardene manipulated the newly instituted constitution, postponed elections using a referendum where violence, intimidation, ballot stuffing, impersonation, etc., were used to win the referendum, and took steps to intimidate the opposition further by taking key political figures into custody and closing down opposition newspapers.

In 1982, President Jayewardene called an early presidential election. In order to carry this out a constitutional amendment was passed in parliament. As a relatively sympathetic commentator of UNP strategy states,

> The decision to change the Constitution to allow the election of a President to occur before a parliamentary election stemmed directly from political calculations within the ruling United National Party (UNP). It was generally agreed that 1983-4 would be a difficult period for Sri Lanka in terms of economic development. The world-wide recession showed little signs of abating and this severely affected Sri Lanka's search for export markets. From 1981 private foreign investment showed signs of tapering off in anticipation of an election and the possible return of government less hospitable to multinationals. Moreover, the large multi-purpose river valley projects undertaken by the Jayewardene regime were due to yield substantial economic returns only in and after 1983. Thus there was growing feeling in UNP circles that an election in 1982 would be much easier to win than one in 1983. (De Silva 1984:35)

President Jayewardene won the presidential election in October 1982, securing 52.91 per cent of votes polled. Immediately after the election an emergency was declared. A few days later President Jayewardene alleged that

> a Naxalite (revolutionary Marxist) group had taken over the SLFP and that in the circumstances the holding of a parliamentary election on the basis of proportional representation would allow these elements to secure a third of the seats in Parliament and paralyse government action. He argued that since he had been given a clear mandate by the people to continue UNP policies for the next six years he could not countenance this. Jayewardene therefore proposed to extend the life of the current Parliament by six years through constitutional amendment. (De Silva 1984:44)

Accordingly the UNP proceeded with the Fourth Amendment, which allowed them to call for a referendum to postpone the parliamentary election that was due in 1983.

The referendum of 1982 was the worst example of undermining electoral institutions that Sri Lanka had seen, up to that point in Sri Lanka's modern history.

> Once the decision to hold the referendum had been made, the government immediately took a series of steps which profoundly affected the nature and conduct of the referendum campaign. These included continuation of emergency; the illegal 'lamp' campaign[5], the attacks on and the arrests of SLFP organisers; the banning of opposition newspapers and the sealing of presses; the government manipulation of the state-owned media; the harassment and intimidation of various elements who campaigned for a 'no' vote at the referendum. ('Samarakone' 1984:87)[6]

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5 Lamp was the symbol of the 'yes' vote in the referendum which agreed with the postponement of general election.

6 The material in this article first came out as a report. However the name 'Priya Samarakone ' is a pseudonym. The climate of fear created under Jayewardene's UNP was so high that it was dangerous to engage in this type of activity publicly.

All these elements of the authoritarian strategy of the UNP continued even on the day of the referendum.

The manner in which the UNP conducted the referendum had far reaching implications, going beyond extending the life of parliament. It marked a watershed in dismantling democratic institutions. It institutionalised violence as a key characteristic of Sri Lanka's electoral process. It inaugurated a period where counting deaths, attacks and intimidation became an integral part of recording elections, along with counting votes. The violence that accompanied the electoral process has had detrimental effects on how parties organise themselves and campaign to overthrow the government. As a result, during the last 25 years there has been a widespread criminalisation of electoral politics.

There is no doubt that the principal reason for these authoritarian trends was to maintain the parliamentary majority that the UNP enjoyed from 1977, in order to continue with liberal, market oriented policies. A general election under the PR system that the UNP itself had introduced would certainly have reduced the majority it enjoyed. Hence the referendum allowed the UNP to enjoy a sizeable majority for a period of 12 years.

The second term of Jayewardene's presidency was one of the most turbulent periods in Sri Lanka's modern history. The principal reasons were the growth of Tamil militancy and armed struggle, and the government's military response to it. We shall discuss these in detail in the next section. It is important to note at this point how the UNP used this issue once again to suppress political opposition among the Sinhalese. This time the victim was the JVP, which had its origins as a Marxist party and had led an insurrection to overthrow the government in 1971. The insurrection was brutally suppressed by the United Left Front government which was in power from 1970-77. The leadership of the JVP was incarcerated with long prison sentences. After coming to power, the UNP government released the leaders of the JVP that were in prison. But in 1983, in the aftermath of the anti Tamil violence of July 1983, the party was banned and the party went underground. Although there was a lot of evidence to show that, rather than the

opposition, it was sections of the government that had a hand in the anti-Tamil pogrom of July '83, the UNP in its characteristic authoritarian style made use of the event to ban the JVP.

In the late eighties, ethnic politics took a new turn with Jayewardene suddenly reversing the military approach to the conflict, and agreeing to change the constitution so as to give a degree of autonomy to the combined North/East Province. This was under pressure from India, which began to intervene directly after the July '83 violence. Most of the opposition opposed these concessions to Tamils. Part of this opposition took a violent form. This was led by the JVP. The JVP's strategy included individual assassinations, abductions, hartals, curfews, etc. Violence by the state and anti-state movements made the end of the eighties and beginning of the nineties one of the most violent periods in Sri Lanka's recent history.

It was in the middle of this violence that Jayewardene handed over power to his successor, President Premadasa. In December 1988, President Premadasa was elected in an atmosphere of violence and intimidation. The JVP led a violent campaign to boycott the elections. The opposition was hardly able to campaign. The UNP used the government machinery not only to help its election campaign but also to protect their party supporters. Nevertheless a number of key political personnel of the UNP and some of their supporters at rural level became victims of JVP violence. The scale of violence prior to the presidential election was such that it was uncertain up to the last moment whether the election could be held. Even during the last week of the campaign Colombo was rife with all kinds of rumours about postponement of the election.

As a result of violence, the voter turnout in the 1988 presidential election dropped dramatically, indicating how democratic institutions had been battered during the post '77 period. The overall turnout was only 55 per cent, compared to 81 per cent during the previous presidential election (average turnout for all general elections held up to that point was 78.1 per cent). The end result was that the second executive president of Sri Lanka was elected with the support of a mere 27.4 per cent of the total electorate.

Systematic suppression of the JVP began after the election of the new government in February 1989. The suppression took a qualitatively new stage from August 1989, as a result of JVP death threats to families of members of the armed forces. From then on the onslaught of the security forces became ferocious. Killings became more common than arrests. Extra-judicial killings, disappearances and death squads were deployed to take care of the insurgency. Dead bodies on burning tyres became a common scene in the country. Scars of this horrendous episode still haunt the country. By November 1989, these operations had managed to destroy the armed capabilities of the JVP, and in the same month the leadership of the JVP was eliminated.

Elections in 1994 finally saw the end of UNP rule. The Premadasa-led UNP had been facing a crisis from the early nineties onwards. The first blow was the formation of the Democratic United National Front (DUNF), led by some leading members of the UNP who were dissatisfied with Premadasa's style of ruling. These dissident members also tried to bring an impeachment motion against the president. It failed due to non co-operation on the part of the speaker. However, in 1993 Premadasa became the victim of an LTTE suicide bomber, and the presidency was handed over to the prime minister, D.B. Wijetunge. Wijetunge held office for a short period and it turned out to be a weak presidency. The UNP regime was merely marking time before it was defeated and turned out of office in 1994.

The defeat of the UNP in 1994, after 17 years, was certainly a safety valve for the electorate's anger at long years of UNP misrule. The 1994 general election also saw the maturity of the civil society activism that had been campaigning for democratic and human rights during the time of UNP regimes. It was during this election that the country witnessed the coming together of a large number of organisations to monitor electoral violence. The objective was to ensure free and fair elections, and to restore some degree of trust in the electoral process. These activities had extensive support from international organisations who had been

working with Sri Lankan counterparts on issues of democracy and human rights. Hence, despite concerted attacks on the democratic and electoral institutions, these institutions proved to be resilient.

Electoral institutions played a similar role in the year 2000, when the JVP, which had been responsible for two bloody insurrections, entered parliament. After the defeat of the UNP, the JVP was able to engage in open politics. The end of the nineties saw them gradually organising themselves for this purpose. With its much better organised party machinery and dedication of members, within a very short period of time the JVP not only made its presence felt at all levels of electoral politics, but also in other important spheres of political life like trade unions. The JVP has now become the third most important party among the Sinhalese. This is yet another example of not only the resilience of the electoral mechanism in Sri Lanka, but also its ability to provide space for new political forces in the system. Through these mechanisms, it certainly has played the role of a conflict resolution mechanism.

These examples of the resilience of the electoral mechanism do not necessarily mean that the cancer of electoral violence has disappeared from Sri Lanka. Due to the persistence of electoral violence, monitoring by groups in civil society and international bodies has become a regular feature of Sri Lankan elections. Gradually the importance of this role has been accepted even by the election commissioner. Now the election monitoring exercise of civil society takes place in close collaboration with the election commissioner.

Table 3.1 summarises data on election violence for several key elections after the People's Alliance (PA) came to power. This is data collected by the Centre for Monitoring Election Violence (CMEV).[7] This data recorded an average of 1,081 incidents of what the monitors have called major incidents for the

These figures are given simply to demonstrate the persistence of electoral violence. Any comparison of these figures for different elections will have to take into account methodological issues of data collection and recording.

three general elections and one presidential election held between 1999 and 2004. According to categories used by monitors, these major incidents include murder, attempted murder, hurt, grievous hurt, assault, threat and intimidation, robbery and arson. Although there is drop in major incidents by the time of the 2004 general election, the overall number of incidents remains high.

Table 3.1 Election Violence 1999-2004

Election	Year	Major Incidents	Minor Incidents	Total
North Western Provincial Council	1999	887	670	1,557
Presidential Election	1999	886	928	1,814
General Election	2000	1,095	924	2,019
General Election	2001	1,853	1,420	3,273
General Election	2004	686	1,183	1,869

Source: Reports of the Centre for Monitoring Election Violence

In discussing electoral violence after the PA came to power in 1994, particular mention should be made of incidents during the 1999 North-Western Provincial Council election of and 2000 General Election. Both these elections witnessed serious incidents of violence.

A press statement issued by the Centre for Monitoring Election Violence on the day of the North-Western Provincial Council Election spoke of widespread election violations of every type perpetrated mainly by the People's Alliance. It went on to state that,

> Charges of systematic voter intimidation, the removal of opposition polling agents through the use of force, the blatant stuffing of ballot boxes in full view of observers/monitors/voters, the physical assault of opponents and members of the Media, and the sheer brute force of the PA's violent presence in the vicinity of polling booths, have, in the considered view of CMEV, irrevocably undermined the validity of this election as an exercise of the public's free and fair choice. (CMEV 1999:74)

The statement also pointed out that this was not happening in an area affected by the ongoing civil war. From most accounts, the 1999 North-Western Provincial Council election can be compared with what happened during the 1982 referendum. This time the perpetrators were politicians of the PA. The only difference was that while the fraudulent referendum of 1982 had an impact on the electoral process of the country as a whole by postponing the general election that was due in 1983, the political implications of the violence during the 1999 North-Western Provincial Council election were much more limited.

During the October 2000 general election, it was violence in the Kandy district that was significant. As stated in the CMEV final report, the electoral process in

> Central Province in general and the Kandy District in particular was a shambles during the election with 182 irrevocably flawed polling centres (29.4% of the total) though only 13 polling centres were annulled by the Election Commissioner. (CMEV 2002:1)

One of the violent events of the election that received a lot of publicity was the killing of a number of supporters of the Sri Lanka Muslim Congress (SLMC), a coalition partner in the PA government in the Kandy district. The accused perpetrators included the former Deputy Minister of Defence of the PA government, his sons and several of his supporters.[8]

[8] For a discussion on electoral violence during this election, see de Silva (2002).

This survey of electoral and political violence of the South during the post '77 period shows how much violence has been used to take care of political and electoral opposition. The beginning of this process was certainly linked to the new economic model. The ruling elite that inaugurated the new economic model was keen to make sure they kept control of the legislature. This was attempted through designing new institutions and authoritarianism. As a result political violence becomes a major feature of the post '77 period.

Tamil demands and a conflict

A conflict, that has devastated the North/East Province of the country, has been the other major feature of the post '77 period. Although by the time the UNP government inaugurated liberalised policies the groundwork for the conflict had been laid, the post '77 period witnessed a deteriorating situation. In the initial period the UNP was ready to negotiate with the TULF, the major party of Sri Lankan Tamils. But Tamil militancy was met with a military strategy. In addition, a number of incidents targeted the Tamil population living in the southern part of the country. The worst was July '83 violence, when the Tamil population in the South was systematically attacked. From this point onwards, the conflict has escalated.

When the UNP fought the 1977 general election in order to usher in a liberalised phase of capitalism, the TULF fought the same election on a separatist platform. Sporadic attacks by Tamil militants, bank robberies, attacks on police stations and killing of informants were already happening in the northern peninsula. In their manifesto for the 1977 general election, the UNP accepted that minorities do have grievances in certain areas, and promised to call an all-party conference to address the issue. However this never materialised. The presidential constitution enacted in 1978 did not consider any form of regional autonomy, the primary demand of the Tamils, although it improved the situation with regard to language.

Although the Jayewardene government was ready for discussions with the TULF leadership, it responded to the growing Tamil militancy through military means. In 1979, the government enacted the Prevention of Terrorism Act (PTA), and sent armed forces to the northern part of the country to crush the Tamil movement. Jayewardene adopted the style of a monarch giving orders to the army, whose commander in chief at that time was his nephew, to crush the militancy in six months and report to him. This attitude reflected how little the Colombo elite understood what was in store for them.

Under pressure to find a solution to the impending crisis, in 1981 the UNP did bring in legislation to establish a system of decentralised administration so that regions would have a certain degree of autonomy in implementing development. But this was too little, too late. Violence in the North continued. The armed forces did not succeed in defeating the militant movement. What we saw instead were frequent reprisals against civilians, harassment of civilians, arrests, detention, torture, etc. The army operations led to widespread violations of human rights.

This period also saw more frequent incidents of violence against Tamils living in parts of the country outside the North/East. The first such riot under the UNP regime was in August 1977, just after they came to power. An incident at a carnival in Jaffna exploded into a full scale ethnic riot. The next incident was in 1981, where the victims were largely from the Indian Tamil community. In the same year, at the time of the district development council elections, which were meant to be an answer to Tamil grievances, organised violence in Jaffna district led to the burning of the public library. This was an attack on an important cultural symbol of Tamil society. The third and worst incident was the anti-Tamil violence of July '83. This was a well-planned attack. Perpetrators went to street after street armed with electoral registers through which they could identify Tamil houses and properties. The target was the Tamils living in the southern parts of the country. Tamils were attacked, their property destroyed and

thousands reduced to a refugee status. This resulted in the migration of more than 100,000 refugees from Sri Lanka to Tamil Nadu in India. This migration not only gave new recruits to the Tamil militant movements, but also paved the way for the direct involvement of India in the Sri Lankan conflict. From this point onwards, the armed struggle of Tamil militancy developed to a qualitatively new stage.

The anti-Tamil violence of July '83 prompted India to get involved directly in Sri Lanka's conflict. The entire Tamil leadership, including the militants, located themselves in India. On one hand, the Indian government gave material support to the militants. On the other hand, India began to put pressure on the Sri Lankan government to find a political settlement.

As a result of Indian mediation, several rounds of negotiations were held in 1985 between representatives of Tamil political groups and the Sri Lankan government in Thimpu, the capital of Bhutan. In 1986 another round of discussions began in Colombo with the direct participation of India. However they did not bring about any tangible results. The culmination of discussions with Indian mediation was the signing of an Accord between India and Sri Lanka. This Accord, popularly known as the Indo-Lanka Accord, had a section which formulated principles for resolving the ethnic conflict, where the Sri Lankan government agreed that 'Sri Lanka is a multi-ethnic and a multi-lingual plural society consisting, inter alia, of Sinhalese, Tamils, Muslims (Moors) and Burghers',[9] and that 'the Northern and the Eastern Provinces have been areas of historical habitation of Sri Lankan Tamil speaking peoples, who have at all times hitherto lived together in this territory with other ethnic groups' (International Centre for Ethnic Studies 1996: 204). The government agreed to merge the Northern and Eastern Provinces to a single unit on a temporary basis, and to establish a system of provincial councils with devolved powers.

Burgher describes an ethnic group who are descendants of inter-mixing between the Portuguese or Dutch and the local population.

All these principles, and the acceptance of a new institution to confer a degree of autonomy for a merged North/East Province, marked a significant departure from the hitherto held positions regarding the minority problem and the nature of the Sri Lankan state. The Indo-Lanka Accord was the first official document signed by a head of state in Sri Lanka that accepted the multi-ethnic character of Sri Lankan society, and the need for devolution of power on a provincial basis in order to meet the grievances of the Tamil people. It also agreed to merge the Northern and Eastern Provinces to a single unit, although on a temporary basis. However, this institutional design, which is the only one yet in the political structure to meet the grievances of the Tamil population, was established under pressure from India.

Provincial councils have an elected chief minister and a governor appointed by the centre. There are three lists which stipulate powers reserved for the centre, powers that are shared by the centre and province, and powers that are conferred only to the province. These are the Reserve List, Concurrent List and Provincial List respectively. In addition, two special appendices on Law and Order, and Land and Land Settlement, set out the powers devolved in these two areas.

The Indo-Lanka Accord brought in a very short space of relative peace to the North/East. It managed to get the agreement of almost all the major militant groups to give up the armed struggle and enter into the democratic mainstream. An Indian Peacekeeping Force (IPKF) was sent to the island, as a part of India's role to oversee disarming of the militants. However the peace agreement with the LTTE was short-lived. The LTTE by this time had become the strongest militant group. Compared to the other groups, the LTTE had been consistently nationalist in its ideology and therefore less amenable to give up its separatist demand. A series of events led to a breakdown of the truce between the LTTE and the implementers of the Accord. In October 1987, a full-scale war broke out between the LTTE and the IPKF, centred on highly populated Jaffna.

Despite these developments, the government proceeded to establish provincial councils. The necessary legislation to establish eight provincial councils covering the entire island was passed in November 1987. These were the 13th Amendment to the Sri Lankan constitution, and the Provincial Councils Bill. The election to the amalgamated North/East Provincial Council was held in November 1988. It was held with the presence of the IPKF in the area, in conditions not conducive to a free and fair election. The election was won by the Eelam People's Revolutionary Liberation Front (EPRLF), who assumed power in the North/East Provincial Council.

The LTTE and other Tamil political parties rejected the provincial council system for several reasons, despite the fact that some of them decided to give up the armed struggle. Although some Tamil political representatives participated in the early stages of negotiating the details of the provincial council system, they were not fully involved when these were finalised. The outcome was primarily a product of negotiations between representatives of the Indian and Sri Lankan governments. Once the details of the provincial council system were known, there was opposition because of the limited amount of devolution offered. The EPRLF was the major exception.

From all accounts, the attempt by the EPRLF to establish a provincial administration under the 13th Amendment was a frustrating experience. The political will of the Colombo government to devolve power depended to a large extent on President Jayewardene, the architect of the Indo-Lanka Accord. This evaporated once he was succeeded by Premadasa. In the absence of political will in Colombo to devolve power, the severe limitations of the provisions of the provincial council system became apparent.

Premadasa's opposition to the Accord, to the presence of the IPKF in the country, and to the provincial council system, was well known. He boycotted the ceremonies associated with signing the Indo-Lanka Accord. His election campaign in December 1988 for the presidency had a strong anti-Indian element. Although, as

the leader of the government group, he proposed the Provincial Council Bill in parliament, his distrust of the provincial council system was apparent after he assumed power as president. During his term of office, parliament passed an Amendment that gave powers to the president to dissolve provincial councils. This was a significant move that undermined the autonomy and the stability of the provincial council system (Shastri 1994).

Premadasa came to power as president in one of the most violent elections Sri Lanka has ever seen. In June 1989 he proceeded with his demand for the withdrawal of Indian troops from Sri Lanka. In a surprising political move, he began direct negotiations with the LTTE, which at this time was in direct confrontation with the IPKF. The political interest of Premadasa and the LTTE was mainly to get Indian troops out of Sri Lanka, rather than finding a political answer to the ethnic conflict. Almost one year of negotiations between the LTTE and the Premadasa regime did not result in any solutions. What it did achieve was the destabilisation of the North-East Provincial Council. The withdrawal of the IPKF began in December 1989 and was completed by March 1990. The North/East Provincial Council collapsed in June 1990. After these events, the Premadasa-LTTE talks did not last more than a month. Having achieved its political objectives of the withdrawal of the IPKF with whom they were fighting, and the collapse of the EPRLF-led Provincial Council which had become a political challenge, the LTTE withdrew from the ceasefire and talks. Large-scale fighting broke out between government troops and the LTTE in mid-1990.

The end of the 17 year rule of the UNP, with the 1994 general election, marked the beginning of the next round of negotiations with the LTTE. The 1994 election also needs to be taken note of because this was the first election where there was an agreement between the two major parties on certain key aspects of the resolution of the conflict. During the election campaign both parties agreed on the need for negotiations, and reform of the highly centralised Sri Lankan state in order to devolve powers to the

North/East. This meant the leading opposition party, which opposed the Indo-Lanka Accord and the 13th Amendment, had come round to the position of negotiations and devolution. Certainly this had to do with the new leadership of the party - Chandrika Kumaratunga. Long before she became the leader of the SLFP, Chandrika Kumaratunga had been advocating a political settlement to the conflict rather than a pure military approach. Soon after the election victory in 1994, the PA embarked on another round of negotiations with the LTTE.

In August 1995 the PA government outlined its constitutional proposals to resolve Tamil grievances. In the outline there were concepts which transcend the limitations of the 13th Amendment. The objective was to set up regional councils within a constitutional framework, in which Sri Lanka would be a union of regions. In this union of regions, legislative power and executive power would be exercised both by the centre and the regions (*Daily News* 4th August 1995). The proposals reflected a willingness to do away with the notion of a unitary state. The idea of a unitary state, introduced in the 1972 constitution, had been a stumbling block towards greater devolution. The PA government also proposed to delete articles in the present constitution which prevent parliament from alienating its powers to any other institution. These elements in the new proposals were certainly a move towards a federal form of government, although the words were not used in the text.

The other welcome features in the proposals were: a search for ways of re-demarcating the East in order to begin a fresh discussion about the unit of devolution; limiting the powers of the governor of the regions to intervene in regional affairs; doing away with the concurrent list; giving more powers to the regions in financial and investment matters; and the idea of a permanent commission on devolution that would deal with centre-regional disputes.

There was no doubt that these original proposals of the PA were the most far reaching ideas presented by a government to restructure the Sri Lankan state. As could be expected, the

proposals of the PA government met with severe opposition from the Sinhala extremist elements. The proposals also did not receive support from the UNP. They had a long gestation period in the parliamentary select committee. What ultimately came to parliament, at the end of 2000, was an emasculated version of the original proposals. On one hand, the PA had given in to Sinhala extremists and diluted the proposals. On the other side, the UNP was playing the usual game of partisan politics. The ultimate outcome of all of this was that the PA withdrew its proposals from parliamentary debate.

What was even more crucial for any prospects of peace and political settlement was the renewed escalation of the war with the LTTE. The negotiations of the PA with the LTTE were short lived and did not achieve much. In April 1995, the LTTE broke the ceasefire that had been established. This led to an all-out war in the North/East of the country, with all its social consequences. The government launched a military operation codenamed 'Operation Riviresa', with the objective of wresting control of Jaffna peninsula from the LTTE. The operation lasted for about seven weeks and the army moved a dozen miles and secured Jaffna town. The LTTE withdrew into the jungles to continue the war. Thus the government that put forward the most radical proposal to restructure the state was involved in the most intense military confrontation.

A study undertaken by the National Peace Council in collaboration with the Marga Institute published in 2001 shows the war has resulted in close to 50,000-60,000 being killed by 1998 (National Peace Council 2001). Of these around half were civilians. There was an estimated 10,000-15,000 disabled soldiers. In addition, close to 800,000 people were displaced. With renewal of fighting these numbers kept escalating. Hence Sri Lanka, which was known earlier for statistics of high social development, now has statistics about victims of conflict and political violence to its credit. Then there are those aspects of the war that cannot be quantified. If we add to this dimensions such as trauma of war victims, the

environment of insecurity that people live in, impact on crime as a result of the spread of small arms and availability of army deserters and general brutalisation of the society, the impact of a long drawn-out civil war has been immense.

In the year 2000, the PA government faced fresh elections. In two elections marred by violence, the PA won both the presidential and general elections. However the PA government formed after these elections was a short lived one. Disagreement with one of the coalition partners, the Sri Lankan Muslim Congress, and defection of some of the senior ministers to the opposition, undermined the PA-led coalition. Although the government agreed to a mediation effort sponsored by the Norwegians in order to begin discussions with the LTTE, the PA government collapsed within a year. The war also took a heavy toll on the economy. The year 2001 registered the first ever negative economic growth since independence. All this culminated in the defeat of the PA government in the general election held in December 2001, and the return of the UNP, together with coalition partners, under a new political formation called the United National Front (UNF). A new period of ethnic politics was ushered in by the UNF deciding to sign a ceasefire agreement (CFA) with the LTTE, and to begin negotiations.

Although the Tamil militancy began with a number of groups taking up arms, by the time the CFA was signed the LTTE was the only group that continued to engage in an armed struggle with the Sri Lankan government. It has developed a highly authoritarian command and control structure to keep its members on track. Any dissent is met with extreme forms of punishment. Equally important is the suicidal psyche developed within the membership. This has allowed the LTTE to have a group of fighters that asks no questions from the leadership, but is ready to lay down their life for the 'cause'. It has used suicide bombings where members give their own lives for the cause. The cyanide capsule that is given to all members when they pass out from training symbolises this mentality. Over the years a significant proportion of these members

have been children, who are easy to brainwash and control through harsh means. All these have been buttressed with a personality cult around the leader Piribhaharan. Therefore the LTTE has a heady mixture of personality cults, authoritarian command and control structures, and a psychological training that motivates its members to give their own lives for a cause. These features have helped them to be effective in the battlefield. However these characteristics do not augur well for solutions that look towards democracy and values of pluralism as a solution to the conflict.

The politics of the LTTE is such that it has not shied away from attacks on civilian targets. A number of suicide attacks by the LTTE in the South have claimed the lives of civilians. Tamils that go against LTTE politics have been eliminated. This has been LTTE's method of imposing themselves as 'the sole representatives of the Tamil people'. In order to achieve this aim, the LTTE has eliminated Tamil leadership from different backgrounds including politicians, human rights activists, journalists and ordinary civilians. These killings show that the conflict includes not only a war between the LTTE and the government of Sri Lanka, but also an intra-Tamil conflict.

Therefore, by the time CFA was signed, the conflict around relations between Sri Lankan Tamils and the Sri Lankan state had resulted in the emergence of an armed group that had developed into a formidable fighting force that could engage in combat both on land and sea. In addition, ideologically it is an organisation that combines extreme Tamil nationalism and authoritarian politics. It has not only fought with the Sri Lankan state, but has tried to eliminate any Tamil politicians who do not agree with their position.

CHAPTER 4

Funding insecurity and responding to conflict

After an analysis of the factors underlying the political violence and the conflict around ethnic relations since 1977 in the last chapter, this chapter focuses on donor responses to this violent situation in Sri Lanka. In this analysis we make use of the periodisation of the overall flow of aid developed in chapter 2.

In the first period, which lasted up to 1986, support from almost all the donors gradually increased despite the undermining of democratic institutions by the UNP regime, political violence and a purely military approach to Tamil militancy. This is the period when donors actually funded the growth of insecurity. During the second period, which covers the period 1987 to 2002 - the beginning of the peace process - there was a mixed bag of policies among donors. Some donors became sensitive to conflict and reformed policy decisions with regard to funding, while others continued in the same manner as before, primarily because of their interest in supporting the economy. Multilateral donors such as the World Bank, ADB and IMF, and the largest bilateral donor Japan, were the major donors belonging to the latter category.

Funding insecurity

Despite the undermining of democratic institutions, political violence and conflict mapped out in the last chapter, from 1977 onwards the ruling elite of Sri Lanka managed to secure development assistance at a considerably higher level than the pre '77 period. This unprecedented inflow of aid took place despite the continued deterioration of the relationship between the Sri Lankan state and Sri Lankan Tamils and authoritarian politics of regimes led by the UNP.

The foundation for the conflict between the Sri Lankan Tamil community and the Sri Lankan state had already been laid when

donors began to support the regime of liberal capitalism. The very same election that inaugurated the liberal phase of capitalism saw the major Tamil political party, the TULF, contest the elections on a separatist platform. The ruling elite also had to manage politically the implementation of new economic policies. In this regard, possible political opposition from the Southern electorate was the most important factor. As elaborated in Chapter 3, what followed were designing new institutions, and an authoritarian approach to both challenges.

In order to give a flavour of the context in which donor support increased, we give below a summary of some of the key events which characterised the authoritarian politics of the ruling UNP regime.

- The 1977 elections were followed by violence which affected mainly Tamils in Colombo. This was the most significant anti-Tamil riot after 1958.

- In 1979, the government enacted the Prevention of Terrorism Act, which gave enormous powers to the law and order institutions. Then the government sent troops to quell the Tamil insurgency. This was the beginning of the military approach to Tamil militancy under the UNP. What followed were widespread human rights violations. These have been documented by many human rights organisations both in Sri Lanka and abroad (Leary 1991; Rubin 1981; Amnesty International 1983).

- In 1981, once again Tamils were at the receiving end of organised violence. This time people living in the estates were also affected.

- The crowning event of the first decade of liberal capitalism under UNP was the July '83 anti-Tamil violence. Tamils were systematically attacked, driven out of their homes as refugees

and killed. Their properties were destroyed. Tamils arrested and locked under judicial control within the prison system were attacked. Probably this is the largest organised attack on a group of people in independent Sri Lanka. It made any negotiated settlement to the conflict impossible. The UNP made use of the violence to repress the opposition. By passing an amendment to the constitution, the government made the call for separation illegal. Tamil representatives who refused to take the oath on this basis were expelled from parliament. This meant the end result of violence against Tamils was to remove elected representatives of the Tamil minority from the legislature. Secondly, the government blamed the JVP for the violence, which drove the party underground once again.

- In the late seventies and early eighties the UNP did not tolerate any opposition to its economic policies. Any protests were met with violence. At the receiving end were students, trade unions, intellectuals and some civil society organisations.

- In 1980 Mrs. Bandaranaike, the leader of the SLFP was deprived of civic rights. This effectively removed the principal political opponent of President Jayewardene. This was the beginning of a larger process of ensuring UNP rule.

- In 1980 a general strike, called by opposition trade unions in order to protest the negative impact of the liberalised policies on the working class, was crushed using the power of the law and order machinery as well as thugs loyal to the ruling party. A trade union leader was killed during the strike, and close to 40,000 workers were sacked.

- In 1982, the UNP called for a referendum to postpone the impending general elections. The referendum was

systematically rigged in favour of the UNP and the general election due in 1989 was postponed. This ensured the continuity of the UNP majority in the parliament, which was essential for seeing through economic reforms. This event would go down in history as a point which began the undermining of the electoral institutions of Sri Lanka.

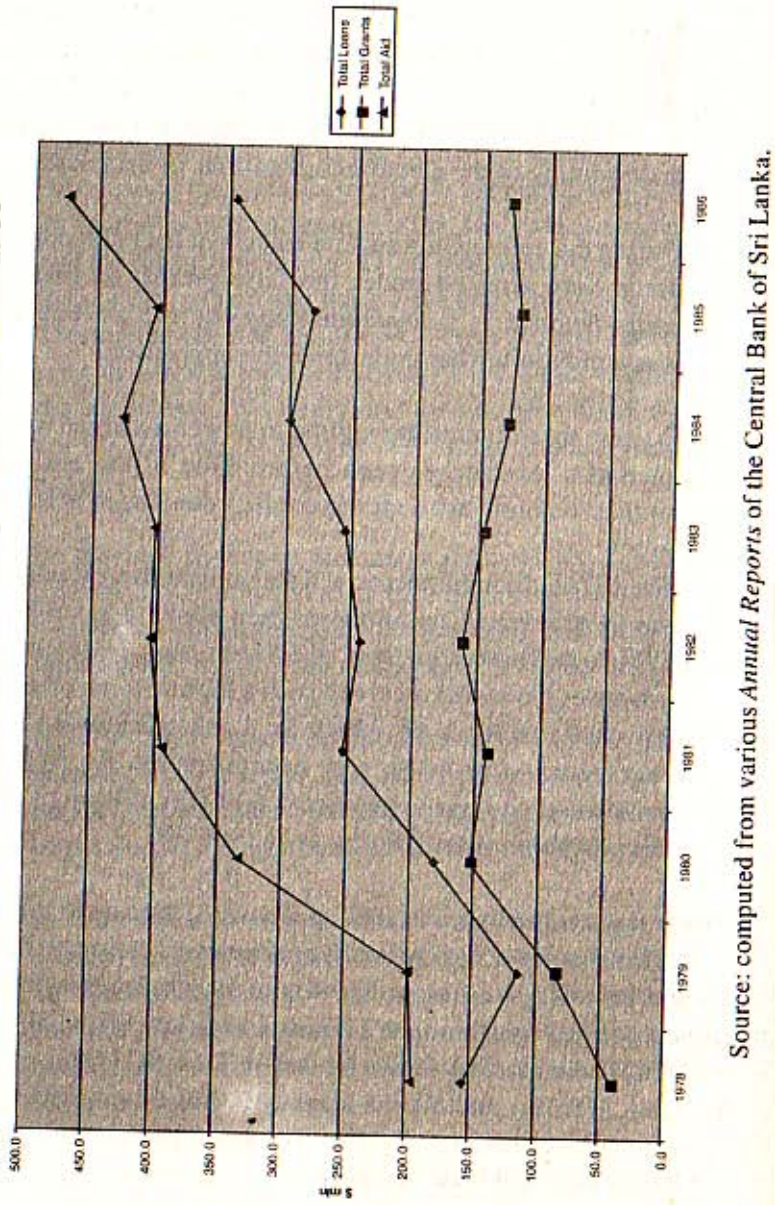
During this referendum several leaders of the main opposition party were arrested under the false pretext of planning a coup. Dubbed as a 'Naxalite coup' by the government, it was a ploy to further undermine the opposition.

Despite these events the regime in power managed to secure assistance at a level never seen before. One of the earliest aid reviews that took into account the conflict concluded that

> The 1978 aid commitments, at $ 400 million, were double the 1976 levels. Commitments then doubled again by 1981 to reach a record level of $ 816 million. Few other countries have ever received such a high volume of aid per capita as the $ 54 which Sri Lankan achieved in that year. After 1981 new commitments declined somewhat, and have averaged $ 500-600 million over the past three years. (Sorbo et al 1987:36)

This study was published in 1987 and covered data up to that point.

This conclusion is confirmed by the picture presented in Graph 4.1 and Table 4.1. It is important to note that during this period Sri Lanka received assistance at a considerable level from almost all the OECD countries. As shown by data in Table 4.1, Japan (13.3%), the USA (18.3%) and World Bank (19.0%) dominated when it came to loans. Japan (15.2%), Sweden (20.9%) and the UK (25.9%) were significant for grants.



Graph 4.1 Net receipts of foreign assistance 1978-1986

Source: computed from various *Annual Reports* of the Central Bank of Sri Lanka.

Table 4.1 1978-1986 - Average net receipts of foreign assistance by major donors ($ million)

	Total	%	Loans	%	Grants	%
Japan	51.6	14.3	32.6	13.8	19.0	15.4
Germany	25.5	7.1	23.3	9.9	2.2	1.8
USA	45.5	12.7	44.6	18.9	0.9	0.7
Canada	22.0	6.1	12.3	5.2	9.7	7.9
Netherlands	17.7	4.9	9.6	4.1	8.1	6.6
Norway	5.4	1.5			5.4	4.4
Sweden	26.1	7.3			26.1	21.2
UK	32.3	9.0			32.3	26.2
Australia	3.5	1.0			3.5	2.8
ADB	19.4	5.4	19.4	8.2		
United Nations	3.2	0.9			3.2	2.6
IDA	46.4	12.9	46.4	19.6		
Euro-Currency	19.8	5.5	19.8	8.4		
Total	**359.6**		**236.3**		**123.3**	

Source: computed from Central Bank data

The most remarkable aspect of this picture is how the July '83 violence, which received extensive international attention and resulted in refugee flows to Western countries, prompting some governments to open doors to Tamil refugees, ended up in throwing out the elected representatives of the Tamil community from parliament and created conditions for India to get involved in Sri Lanka's conflict. It did not seem to create any ripples in aid flows, nor any discussion of how to link aid with conflict. In other words, the event which donor documents now habitually refer to as the beginning of the conflict made no impact on aid.

In our view, the primary explanation for this conflict and the ethnic blindness of aid agencies was the ideological and political commitment to supporting the liberalisation process and further development of capitalism. The term used to legitimise this approach was 'development'. For some donors this meant straightforward economic growth, and for others exploring possibilities of social

development within this framework. While agencies such as the World Bank and IMF were focusing on economic growth, countries such as Sweden, Netherlands, Norway, Canada and the UK played a significant role in social development projects through grants.

The mood that prevailed among the donors who took as their primary aim to promote a market economy is reflected in the documents that the World Bank produced during this period. The Bank's key document, prepared as background for discussions at the annual Aid Group meeting in 1984, does not have a single word about conflicts around ethnic relations or undermining of democratic institutions (World Bank 1984). Later, an 80-odd page study on the relationship between Sri Lanka and the World Bank over a period of 30 years, published in 1987, has one paragraph focusing on ethnicity of Sri Lanka. It says,

> Sri Lanka is a multi-ethnic society, with a major distinction between the roughly 75 percent of the population who are Singhalese by origin and Buddhist by religion, and the almost 20 percent who are of Tamil origin and Hindu by religion. Singhalese dominate rice agriculture, Tamils plantation labor and, at least until Independence, the professions and, to a lesser extent, trade. Cooperation and co-existence have been the ethos of most of the leadership of both communities, at least until recently. Although generally good relations have characterized most periods, ethnic competition has to be taken into account in government policies at all times and open ethnic conflict has erupted sporadically. Since 1983, it has indeed been a major factor in all decisions. (World Bank 1987:4)

With this single paragraph, a document written after the July '83 violence dealt with ethnicity in Sri Lanka. On the other hand, commenting on donor reactions to the opening up of the economy, it states, 'The Sri Lankan Aid Group and the IMF responded with

unprecedented amounts of financial assistance' (World Bank 1987:8). Elaborating on how donors supported the economic reforms, it says

> Aid donors undertook to support the large expansion in imports that was expected to follow the exchange reform, the dismantling of import controls and the launching of the government's large investment program. (World Bank 1987:8)

This sums up neatly the narrow perspective, passing off as development, which dominated these agencies. This could not take into account either the deteriorating situation in ethnic relations or undermining of democratic institutions. For a Sri Lankan Tamil who had gone through horrendous violence of July '83, or a Sri Lankan democrat who had gone through what the UNP did to democratic institutions through the 1982 referendum, this was certainly a strange perspective on development.

Most of the donors who were concerned about social issues conceptualised social development within the overall changes that had taken place towards a market economy. Their objective was how to take care of social development within this framework. Most donors who funded social sector projects, such as integrated rural development, education, health, etc., belonged to this category. Such projects proliferated after the establishment of the liberal economic regime. At one time the country was covered with integrated rural development projects (IRDPs). Donors such as Sweden, Norway, Netherlands and Germany engaged themselves in such projects.

When it came to deal with the 'social', which is the central focus of these projects, the magic bullet that entered the development discourse at this time was 'community participation'. This is still a dominant discourse in such projects. The construction of an artificial notion of community, in a society characterised by class and ethnic contradictions, was an easy way of ignoring politics,

power and conflicts. Hence these projects could continue happily despite the instability, violence and undermining of democratic institutions that was taking place. Hence an apolitical discourse of community-based participation provided the framework within which projects on social development could continue and be funded. They did not provide a framework to deal with the politics of ethnicity or undermining of democracy that Sri Lanka was facing. Sadly, even after the conflict has come into centre stage, these ideologies still dominate within many of these projects.[1]

An interesting factor about this period was the remarkable degree of support that Sri Lanka continued to receive from donors, although the economic reform programme of the regime in power did not adhere to an acceptable model of structural adjustment. This is not to argue that there was no change after 1977, and this change moved the country in the direction of dependence on markets, private sector and opening up of the economy. However the policy framework that the UNP followed was very much a home grown one, and it included large scale projects managed and controlled by the state. Under Jayewardene, there was very little movement towards structural reforms as advocated by agencies like the World Bank and IMF.[2]

Reflecting on this issue, Moore argues that what happened at this time demonstrated a mutual dependence among donors and the regime, which in final analysis amounts to a strategy of protecting the regime. Once the donors had committed themselves significantly to this agenda, it was not possible just to reverse the process irrespective of the politics of the regime or the specific economic policies it followed.

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1 There is a large body of literature tnat is critical of participatory approaches in development. For a contribution from Sri Lanka and critique of the attempts to use it in conflict situations see Bastian and Bastian (eds.) (1996) and Bastian (1997).

2 See Nicholas (1987)

> The relationship of dependence between the government of Sri Lanka and its foreign friends was, however, mutual. For the latter, especially the international financial organizations, and even more especially the World Bank, became heavily committed to the survival of at least a liberal economic regime - and in practice to the survival of the present government (UNP - SB) ... Major foreign aid programmes originally justified as *means* of encouraging the government of Sri Lanka to introduce economic liberalization seem in practice, and through quite familiar and understandable institutional processes, to have developed a different *de facto* rationale – supporting the government *per se*. (Moore 1990)

In addition to the overall support given to the Sri Lankan state in the context of these serious political developments, donors also undertook funding specific projects that had direct political implications on ethnic relations. The example that has been discussed in literature is the Accelerated Mahaweli Programme (Mahaweli for short), which absorbed a significant proportion of donor funds in the late seventies and early eighties. This is probably the most expensive project funded by donors in Sri Lankan history. The list of donors who took part in the project is like a list of the major donors within the OECD. The list includes the World Bank, ADB, UK, USA, Japan, Sweden, Netherlands, Canada, Australia, OPEC, Saudi Arabia, Kuwait, EEC, World Food Program, UNDP and Belgium.

It is astonishing that this long list of donors did not take into account the link between land settlement and ethnic relations. Irrigation of the dry zone, settlement of people, changes in the ethnic composition due to this process and the political implications of such changes, have been the most controversial issues in Sri Lanka's ethnic conflict. These debates figured during the first major land settlement programme of the post-independence period, the

Gal-Oya scheme. It was a major issue in the Bandaranaike-Chelvanayagam negotiations of the fifties, and since then has been a principal grievance of the Sri Lankan Tamils. None of this history, nor the political campaign of the Tamils, seems to have had any effect on the decision-making process to fund the Mahaweli project.

K.M. de Silva and Howard Wriggins, in their second volume of the biography of J.R. Jayewardene, devote an entire chapter to the Accelerated Mahaweli Project. Reading through this chapter, the political significance of the project for the UNP becomes very clear.

> J.R. saw the Mahavali programme as something special, for number of reasons: it could mean a dramatic breakthrough on a number of fronts - economic, social and technical; it linked contemporary Sri Lanka to its roots of its history - the hydraulic civilizations of old; and it fitted in neatly with the UNP's traditional commitment to expanding the country's irrigation network and ensuring food security at a time when the traditional external sources of supply - Burma, for instance - were no longer capable of serving that purpose as efficiently and reliably as in the past. (De Silva and Wriggins 1994:363)

Hence it was not just another development project. It had development, nationalism and strengthening the UNP mixed in one. Some other writers have explored how the nationalist discourse was present even in the opening ceremonies associated with the project (Tennekoon 1988). The flip side of this nationalism was the possible impact of the project on the demographic composition of areas under contestation due to the separatist demand of the Tamils. The Eastern Province was the battleground on this front. The critical issue that the UNP faced was how to secure funding for the project. The rest of the material in the chapter is an account of the strategies utilised by the UNP leadership in securing funds.

It shows how the politics of foreign aid actually works. It is far away from the rational sounding discourses employed in donor documents.

As shown by the account in the chapter, getting funding from the World Bank was critical for the success of the project, and the UNP tried many tactics to secure it. It is interesting to note that the World Bank knew the politics behind the request for funding. However the Bank also rationalised the project as a part of a strategy to carry through a critical reform which was necessary under the new economic regime - viz., the decision to remove the rice subsidy which had lasted for more than 30 years. As rationalised by the Bank,

> If there was to be a change in this policy there had to be an alternative vision; it was provided by the Mahaweli program, with its echo of the irrigation works of the ancient Singhalese kings, its promise of rice self-sufficiency and the generation of employment. But to implement that vision required money. The Bank played a role in providing it. The Bank's endorsement of the new direction, and of Mahaweli specifically, helped assuage doubts within some donor agencies and governments, and facilitated the provision of unprecedented sums of aid for Sri Lanka. (World Bank 1987:16)

Hence the World Bank at least had a glimpse about Sinhala kings, ancient irrigation works and the politics of nationalism implied in the project. How this did not ring alarm bells in the context of what was happening in Sri Lanka is the critical issue that needs to be noted.

The same mistake, of not taking into account the political implications of the project, seems to have affected other bilateral donors. Canada is a country that faced the political consequences of the project in the course of implementing it. It funded the Muduru

Oya project, which was a part of the Mahaweli complex covering Batticaloa district of the Eastern Province. There was a disagreement with the Sri Lankan government about the formula for settling people in this area, and ultimately Canada withdrew from the project.[3] Exploring what happened when Canada agreed to fund this project in the first place, David Gillies found out, through interviews with the officials with the aid agency Canadian International Development Agency (CIDA) and officers of the Department of External Affairs,

> that at the planning stage virtually no attention was given to the project's impact on the fragile ethnic balance of Batticaloa district in which resettlement would occur. There is no evidence of sensitivity to human rights matters such as participation and nondiscrimination by, for example, canvassing the opinions of local Tamil politicians or ensuring that an equitable ethnic balance was inscribed into the memorandum of understanding between the two governments. CIDA seems to have uncritically accepted the government's proposed resettlement formula. Canada's unwillingness to examine the political implications of the aid project was to prove costly. (Gillies 1992:55)

What prevailed within the World Bank and Canadian CIDA probably reflects the situation with most aid agencies. The principal objective of the entire aid community was to support the development efforts of a new regime that had taken a new direction in development, the broad contours of which was agreeable to all of them. Apart from that, Mahaweli was a large scale project which generated lucrative business opportunities for companies from each of the donor countries. Hence, depending on which country

[3] Both Canada and the World Bank withdrew from the project before it was completed.

provided funds for a particular dam, the contract went to a company from that country. In an environment when big dams were getting increasingly unpopular, the Mahaweli provided new business opportunities. In the context of the operation of such powerful interests, coupled with the interests of the ruling elite on the project, there was a remarkable degree of meeting of minds and interests between donors and the Sri Lankan government. The discourse of development that prevailed also had no room for ethnicity, conflict or democracy. In such an environment there was no room to consider the political implications of ethnicity, or the unravelling of relations between the Sri Lankan state and Sri Lankan Tamils. Several other studies have pointed out the serious implications these decisions had for Sri Lanka's conflict (Herring 2001; Mallik 1998; Muscat 2002).

The first decade of liberal capitalism in Sri Lanka, which roughly stretched from 1977 to 1986, is a period where donors were blind to the conflict and political violence of Sri Lankan society. Although none of the donors were directly supporting Sri Lanka in her escalating armed conflict with Tamil militants, the very fact that donors were ready to pour funds into a country that was sliding into a long drawn out conflict provided indirect support for the Sri Lankan state in the escalating armed conflict. As pointed out in perhaps the first serious study on aid and conflict commissioned by the Norwegian government,

> *All* aid is to some degree *fungible*, i.e. it increases the general capacity of the recipient to do as he wishes and thus in some sense has consequences beyond the sphere in which it is formally to be used.
>
> Thus, if the government of an aid-receiving country is heavily committed to increasing military spending, *any* aid will to some degree support that. Even direct assistance given to a nongovernmental voluntary organization and devoted to rehabilitating the victims

> of internal civil conflict will give *some* support to the government by strengthening the current balance of payments and thus the capacity to import arms. The degree of support may, however, vary widely according to the circumstances. While commodity assistance/ import support increase the financial capacity of governments to do as they wish to a level equivalent to almost 100% of the value of the aid, the percentage is smaller for other types of aid. There is no simple dividing line here, but a continuum. (Sorbo et al 1987:5)

However, the study did not come to any simplistic conclusions on withdrawing aid, but pointed out that it is difficult to assess the impact of foreign aid on the conflict in an incremental fashion by looking at specific projects, programmes, etc. This is the case even when a donor supports a non-state entity in that country.

In addition, foreign aid for a country that is engaged in a conflict is not only a source of resources, but secures many other needs required to function in a globalised world. For example, the presence of the IMF, and its reports, send signals to foreign investors. The presence of aid agencies in a country is also a source of legitimacy within structures of global governance. These factors are important for countries in the periphery in order to develop capitalism and secure security. However, in the post Cold War period, where instability of the periphery is the principal concern for the security of the global system, sooner or later aid agencies have to take into account the violence and instability around them. The next section is devoted to an account of how donors gradually began to respond to the conflict and violence which became endemic in Sri Lankan society.

Responding to conflict

In the mid eighties, the situation in the country had deteriorated to such an extent that it was impossible for aid agencies to ignore the

prevailing violence and instability in the country. A conflict in the North/East and an insurgency in the South virtually paralysed the country. An important turning point was the violence in the aftermath of the Indo-Lanka accord. As we have already mentioned, this was an agreement which forced the Sinhala ruling classes of Colombo to make serious concessions to Tamil demands under pressure from India. The terms of the Indo-Lanka Accord acknowledged 'that Sri Lanka is a multi-ethnic and a multi-lingual plural society consisting, inter alia, of Sinhalese, Tamils, Muslims (Moors) and Burghers'. It also recognised that 'the Northern and the Eastern Provinces have been areas of historical habitation of Sri Lankan Tamil speaking people'.[4] Provisions of the rest of the agreement not only accepted that a system of provincial autonomy should be set up to meet the grievances of Tamil speaking people of the Northern and Eastern Provinces, but that they also should be merged into a single unit. This merger was to be a temporary provision. A referendum was to be held at a later date to decide what would happen to the merger.

All these provisions of the Accord signified a qualitative shift in the political positions of the Sri Lankan ruling classes. The acceptance of Sri Lanka being a multi-ethnic society went against the hegemonic position given to Sinhala Buddhism. Accepting that that there is a special link between the Northern and the Eastern Provinces and Tamil speaking people was controversial. The merger of these two provinces into a single unit has been a long standing demand of the Tamil political leadership. This demand was even more controversial. On top of it, these shifts in the position of the ruling classes were agreed upon under pressure from our big neighbour, India.

The Indo-Lanka Accord generated opposition in the South. One part of the protest was led by the SLFP, which saw demonstrations, *satyagraha*, etc. The more violent opposition was led by the JVP and the armed wing linked to it called the Deshapremi

[4] Text of the Indo-Sri Lanka Agreement of July 29, 1987, in ICES (1996).

Jathika Viyaparaya (DJV) – National Patriotic Movement. This campaign was extremely violent and included assassinations, forced hartals, intimidation, attacks, etc. The government counter-attack on the JVP, which came after the 1989 presidential election, was equally ferocious. It led to widespread human rights violations and disappearances. This violence at times virtually brought the entire country to a standstill. It affected the capital city and its environs.

While the Southern violence paralysed the core areas of the economy, in the North/East the LTTE, which at first agreed to the Indo-Lanka Accord, was soon in confrontation with the Indian Peace Keeping Forces (IPKF). The IPKF, which came into the country to disarm the militants, became engaged in an armed conflict with one of the Tamil militant groups. At one time, the number of Indian soldiers in Sri Lanka was as high as 70,000. Therefore this was a time when Sri Lanka was affected by an insurgency in the South and an armed conflict between the LTTE and a foreign army in the North/East.

The renewed conflict had an impact on the programmes of donors as well. The conditions outside Colombo meant that it was not easy to implement donor funded development projects. Many agencies had to bring their staff to Colombo due to the security situation. Even the agencies confined to Colombo, the capital city, could not get away from the grotesque scenes that were the result of violence of the insurgents and counter-violence of the state. This included dead bodies both on roadsides and in waterways close to Colombo. By the mid-eighties, the concerns about political violence and conflict in Sri Lanka and their social consequences had entered into the discourse of donors. The instability and violence of the 1989/90 period helped to bring it into sharp focus. However it brought out diverse responses from donors. The primary difference was between those whose principal agenda was promoting a market economy, and those who had the space to take into account violence, conflict and the widespread human rights violations that accompanied them.

In the latter category were bilateral donors, mainly from Europe and Canada. Most of them began to review their programmes. The Norwegian aid review which we have already cited (Sørbø et al 1987) was one of the first comprehensive reviews that took into account the question of foreign aid in a conflict situation. The social costs of the escalating conflict became a principal concern, and these entered into their programmes as core issues. Hence conflict became a focus area in addition to the earlier interest on social development. These new concerns were also brought into the regular bilateral discussions with Sri Lanka.

Some countries took specific steps. For example, in the early nineties the Netherlands and Canada revised the framework within which funds to Sri Lanka were allocated. Many donors began to focus on humanitarian assistance. Some of these funds were channelled through international NGOs and agencies of the UN system such as UNHCR. UNHCR began its work in 1987. Sri Lanka became one of the first countries where UNHCR could try out its new extended mandate to deal with internally displaced people within the borders of nation states affected by conflict.

Another important development was to expand the focus on civil society. After 1977, in the context of the new aid regime, civil society organisations or NGOs, which was the popular name at the beginning, became an important channel for achieving development goals. A special focus was welfare or the social development sector. Donors began to pay attention to NGOs, in parallel to deemphasising the state as the primary agent for the delivery of welfare. In the early eighties these organisations, now identified as civil society, acquired a new significance due to the conflict. Almost all donors who took up conflict as a central concern looked towards civil society as a means of channelling their funds for activities related to the conflict.

While many of the bilateral donors began to change their policies because of their concern about the conflict and political violence, those donors whose primary interest was supporting the development agenda continued without much of a change in their

strategy. This is not to argue that they were not aware of the conflict, or did not make their concerns about instability known. But their primary concern about the conflict was how the instability was undermining the economic agenda. There was no room for any kind of a perspective on conflict resolution or any other concern to enter into their discourse. As a result, they did not see any need to reform their already established strategies, even though they were working in a highly conflict ridden society.

If we begin with the World Bank, their principal concern was how the conflict in the North/East and what they called a 'JVP (leftist) terrorist insurgency in the South'[5] was affecting the economy. As pointed out in a World Bank briefing for the 1990 Aid Group meeting in Paris, together with other factors, 'the negative impact of the civil conflict in the North and East that started in 1983 and the JVP (leftist) terrorist insurgency in the South in 1988 and 1989'[6], resulted in the growth rate in 1987-89 period coming down to a mere 2 per cent a year, and the status of the economy reaching a balance of payments crisis by mid 1989. In order to arrest this deterioration of the economy, in mid 1989 both the IMF and World Bank entered into new loan agreements with the Sri Lankan state. The former provided a loan under the IMF Structural Adjustment Facility, and the latter an Economic Restructuring Credit.

However, in order to receive this assistance, the government had to agree to carry out significant economic reforms. These reforms were guided by three broad principles which were spelt out as

(i) the private sector should have primary responsibility in generating growth;

(ii) the role of the public sector should be reduced and its efficiency increased; and

5 World Bank 1990a.

6 World Bank 1990a.

(iii) the Government will take primary responsibility for seeing that the benefits of growth be distributed equitably among the population.[7]

In order to ensure that the government adhered to the stipulated reform programme, a series of what were called Policy Framework Papers were prepared. Although these papers state that they were 'Prepared by the Sri Lankan authorities in collaboration with the staffs of the Fund and the World Bank', the style and the language of the papers indicate that they were primarily a result of efforts by the Fund and the World Bank. The objectives were to ensure that the government adhere to the reform programme that the assistance demanded.

Areas of reform that the Premadasa-led UNP government agreed to go through were some of the most politically difficult ones. This is especially true of reducing the role of the government through privatisation, and targeting the welfare programme so that its costs could be reduced. Although the UNP launched the phase of liberal capitalism in 1977, up to this point there had not been any significant privatization. Privatization also covered politically sensitive areas like the plantation sector. The state takeover of this sector was supported both through nationalist (taking over a sector established by colonial masters and controlled by neocolonial interests) and social justice (improving the working and living conditions of the plantation proletariat) arguments. Hence reversing the plantations back to private hands was going to be politically difficult. The target of the third objective of distributing benefits was the Janasaviya programme, which Premadasa himself proposed during the 1988 presidential election which brought him to power. In fact this was a principal plank of his election campaign, and made the presidential candidate of the UNP, which ushered in liberal capitalism and began to prune the welfare expenditure, the champion of the poor.

7 World Bank 1990b.

In order to politically manage these difficult economic reform programmes, the UNP utilised a range of strategies. For example, in order to sell privatisation to the people, the government launched a publicity campaign and coined the term 'peoplisation' so as to give it a positive spin. In the case of a politically sensitive privatisation, like the plantation sector, the government decided to carry it out in a number of stages. In addition, the government secured the support of its ally the CWC, which controlled the largest trade union in the plantations. The Janasaviya programme was reformed significantly from what Premadasa proposed during the election campaign.

In addition to these strategies, the climate of fear created by the manner in which the UNP dealt with the Southern insurgency certainly helped the ruling elite to carry through these reforms. By the time the reforms were discussed and the government began to implement them, the government's counter-attack on the JVP, under the leadership of Defence Minister Ranjan Wijeratne of the Premadasa regime, had become effective in quelling the insurgency. Insurgents did not have much support from the public, due to the methods they adopted. At the same time, the vicious counter-offensive launched by the government, which included human rights violations on a massive scale, put the lid on any form of protest or democratic action. Given what the country went through and the climate of fear generated, there was little space for protests or democratic action against the economic reforms that the government was embarking upon. In other words, an authoritarian climate created the conditions for economic reforms.

The Fund and the World Bank prepared policy papers that show they were aware of the need for stability in order to take this programme forward. Some of the reports prepared by the World Bank began to monitor impact of the North/East conflict on the economy and growing defence expenditure. However nowhere do we find any inclination that they were concerned about the manner in which the Sri Lankan government was achieving this stability. After all, if these organisations dismissed the horrendous

bloodbath that the country saw as a 'JVP (leftish) terrorist insurgency in the south' (see above), and were only concerned with how this affected the growth figures and the fate of the reform programmes for which they had given assistance, there would be little room to think about instability and political violence.

Japan and the ADB were the two other donors with a primary focus on supporting the economy which had very little concern for the mayhem going on around them. In the same way as the Bank and the IMF, there is very little evidence to show that they had much concern about the way the Southern insurgency was dealt with by the government or about the conflict in the North/East.

In the case of Japan, the key reason for this flaw was the Japanese view of seeing what they call Overseas Development Assistance (ODA) mainly as a flow of assistance from one state to another. This lasted until the time of the 2000-2004 peace process, when Japan began to play a leading role on peace issues in Sri Lanka. Documents produced by Japanese aid agencies during the period of the peace process point out the flaw of the traditional position, and how it led to a stance of ignoring conflict issues. For example, as stated in the country assistance programme outlined in 2004,

> Japan has basically maintained a politically neutral stance regarding the domestic political affairs in recipient countries. With the problem of ensuring the security of personnel engaged in the actual implementation of assistance also a concern, Japan adhered to this fundamental policy of neutrality in its assistance to Sri Lanka. Hence, even as the restraints on the Tamil people continued with the making of Sinhalese the official language in 1956, the subsequent concerted efforts to settle Sinhalese in the Tamil-populated areas in the north and east by successive Sinhalese governments, and other actions, non-economic issues such as the settlement of the civil war

> and the resolution of ethnic and social problems were separated from development issues and treated as internal political problems that should be handled by the recipient government itself. These problems were not considered as development issues that should come under purview of Japan's economic cooperation.[8]

This fundamental conceptual framework made it extremely difficult for the country to adjust its programme when the recipient state became a party to a conflict or violated rights of its own citizens. These stayed outside the purview of the ODA discourse.

Similarly, Japan Bank for International Cooperation (JBIC), in its report titled 'Conflict and Development: Role of JBIC. Development Assistance Strategy for Peace Building and Reconstruction in Sri Lanka', produced at the time of the peace process, analysing the Japanese insensitivity to the conflict in Sri Lanka, stated,

> Data do not show any clear sensitivity of Japanese ODA to domestic political conflict in Sri Lanka. The period after the early 70's witnessed continuing conditions of violent conflict in Sri Lanka, though the severity of prevailing conflict varied from time to time. After the military suppression of the 1971 insurrection, relative peace prevailed till about the mid-80's, though during the intervening period there were also incidents of violent conflict – e.g. the ethnic riots of 1978. The country moved into a period of almost continuous violence, particularly in the North and East of Sri Lanka, but with repercussions also elsewhere, after the mid-80's. During this entire period of violence, however, Japanese assistance to Sri Lanka continued in high gear and in fact increased in volume as noted above (this refers to data in the report – SB). Despite minor fluctuations,

[8] Japan's Country Assistance Program for Sri Lanka, April 2004, www.infojapan.org

> Japanese aid inflow increased most rapidly since the mid-1980s, corresponding with the period of escalating separatist violence. The aid from Japan during this entire period was confined mainly to projects in areas other than the North and East. The exceptions were a very few small projects operative in the conflict zones, although, because of extensive war activities, these areas remained in dire need of humanitarian assistance. The general tendency among donor countries to treat areas in conflict to be outside the scope of development assistance produced this result even in the case of Japanese assistance to Sri Lanka. (JBIC 2003:90)

Similarly, ADB was cautious about getting involved in conflict issues and conflict areas. ADB avoided working in the North/East. As stated in the ADB strategy for 2000-2002, the entire strategy was based on the assumption that 'ADB operations will be geographically located away from areas directly affected by the civil conflict.'[9] But it also went on to say that 'flexibility will be allowed to enable rapid expansion of ADB activities to those areas, if peace is achieved.'[10] Accordingly, somewhere in the year 2000, ADB began community development projects in the North/East. This was the sum total of ADB's concern about the political violence and conflict which was endemic to Sri Lanka during this period.

According to some analysts these diverse positions held by donors led to disagreements among them during the annual Aid Group meeting held in Paris under the auspices of the World Bank.

> In the late 1980s and early 1990s, the Consultative Group Meetings between bilateral donors and the International Financial Institutions in Paris provided the venue for sometimes heated discussions on whether

[9] Asian Development Bank (1999).

[10] Asian Development Bank (1999).

> good governance and human rights issues should be considered development issues and thus addressed with development instruments. (Bush 2001:23)

The closing statement of the chairman of the meeting held in October 1990 neatly summed up these debates.[11] It starts by commending

> the Government for its strong commitment to the program (economic reforms programme supported by the IMF and World Bank mentioned above - SB) during an exceptionally difficult period by taking courageous actions to restore financial stability.

However it goes on to point out that

> Many participants emphasized the growing concern of their governments about reported human rights violations in Sri Lanka still persisting in the South and in the North and East with the resurgence of hostilities initiated by the liberation Tigers. They urged the Government to bring the perpetrators of human rights to justice and at the same time try to reach a negotiated settlement to the civil conflict.

Finally the statement squares the circle, by saying that

> The meeting also recognized, however, the complexity of the situation and expressed sympathy with the difficulties being experienced to restore peace which was essential to realize better economic opportunities for all parties concerned.

[11] Chairman's closing statement, Sri Lanka Aid Group Meeting, Paris, Thursday, October 25, 1990.

The rest of the document, which forms the bulk of the statement, surveys what the government should do to further economic reforms.

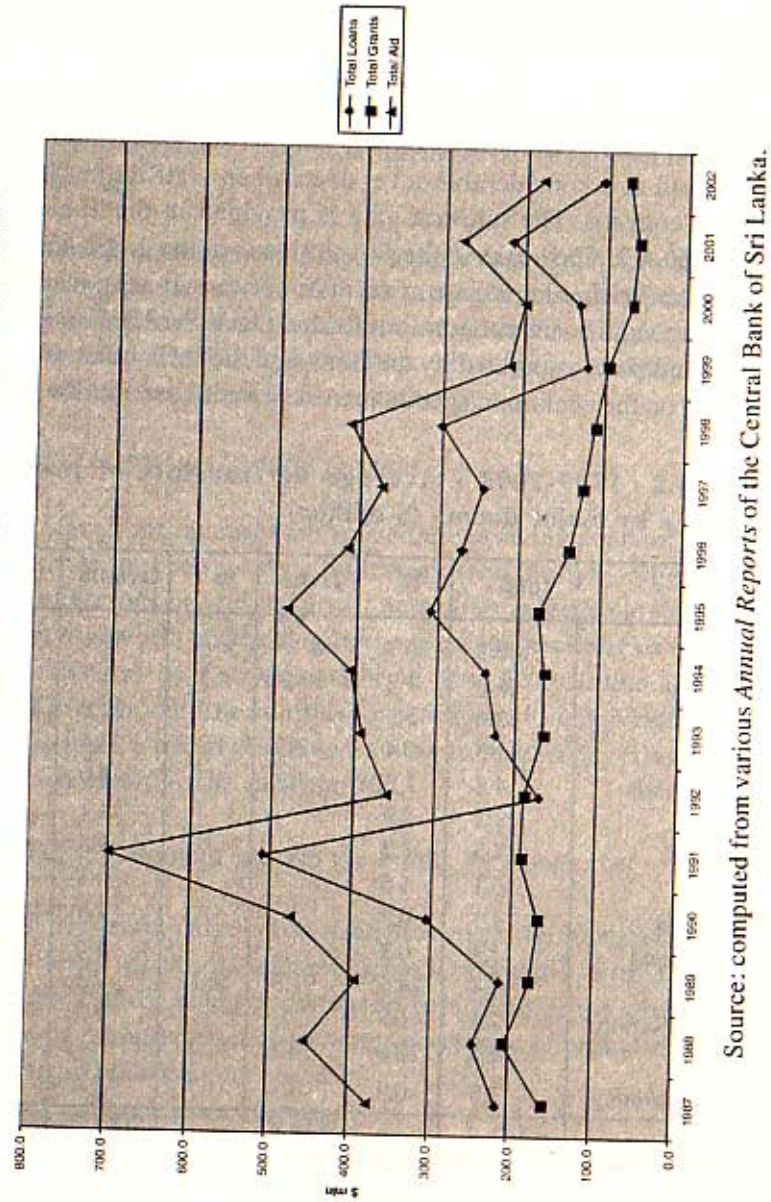
The end result of the position taken by donors with the primary aim of supporting the economy was that Sri Lanka continued to receive aid at a considerable level even when conflict became a primary concern. The relevant data is provided in the Table 4.2 and Graph 4.2. The peaks in the flow of loans in the graph are due to support Sri Lanka began to receive because it was ready to undertake significant economic reforms. Once Sri Lanka agreed to the conditions stipulated by the Bank and the IMF, other donors focusing on the economic agenda increased their contribution. The

Table 4.2 1987-2002 - Average net receipts of foreign assistance by major donors ($ million)

	Total	%	Loans	%	Grants	%
Japan	140.1	36.7	87.7	36.6	52.4	36.8
Germany	4.6	1.2	1.9	0.8	2.7	1.9
USA	22.6	5.9	0.6	0.3	22.0	15.5
Canada	1.6	0.4	-2.8	-1.2	4.4	3.1
Netherlands	4.8	1.3	-3.2	-1.3	8.0	5.7
Norway	11.1	2.9			11.1	7.8
Sweden	4.5	1.2			4.5	3.1
UK	6.1	1.6			6.1	4.3
Australia	1.3	0.3			1.3	0.9
Switzerland	1.3	0.3			1.3	0.9
ADB	93.4	24.5	91.3	38.1	2.1	1.4
United Nations	7.2	1.9			7.2	5.1
IDA	76.3	20.0	76.3	31.9		
Euro-Currency	-3.5	-0.9	-3.5	-1.5		
Total	**381.7**		**239.6**		**142.2**	

Source: computed from Central Bank data

Graph 4.2 Net receipts of foreign assistance 1987-2002



Source: computed from various *Annual Reports* of the Central Bank of Sri Lanka.

gradual decline in grants demonstrates the concern of mainly bilateral donors about the conflict and violence. Due to these shifts three donors, Japan (36.7%), ADB (24.5%) and World Bank (20.0%), accounted for 82% of total net receipts. On top of this were the funds from the Structural Adjustment Facility from the IMF.

CHAPTER 5

Economic crisis, the peace process and a neoliberal agenda

This chapter focuses on the 2002-2004 peace process, and the defeat of the United National Front (UNF) government in the April 2004 general election. It begins with a description of the context in which the peace process began. The years 2000 and 2001 were characterised by a conflict, with no end in sight, regime instability and an economic crisis. Therefore the economic crisis faced by the country during these years was a major impetus for the peace process. As a result, the UNF government launched a strategy consisting of three elements - a ceasefire agreement and negotiations with the LTTE, an extensive economic reform programme, and a conscious attempt to mobilise international support for both these elements.

The last part of this chapter goes on to explain the defeat of the UNF. The principal focus is the contribution that the UNF's economic reform programme made to the defeat of the UNF in the April 2004 general election. This marked the end of the UNF strategy. The overall vision which informed the UNF's economic reform agenda was not conducive to maintaining the support of the majority Sinhala population. The politics of the economic reform programme alienated a large section of the majority Sinhala population, contributing to the defeat of the UNF.

Economic crisis and the search for peace

The first two years of the new millennium witnessed the coming together of a number of factors that deepened the crisis faced by the fragmented post-colonial Sri Lankan state. These factors related to the status of the war, the economy and the stability of elected regimes.

There was no end in sight for the two decade old war. From 1995 the war was fought at its highest intensity. After the collapse of negotiations with the LTTE, the government of the day, led by the People's Alliance (PA), making use of a slogan 'war for peace', launched military operations with the objective of wresting control of Jaffna peninsula, the heartland of Sri Lankan Tamils, from the LTTE. The operation lasted for about seven weeks, and the army secured Jaffna town, the principal city in the peninsula, in late December 1995/early January 1996. The war resulted in a significant displacement of the population.

However, 2000 saw a reversal of fortunes on the battlefront. The most significant event was the LTTE capturing Elephant Pass, a small strip of land that connects the peninsula to the mainland, in April 2000. This threatened the lives of thousands of soldiers stationed in Jaffna peninsula, and led to panicked responses from the government. Indeed, the government was rattled to such an extent that it asked for help from India in order to evacuate soldiers from Jaffna peninsula.

While conducting the war at its highest intensity, the PA government embarked on a constitution making process to tackle what the PA leadership called the 'core issues.' The principal aim of this exercise was to draft a constitution that gave the North/East area a degree of autonomy beyond what is enjoyed by the provincial councils established under pressure from India. This resulted in a long, drawn out process of constitutional discussions within a parliamentary select committee. The government hoped to present draft proposals of reforms to the parliament in August 2000. But in the absence of support from the main opposition party, the United National Party (UNP), the government withdrew its proposals from parliamentary debate.

In October 2000, the PA government faced fresh general elections. In an election marred by violence, the PA was returned to power.[1] The new government faced extremely difficult

[1] For a discussion on electoral violence during this period, see de Silva (2002).

economic conditions right from the start. Much of this was due to economic factors from 2000 that began to surface at the beginning of 2001. Kelegama (2001) noted that there were two economic shocks in 2000 that undermined what otherwise was a favourable economic outlook:

> On the domestic front, the ongoing war in the north-east of Sri Lanka escalated in April-May 2000 requiring the government to put the nation on 'war footing' and jack-up the defence budget (increased from Rs. 48 billion in 1999 to Rs. 80 billion in 2000). On the external front, the oil price escalation since June 2000 (from US$ 19 per barrel in 1999 to US$ 28 per barrel in 2000) made severe inroads to the nation's foreign exchange reserves (foreign reserves declined by US$ 596 million). (Kelegama 2001:2665)

In January 2001 the Central Bank was forced to introduce a 'free float' exchange rate system, because it was not able to defend the currency due to dwindling foreign exchange reserves. This step was not adequate to meet the situation. In the following month, the government imposed a 40% surcharge on all imports except a few essential items. This was followed by more measures to enhance revenue and cut expenditure that were introduced through the first budget of the new government in March 2001. 'The culmination of all these events was an IMF-led standby package of US$ 530 million which was announced in late-April 2001' (Kelegama 2001:2665).

This was a repetition of a pattern where the Sri Lankan state was able to secure donor support to weather economic difficulties while waging a conflict. This has been the case since 1977, when the economy began to be liberalised with donor support. So long as Sri Lanka continued in this broad direction of economic development and implemented reforms, donor support was forthcoming despite the war.

However, IMF support could not rescue the economy in 2001, as a severe drought and the impact of global recession took a toll on the economy. The economic impact of the war also took a turn for the worse with the LTTE attack on the only international airport at Katunayake on 24th July 2001. It was one operation where the LTTE's primary objective was to inflict damage on the economy. The result was that 2001 went down as the only year since independence when the economy contracted -to the tune of 1.5% of GDP (see Table 5.1). Thus, in the year 2001, three factors - war, global recession and drought - took their toll on the economy.

Table 5.1 Selected economic indicators

	1999	2000	2001	2002	2003
GDP (% change)	4.3	6.0	-1.5	4.0	5.9
Budget Deficit (% GDP)	-7.5	-9.9	-10.8	-8.9	-8.0
Government Debt (% GDP)	95.1	96.9	103.2	105.4	105.9
External assets (months of same year of imports)	5.2	3.5	4.5	4.9	5.8
Debt service ratio (% export of goods and services)	15.2	14.7	13.2	13.2	11.6

Source: *Annual Reports* of the Central Bank of Sri Lanka, 1999-2003

It was in this context of economic crisis that the PA government accepted an offer by the Norwegian government to play the role of 'facilitator' in opening negotiations with the LTTE. The PA government agreed to invite Norway as a 'facilitator' in February 2000. Subsequent events showed that it was a step that the government took reluctantly. For example, for some time there

was a discussion as to whether Norway was a 'facilitator' or 'mediator'. The government regularly insisted that Norway's role was that of a facilitator and nothing more. Looking back now, it was a certainly a bizarre, if not humorous, discussion. The status of the economy did not give much choice to the ruling classes of Sri Lanka. It certainly played a role in this somewhat reluctant decision.

A closer look at data from Sri Lanka's post colonial economic history shows that some of the key political events in Sri Lanka, like the election of the government led by S.W.R.D. Bandaranaike in 1956, the 1971 insurgency, to some extent the victory of the 1977 UNP government led by J.R. Jayewardene, and instability and violence of the 1989-90 period, coincided with downturns in the economy (see Graph 5.1 below).[2] The 1956 changes ushered in a period characterised by the hegemony of Sinhala Buddhist nationalism, and state- centric development with regard to the economy. The 1977 changes saw the beginning of an attempt to dilute state-centric policies and to challenge Sinhala Buddhist hegemony. This is not an argument for economic determinism, but one that points out the role that the status of the economy can play in bringing about significant political changes. The peace process also had a similar relationship with the status of the economy.

Towards the end of 2001, the instability of regimes joined an escalating war and deteriorating economic situation to deepen the crisis facing the Sri Lankan state. The PA government, which was a coalition of parties, was shaky from the beginning. A number of events led to the departure of one of the coalition partners, the SLMC, and some members of the government, led by two senior ministers, crossed over to the opposition. As a result the PA government collapsed within a year, and faced fresh elections in December 2001.

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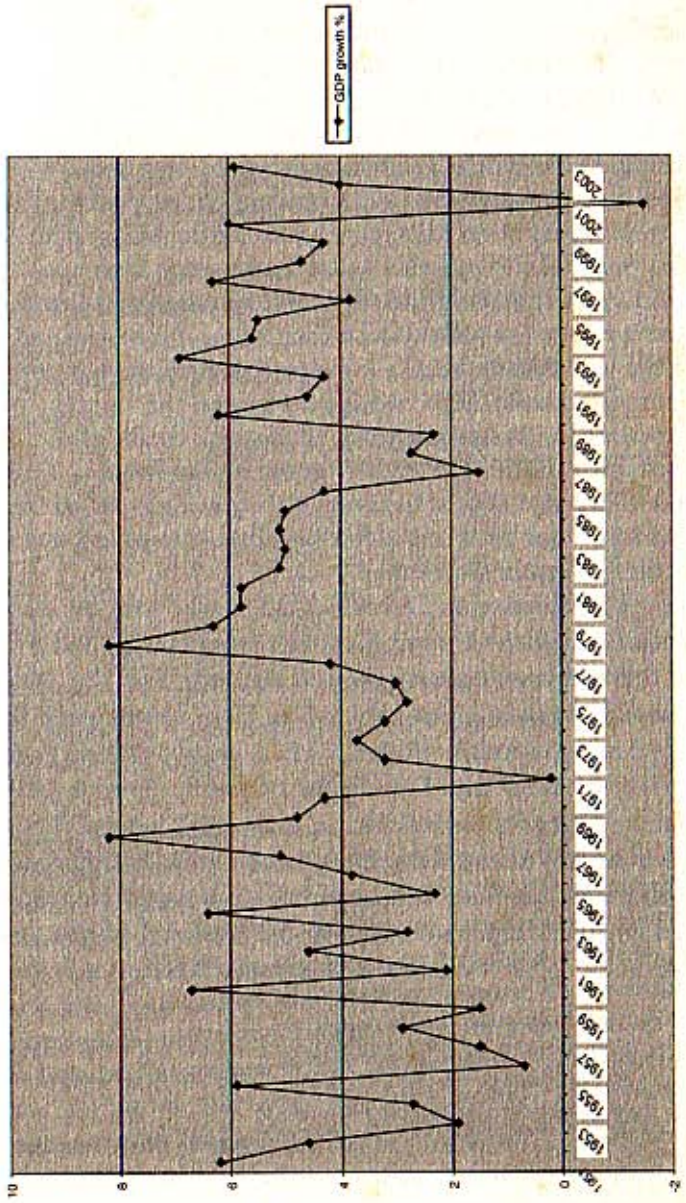
2 I am grateful to Rajesh Venugopal for pointing out this fact to me. See Venugopal (2006) for a much wider analysis of international factors in Sri Lanka's conflict.



Graph 5.1 GDP growth (%)

These developments demonstrate the third crisis of the Sri Lankan state - the instability of coalition governments that come to power through the country's proportional representation (PR) system of elections. The political outcomes are in direct contrast to the expectations of the architects of the PR system, who anticipated it would produce more stable regimes. When PR was introduced through the 1978 Constitution, proponents expected the system would bring MPs more under the control of political parties. The original PR proposals also had a very high cut-off point of valid votes to be eligible for seats in parliament. Provisions were also in place for MPs to lose their seats if they crossed over. The result would have been a legislature where the two larger parties dominated, and MPs would be under the control of parties. However the system that was ultimately established diluted both these provisions. The cut-off point was reduced to five per cent, and MPs could appeal to courts if they were expelled from parties. The result has been unstable coalitions, crossovers and instability of the governments elected.[3]

The election in December 2001 was won by a coalition of parties called the United National Front (UNF), led by the UNP. In the election campaign both the war and the status of the economy figured prominently. The UNF campaigned for starting direct negotiations with the LTTE. It argued this was necessary to revive the economy. The results of public opinion polls showed that people had more confidence in the UNF's capability to manage the economy than in the PA's. Given what had happened to the economy under the PA this was not surprising.[4] Hence, the UNP's earlier performance in managing the economy played a significant role in the UNF's victory in December 2001.

3 See Wilson (1980) and Bastian (2003) for an analysis of the establishment of the PR system and its link with the politics of establishing a liberalised economy.

4 The most important poll carried was out by Org-Marg Smart. Results of these polls were regularly published in the *Sunday Times*. See, for example, *Sunday Times*, 11 November 2001.

As the data in Table 5.2 shows, the UNP's performance as the UNF in the 2001 election, with 43.2% of the total votes polled, was the best achievement under PR, if we leave out the 1989 elections, which were held under conditions of extensive violence[5]. What is more, the UNP outperformed the PA in 17 of the 19 electoral districts where these two major parties could get such majorities. The UNP secured bonus seats in these 17 electoral districts. This was a complete reversal of the result a year earlier.

Table 5.2 Performance of the UNP in PR elections

	% of valid votes	Members elected from electoral districts	National List	Total
1989	47.6	110	15	125
1994	41.9	81	13	94
2000	38.1	77	12	89
2001	43.2	96	13	109
2004	35.8	71	11	82

Source: computed from data from the Department of Elections, Government of Sri Lanka

5 This was possibly the most violent period of recent Sri Lanka history. While the Indian Peace Keeping Forces (IPKF) was battling in the North/East with the LTTE, there was a violent political campaign in the South led by the Janatha Vimukthi Peramuna (JVP), a party that combines nationalism and Marxist slogans. The government's campaign to counter this violence was equally ferocious with death squads and disappearances. The JVP launched a violent campaign for the boycott of elections. The voter turnout was low, and the opposition Sri Lanka Freedom Party (SLFP) could hardly mount a campaign.

Ceasefire and a neoliberal agenda

By the time the UNF won the 2001 election, the UNP, the leading party of the coalition, was led by a new generation of leadership, whose ideas differed significantly from the earlier generation of UNP leaders. They were much more committed towards a negotiated settlement to the war, were supportive of greater liberalisation of the economy, and had greater faith in getting the support of external actors in solving Sri Lanka's problems. Their principal concern was the fate of the economy, and how the war was affecting it. They were convinced that a solution had to be found to the conflict in order to put the economy back on track. The 2001 election was the first time that this leadership won an election for the UNP and had control of parliament. Now they were ready to implement their policies.

The UNF strategy was spelt out by the prime minister in his first policy statement to parliament in January 2002, even before the ceasefire agreement was signed. The key elements of it were responding to the ceasefire already announced by the LTTE in December 2001, carrying out an extensive economic reform programme and mobilising international support for these objectives (*Daily News* 23rd January 2002).

The ceasefire agreement and negotiations with the LTTE

Soon after winning the election, and with the help of Norwegian mediation, the UNF government entered into a Ceasefire Agreement (CFA) with the LTTE on 22nd February 2002. It accepted that the LTTE was in control of certain areas of the country, and the presence of two armies controlling different parts of the territory. Several clauses defined what each army could and could not do to maintain the status quo while the talks continued. Other clauses stipulated that each side must give 14 days notice if they wanted to withdraw from the agreement. Finally, a ceasefire monitoring mission was established, composed largely of representatives from Scandinavian countries.

The agreement had elements that were a radical departure from political opinions hitherto held by Sri Lanka's political leadership. Never before had the government of Sri Lanka accepted that a rebel group controlled parts of the country, or conferred legitimacy to it by entering into such an agreement. Not only that, but the rebel group had the freedom to hold territory, keep their arms and engage in political activities in the areas under army control.

The economic crisis facing the country was certainly a factor in this radical departure. The UNF leadership, which represented the interests of capital and wanted to make a qualitative jump in the economic reform programme, was ready to make a new departure when it came to dealing with the LTTE. A never ending war and a devastated economy were responsible for driving the Sri Lankan political class to think the unthinkable.

The UNF's negotiation strategy was quite different from what had gone before. It was what conflict resolution experts describe as a 'step by step' approach. The defining characteristic was the decision not to tackle difficult political issues that could undermine the negotiation process right at the beginning, as there was a fear this could lead to a breakdown in talks. Rather the focus at the initial stages was meeting the immediate needs of the population in the North/East - a view shared by the LTTE.

The direct negotiations between the LTTE and the Sri Lankan government lasted from September 2002 to March 2003. A total of six rounds of negotiations were held. The most important achievement was an agreement to restructure the Sri Lankan state within a federal framework - an issue announced after the third round of negotiations in December 2002. However, the LTTE withdrew from negotiations in April 2003, citing their exclusion from a US government-sponsored meeting in Washington.[6]

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[6] See Uyangoda (2003) and Liyanage (2003) for an analysis of the LTTE withdrawal from negotiations.

Apart from the so-called Oslo agreement on federalism, the most tangible achievement of the peace process was the stability it brought to the country. It began right from the moment the CFA was signed. Among the benefits this stability brought was the opening of roads to Jaffna, the removal of checkpoints, and greater movement of the population. Whatever happened to the peace process later, the very signing of the CFA created an environment that was essential for the revival of the economy in crisis.

Economic reforms

The UNF's economic reform programme was spelt out in a document titled *Regaining Sri Lanka*. The basic ideology of the strategy was spelt out very early in the document when it stated,

> Sri Lanka began to liberalize its economy in 1977. Since then, it has made considerable progress. However, in recent years that progress has slowed, if not come to a virtual halt compared to many other countries. (Government of Sri Lanka 2003:1)

Therefore the intention was to move forward the liberalisation process, with the ultimate objective of achieving a 10% growth rate - as some East Asian neighbours had succeeded in doing.

With the objective of achieving 10% growth, the UNF embarked on a series of policy measures to stabilise the economy and bring about major structural reforms. On the stabilisation side, measures were undertaken to improve the revenue position as well as curtail expenditure. The revenue side included expanding the number of goods brought under VAT, the introduction of a single VAT and a tax amnesty to expand the revenue base.

Measures to curtail expenditure consisted of

> suspending recruitment to the public sector, avoiding general wage and pension increases, reducing the provisions for defence expenditure, better targeting of welfare programmes, limiting resource allocation for unforeseen and unclassified expenses and controlling provision of funds for rupee funded non-priority capital expenditure. (Central Bank of Sri Lanka 2003:28)

The intentions of new laws such as the Fiscal Management (Responsibility) Act (FMRA) and Welfare Benefit Law were to give a legal basis to some of these reforms.

On the structural side, the UNF goals were extensive. State-owned assets that were privatised included the Sri Lankan Insurance Corporation, 100 petrol stations belonging to the Ceylon Petroleum Corporation, the trading venture Co-operative Wholesale Establishment and leases of an oil tank farm. Plans were also drawn up to totally privatise Regional Transport Boards. According to the 2003 Central Bank report, the government had plans to merge four enterprises, restructure and reform 51 more and liquidate 15 (Central Bank of Sri Lanka 2003). Apart from this, the government took steps to restructure major state owned institutions like the Ceylon Electricity Board, Railways, and to establish a Revenue Authority.

Steps were undertaken to go ahead with the much delayed retrenchment of state employees. A civil service reforms programme was announced in the 2004 Budget, under which public sector employment would be reduced by 30% during the 2004-2006 period. The target for 2004 was 10%. A voluntary retirement scheme was also to be introduced to reduce the number of employees in several state-owned enterprises. Plans also included no renewing of contracts of public servants between the ages of 55 and 57.

Another important area of reform was in labour law - a major demand from the private sector. Labour laws in operation at the time made it difficult for the private sector to hire and fire workers as they wished, or to reorganise the labour process when necessary. As stated in the 2003 Central Bank Report,

> major steps were initiated in 2003 to address the long overdue labour market reforms. Accordingly, amendments to the Termination of Employment and Workmen Act (TEWA), Industrial Dispute Act (IDA), Industrial Dispute - Hearing and Determination Proceedings Act (IDA-Hearing) and Employment of Women, Young Persons and Children Act (EWYPCA) were passed in 2003, enhancing flexibility and predictability in the labour market. (Central Bank of Sri Lanka 2003:26)

Finally, the government undertook several measures to further liberalise the financial sector.

Internationalisation

The third element of the UNF strategy was a conscious effort to bring in a wider network of international actors to support both the peace process and the planned economic reforms. The fact that the prime minister considered international opinion a key factor in guaranteeing peace in Sri Lanka was clear from the very first policy statement he made to parliament before the CFA was signed. Speaking on the conflict, he said:

> The concern of India as well as donor countries has been drawn towards this problem more than ever before. They steadfastly advocate a political solution to the war. In the context the centre of attention is international opinion. A solution to the North East problem will be through international opinion. We must focus our attention accordingly. In this backdrop if international opinion is with us we could protect the territorial integrity and unity of our nation. (*Daily News* January 23rd 2002)

These comments clearly showed that the UNF leadership understood much better than anybody else the globalised nature of

Sri Lankan society. Hence solutions for Sri Lanka's problems could be secured only through working with international structures. In order to achieve this, the UNF leadership consciously set about mobilising international support. In addition to Norway, this strategy brought in the USA, Japan and the EU as co-chairs of the peace process. In doing so, the UNF managed to secure the involvement of the only superpower, its major trading partners and the largest donor to Sri Lanka in the peace process.

The UNF leadership managed to secure the support of the US government at a level never achieved before. Richard Armitage, the Deputy Secretary of State, was actively involved, and almost took a personal interest in the success of the peace process.[7] As Sri Lanka largest bilateral donor, Japan was also a key player. If we take into account her influence on multilateral agencies like the Asian Development Bank (ADB), Japanese assistance is critical for the revival of Sri Lanka's economy. The UNF managed to secure Japanese involvement in the peace process with the participation of Ambassador Yasushi Akashi.

The third international actor, the European Union, has been playing a role in Sri Lanka's political issues for some time. Apart from regular statements demanding the conflict be settled through negotiations, the EU has regularly sent election monitoring teams to Sri Lanka. Moreover EU countries are not only important trading partners, but bring together a significant collection of donors.

The UNF's internationalisation strategy also included India, as doing otherwise would have been foolish. India was regularly kept informed of the peace process. India was also seen as an

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[7] In the midst of the peace process the author participated in a video conference held at the USIS with the participation of the former US ambassador to Sri Lanka, Teresita Schaffer. Currently she works for the Centre for Strategic and International Studies in Washington. At this meeting Schaffer confirmed that the April meeting held in US was a tremendous success for Sri Lanka. Although there were only about 70 participants from various US agencies attending the meeting, she said their interest in the peace process was serious.

important economic partner. Both the prime minister and the minister for economic reform took a leading role in propagating this aspect during their numerous visits to India. The basis for this was laid by the Free Trade Agreement signed during the PA regime. Several other initiatives, such as expanding air routes between the two countries, building a road link between Sri Lanka and South India, easing visa restrictions for Indian nationals travelling to Sri Lanka, and the promotion of Indian tourism in Sri Lanka, were implemented during this period. A qualitatively new idea that the UNF mooted at this time was looking at Sri Lanka as a part of a triangle of economic growth, with Tamil Nadu and Kerala at the other two corners.

The three elements of the strategy were interlinked. The UNF hoped to establish security and stability in order to further economic reforms. The economic crisis of 2001 prompted the ruling class to take unprecedented measures to put the economy back on track. They accepted that part of the territory of Sri Lanka was under the control of the LTTE and entered into the CFA with the LTTE. Finally, the international actors were invited to play a role at a level never seen before. The UNF leadership hoped to achieve both security and development through this strategy.

The politics of economic reform and the defeat of the UNF

What was significant about the UNF strategy was the decision to undertake a politically difficult reform agenda, while at the same time pursuing two other elements that faced political obstacles. As we have argued, the fundamental concepts underlying the CFA were a significant shift in the political position of the Sinhalese ruling class. Securing political support for this was going to be difficult. In the context of a conflict based on entrenched nationalism, the extensive internationalisation that the UNF embarked upon could also have a backlash, especially among the Sinhalese. In popular oppositional rhetoric, it could be viewed as an unwarranted intervention by 'neo-colonial' forces in a highly charged internal conflict.

In spite of the political difficulties faced by these elements of the UNF strategy, the political leadership of the party decided not only to move ahead in several areas of economic reforms that were politically sensitive, but also had an economic vision that did not give prominence to social issues. In the past, reforms and reduction of the state bureaucracy, privatisation and changing labour laws have met with resistance. Despite this history, the UNF leadership was ready to embark on these reforms. Even those who are more sympathetic to the UNF economy strategy, and rationalise it by the so-called 'economic dividend' that the UNF hoped to generate in order to support peace, point out that these were politically difficult reforms (Kelegama 2005).

As we shall argue below, the UNF economic strategy was very much based on the growth/trickle down thesis, and did not have a social vision suitable for a country trying to come out of war and facing social contradictions of more than two decades of liberal capitalism. In other words, its economic strategy was taking on a difficult political task, while embarking on a strategy of negotiations with the LTTE and internationalisation that was equally difficult to sell, especially to the Southern electorate.

The UNF was also trying to do all this without even controlling the presidency. Therefore the politics of successfully implementing the UNF strategy depended on two factors: managing the relationship with President Kumaratunga (who was elected in 1999 from the PA), and sustaining the support of the Southern electorate (that had put the UNF into power in 2001). The 1978 Sri Lankan constitution allows the possibility of the presidency being controlled by one party and parliament from another. However this was the first time this became a reality.

Given that the rivalry and antagonism between the PA and the UNP went back almost to the beginning of the post-independence period, the so-called cohabitation exercise by the two parties was in trouble right from the beginning. Although there were many efforts to continue with this arrangement, factionalism within the political class based on personal and family rivalries made it extremely difficult to sustain. Cohabitation between the

president and UNF government barely lasted two years. The president took over three critical ministries in November 2003, signifying the beginning of the end of cohabitation. In February 2004, just after Independence Day celebrations, the president dissolved parliament and called fresh elections.

The only way the UNF could counter these political difficulties was by maintaining the support of the Southern electorate. If the UNF had won the 2004 election, the entire strategy of peace efforts and economic reforms would have been strengthened and advanced to the next level. The electorate would have endorsed the international support that the UNF had sought out and received. But this was not to be. The UNF was convincingly defeated in the 2004 elections. Understanding why this happened has many lessons for those interested in peace.

There are many indicators to show that a large section of the majority Sinhala population has moved away from its opposition to negotiations with the LTTE. In the early stages of the conflict, a majority of the Sinhalese were supportive of the military effort. There was significant support for the military effort within the media, and many public meetings were held in support of the same. Recruitment by the army attracted many young men and women.

The 1994 election was a turning point in this regard. President Kumaratunga, from the PA, for the first time campaigned on a platform of negotiations and won the elections. This was repeated in 2001, this time by the leader of the main opposition party, Ranil Wickremasinghe. Support for negotiations was maintained right throughout the period of the UNF government. As shown by data generated by the Social Indicator project of the Centre for Policy Alternatives, during the negotiations close to 80% of the population was in support of a negotiated settlement (Social Indicator 2003). This was highest when the UNF and LTTE actually conducted several rounds of face-to-face negotiations. In a national sample it would have been difficult to maintain such high support if not for the agreement of a large percentage of Sinhalese. This data also indicated that there had been a sizeable shift in opinion among the

majority community away from supporting a military solution, to agreeing with a negotiated settlement.

Hence in order to understand the UNF defeat one must look beyond the dynamics of the peace process. The principal argument in this paper is the political fall-out caused by the economic reform programme, especially among the Sinhala majority, was a contributing factor to the UNF defeat.

Every economic reform to promote a market economy involves changes in the 'rules of the game' or institutions that produce and distribute resources. Reactions of different sections of the population to reforms are determined by a complex set of factors. Among them, positions and privileges enjoyed in the pre-reform period, and the actual and perceived impact of the reforms, are important. How these reactions get politically articulated depends on how various sections of the population are organised. On the side of the rulers, implementing successful reforms involves managing the negative fall-outs of these factors peacefully, while retaining the support of the population as whole. If a regime has to face an election in the middle of a reform process, perceptions of the population at large become especially important to sustain the support base. The sum total of these processes constitutes the politics of the reform process.

Although the beginnings of liberal capitalism in Sri Lanka go back to 1977, the economic reform programme has not made progress in several key areas such as reforms of the state and labour laws. In both these areas there have been discussions and debates to bring about reforms for a considerable period of time. Indeed, multilateral donors have been demanding them for some time. In the case of some, studies and reports have been completed, discussions with donors held, and even some initial steps taken. But the progress has been slow, often with frequent reversals. The principal reason for this is that the politics of carrying out each of these reforms entailed overcoming the resistance of fairly well organised and entrenched interest groups and ideologies. Even under much more favourable political environments enjoyed by previous regimes, reforms in these areas have been difficult.

Reforms and restructuring of state enterprises have to tackle the resistance of people employed in these enterprises. Salaried employees of the state sector form a part of what some Marxists called the 'intermediate class.' As we have discussed in Chapter 3, the political influence of this class expanded during the period of state dominated capitalism. In the post independence period, intermediate classes have been an important element of the class bloc that has ruled Sri Lanka. Historically, the bourgeoisie that accumulated wealth during the colonial period inherited power from the colonial masters. This could not be maintained in the context of universal franchise and regular elections. The class that rose up through the electoral process to share power with the colonial bourgeoisie was this intermediate class.

Even during the post-1977 period this class expanded. This is partly due to the political difficulties facing large-scale retrenchment in the public sector, continuous dependence on the state sector for various aspects of services, and the dominance of patronage politics within the political class that continues to use the state as a means of giving employment to their supporters.

The organised working class has expanded due to the impact of liberal economic policies, as the expansion of various sectors of the economy increased their absolute numbers. Although not covering a significant section of the new working class, Sri Lanka has a trade union movement covering critical sectors like plantations, the civil service, state enterprises (including the financial sector) and sections of the private sector. Some of the unions have close affiliations with political parties, allowing them to form an important interest group in political bargaining. Indeed, political parties who come to rule the country often depend on the support of these trade unions in their political battles.

Secondly, the UNF also introduced these extensive reforms in a society showing the social contradictions of more than two decades of liberal capitalism. However basic assumptions of the economic vision precluded any critical look at the post-1977 period. Therefore, the UNF leadership either did not understand, or did

not want to understand, the negative impacts of the previous 20 years of liberal capitalism. Rather they believed what was needed was more of the same, but with a greater degree of intensity.

Even if we confine ourselves to a discussion about average statistics, all the costly number crunching exercises carried out by economists agree that after more than two decades of liberalised policies more than a quarter of the population still live under the poverty line (see Table 5.3). These figures exclude the North/East Province. If this province is included, the picture will be much worse.

Moreover, data that was available at the time of the peace process showed that Sri Lanka remains an extremely unequal society. Preliminary data of the Central Bank Consumer Finance and Socio-Economic survey for 2003/2004 shows that

> the share of the highest income decile in total income, at 38.6 per cent, is about twenty three times as high as the share of the lowest income decile (1.7 per cent) indicating a highly unequal income distribution. Similarly the highest two income deciles together account for more than half of the total income (53.7 per cent), while the lowest five deciles (i.e., the lower half of the total income deciles) account for only about one fifth (19.6 per cent) of the total income (Central Bank of Sri Lanka 2003:20).

This survey did not cover Killinochchi, Mannar and Mullativu districts. Hence the income distribution picture would be worse, both socially and regionally.

This inequality has a regional dimension as well. With close to 50% of the GDP concentrated in the Western Province, the other regions are neglected (Table 5.3). This is reflected in the figures for the share of households in poverty. As shown by Table 5.3, this figure is 12.2% of households for the Western Province, but goes up to 40% of households in Sabaragamuwa, the worst-off province.

Table 5.3 Indicators of regional inequality

Province	Share of Households in Poverty(1995/96)	Share of GDP (2000)
Western	12.2 %	49.4%
North-Western	30.4%	10.4%
Central	35.4%	9.9%
Southern	32.5%	9.3%
Sabaragamuwa	40.0%	6.7%
Eastern	n.a.	4.5%
Uva	33.9%	4.0%
North-Central	26.1%	3.8%
Northern	n.a.	2.1%
Sri Lanka	**26.7%**	**100.0**

Source: *White Paper* presented by the Government of Sri Lanka to the Oslo meeting, 25 November 2002

In the case of Sri Lanka, social inequality has a greater influence in politics than absolute poverty. It goes against a social trend established since independence, where the power of the Westernised colonial bourgeoisie was challenged, and various policy measures were adopted to break the monopoly of power of this tiny minority. As we have argued, the real beneficiaries of this were the intermediate classes. But it established an ethos and demands for social justice that still influence political battles.

Growing inequality also has a significant influence on overall perceptions regarding the development models that were followed, as it strengthens the perception of injustice. When it is prevalent both on the basis of social categories and regional categories, as in the case of Sri Lanka, the perception of the dominance of an unjust model of development is stronger.

Another contradiction of liberal capitalism that has had wide-ranging social repercussions was the status of the smallholder

peasantry growing paddy. As we have argued above, protecting this class has been one of the basic principles of the post-colonial Sri Lankan state. However for many years there has been a gradual deterioration in the viability of smallholder paddy, and, as a result, the living conditions of those engaged in that kind of agriculture.[8] Politically they form the largest section of the electorate.

Finally, the context within which the UNF tried to undertake its extensive reforms was made more difficult by the social impacts of the 2001 economic recession. The high cost of living, loss of employment due to the closure of enterprises and the absence of hope about the economic environment, had widespread effect. In fact, as argued above, some opinion polls show that, in the 2001 election, the Southern electorate voted for the UNP to take care of the economic malaise rather than the conflict. The economic issues remained a high priority for the population right throughout the period when negotiations were going on. When a Social Indicator survey asked their sample to prioritise issues of concern, in January 2003, 48.2% chose cost of living, 16.5% unemployment and 18.8% ethnic conflict (Social Indicator 2003). Put another way, 64.7% placed economic issues as the first priority, while 18.8% picked the conflict.

Despite the enormous economic problems most of the population faced, the UNF strategy did not have any significant policy package to tackle social issues. Since the planners and leadership believed in the traditional growth and trickle down strategy, the principal thrust was to remove the fetters that prevented markets and the private sector from developing. The idea was to generate economic growth through this, link the poor to the growth process and improve certain support services so that the poor could benefit.

In contrast to the record of previous UNP regimes, the UNF strategy did not include any significant social programme that could mobilise political support within the population at large. Examples

[8] For an analysis of this issue, see Dunham and Edwards (1997).

of such programmes are *Janasaviya* under President Premadasa, and *Samurdhi* under President Kumaratunga. Both are highly publicised poverty alleviation programmes that have a socio-economic objective of poverty alleviation. But they also have a political significance. These are programmes that ruling classes use to manage the relationship with the general population, while they carry out many other reforms needed for capitalist development. Even the names given to these programmes play this political role. Both Presidents Premadasa and Chandrika Kumaratunga subscribed to this strategy while carrying out reforms.[9] The thrust of the UNF strategy was to tighten these programmes, rather than to think of any new innovations. Therefore, while the reform programmes alienated large sections of the population, there was very little to maintain their support. This fed into a widely held perception that most of the reforms benefited only big business. Specific policies such as the tax amnesty confirmed this impression and provided ammunition for the critics.

The Poverty Reduction Strategy (PRS - the poverty related component of the economic reform programme), put forward when the UNF was in power, could never play this political role. Right from the beginning, the PRS was identified with donors and therefore lacked political legitimacy. It was criticised for what it actually was - an adjunct to the politically controversial reforms that donors were trying to push. In essence, the substance of the PRS was the same structural adjustment and stabilisation programmes promoted by multilateral donors. What it tried to do was legitimise these policies through a poverty alleviation argument. Another aspect was to carry out a so-called participatory exercise - a new strategy by donors to try and generate support for reforms that they want to promote. The participatory exercises for PRS

9 See Moore (1997) for a discussion of the PA's political strategy for economic reforms.

were extremely limited and never reflected any kind of mass participation. For these reasons, the PRS could not even begin to generate the political support that the UNF needed.[10]

On the whole, the UNF economic strategy was not geared to sustaining support from the bulk of the Sinhala population for the peace process. In fact, it clearly gave the impression of being a strategy developed independent of the peace process. The extent of reforms made it difficult to manage the reform process politically, while at the same time carrying out the peace process. It simultaneously challenged powerful entrenched interest groups. The absence of any new social programmes gave the impression that the government cared little about the social contradictions of liberal capitalism, and the suffering that people were going through as a result of the economic crisis. Hence the real problem was not that there was no 'economic dividend'[11], or that the economic dividend did not percolate through due to institutional problems, as asserted by authors sympathetic to the UNF economic policies (Kelegama 2005). The politics of generating the economic dividend itself was alienating politically important sections of the Southern population, whose support was essential for the UNF to be in power.

Within a short period of time the UNF, while achieving much in the peace process, began to face political difficulties on two fronts. First, the cohabitation exercise failed. Second, the reform process generated a lot of hostility from various social groups because of the direct negative impact some of the policies had on their wellbeing.

The April 2004 elections were a complete reversal of fortunes for the UNP. From their best performance in 2001, they slumped to their worst performance, by getting only 35.8% of the total national vote - worse even than their 1994 defeat, when they secured 41.9%.

10 For a critique of Sri Lanka's PRS, see Kar (2003). For a critique by a civil society network representing more than 125 trade unions, NGOs, and religious organisations, see a statement by Alliance for Protection of Natural Resources and Human Rights, http://www.geosites.com/monlarslk/Statements3.htm

11 The notion of 'economic dividend' has the usual characteristics of the discursive limitations of mainstream economic thinking where there is an attempt to solve political problems through economic means.

The UNP lost the absolute majority in 14 electoral districts. In all electoral districts there was a reduction in the percentage of total votes, compared to what happened in the 2001 elections. After only two years at the helm, Ranil Wickremasinghe had led the UNP to a worse electoral defeat than what happened after 17 years of repressive UNP rule.

The electoral defeat of the UNF in 2004 was repeated in the presidential election held on November 17th 2005. This election was keenly fought. The UNF candidate was none other than Ranil Wickremesinghe. His principal electoral platform was what was achieved during the short lived peace process. He argued the path of peace was disrupted by the abrupt dissolution of the parliament by President Kumaratunga, and asked for a new mandate. But he was narrowly defeated by Mahinda Rajapakse. In addition to the constituent members of the PA, Rajapakse secured support from two Sinhala nationalist parties - the Janatha Vimukthi Peramuna (JVP) and Jathika Hela Urumaya (JHU). Rajapakse argued that he was for peace and negotiations. He also promised to uphold the ceasefire. Rajapakse was doing a balancing act of trying to project himself as a man of peace, while going for a coalition arrangement with Sinhala nationalist elements for electoral purposes.

Rajapakse won the presidential election with a narrow margin. He polled 4,887,152 votes, or 50.29% of the total polled. Wickremasinghe totalled 4,706,366 votes, or 48.43% of the total polled. This meant that Rajapkase had a majority of only 180,786 votes. However the biggest eye opener of the election results was not the defeat of Wickremasinghe himself, but how he got defeated. The principal reason for the defeat was the low turnout in the Northern Province, which was directly and indirectly engineered by the LTTE. The Northern Province consists of two electoral districts - Jaffna and Vanni. In Vanni the voting rate was 34.35%, while in Jaffna it was a mere 1.21%. Even in the Tamil dominated Batticaloa district of the Eastern Province, the voting rate was below the normal - 48.51%. Most available surveys (see Social Indicator 2003) showed that the peace process, with all its faults, which had brought a sense of normality for the war-torn areas, was popular with the Tamil population. If there had been normal voting in these areas, the UNF candidate, Wickremasinghe, stood to gain more, and Rajapakse's narrow majority could have been overtaken.

The manner in which Wickremasinghe was defeated in the presidential election confirmed the serious flaws of the overall strategy. It was a defeat for the neo-liberal peace of the UNF by Sinhala nationalism, and social discontent due to socio-economic problems, working in parallel with Tamil nationalism of the LTTE variety. We shall expand on this in the next chapter.

Table 5.4 UNP/UNF electoral performance

	2001	2004	+/-
Colombo	49.7	40.3	-9.4
Gampaha	42.3	35.7	-6.7
Kalutara	43.4	35.8	-7.6
Galle	42.2	36.6	-5.6
Matara	40.4	33.0	-7.4
Hambantota	38.2	33.3	-4.9
Matale	47.1	45.2	-1.9
Kandy	49.3	46.6	-2.7
N'Eliya	62.6	50.3	-12.4
Kurunegala	46.3	40.9	-5.5
Puttalam	48.2	43.4	-4.7
Polonnaruwa	44.9	38.2	-6.7
Anuradhapua	43.5	37.8	-5.8
Moneragala	39.7	34.7	-5.0
Badulla	50.2	45.4	-4.8
Ratnapura	43.7	39.5	-4.2
Kegalle	46.8	41.8	-5.1
Jaffna	8.2	0.0	-8.2
Vanni	26.0	22.3	-3.7
Batticaloa	11.8	2.4	-9.3
Amparai	19.7	13.6	-6.0
Trincomalee	37.1	8.2	-28.9
Total	**43.2**	**35.8**	**-7.4**

Source: computed from data from the Election Commissioner's Department, Government of Sri Lanka

While the victory of Tamil nationalism of the LTTE variety, and Sinhala nationalism of the Rajapakse, JVP and JHU combination, ended the UNF strategy of peace, it has also meant a gradual descent into violence and armed conflict. The current phase of violence is characterised by its own peculiarities. Some of the principal characteristics are that, militarily, the Sri Lankan armed forces seem to have a strategic objective of clearing the East of the LTTE presence, while the LTTE seems to be engaged in strategic retreat while being active in other fronts. While carrying on an armed conflict, both the LTTE and the government continuously reiterate that they are for the ceasefire and for the CFA. This has become more a political charade played out for international actors, rather than a commitment to peace. Intra-Tamil violence has become an important feature of the current phase of violence. This has been aggravated by the emergence of the Karuna fraction as a breakaway group from the LTTE. Kidnappings, disappearances and liquidation of enemies has become an important aspect of this intra-Tamil violence. While all this violence is going on, once again the Rajapakse regime has begun another incarnation of an All Party Conference. This has been a constant feature of the attempts by the Sri Lankan political class to thrash out a formula for resolving the conflict. These exercises have taken place before without much result. Whether this one will be any different, only time will tell.

CHAPTER 6

Peace and the politics of the international 'community'

The last, and concluding, chapter focuses on the politics of the international community in the context of the UNF-led peace process and its collapse. It is based on the premise that the international community was an integral part of both the peace process and its collapse. In other words, international actors were not outsiders with regard to what happened between 2002 and now. They were central players and actors.

This chapter is divided into three sections. The first part covers the years 2002 to 2004, which are the years when the UNF-led peace process prevailed. It shows how the international community became a central component of a peace process that tried to deal with the government of Sri Lanka and the LTTE on a par with each other, or to maintain symmetry between them. This was tried at the same time as attempting to push through an extensive economic reform programme to promote liberal capitalism.

Once this neo-liberal peace had failed, the central organising principle of the international community has been to support the security and stability of the Sri Lankan state, and to support the mainstream economic agenda while calling for negotiations. This is what prevails now, and it is the subject of the second section. The final section is a short reflection on the fate of Sri Lanka, which is now locked into the global system.

2002 to 2004 - Parity of status between the LTTE and the Sri Lankan state

The UNF-led peace process, which began with the signing of the ceasefire agreement in February 2002, was characterised by the merger of the security and development agendas. The objectives

were twofold - achieving stability and security through an agreement with the LTTE, and an agenda of extensive economic reform for taking further the promotion of liberal capitalism begun in 1977. The leader of the UNP, Ranil Wickremasinghe, was keen on taking what his uncle, J.R. Jayewardene, had begun to a qualitatively new stage.

The UNF leadership decided to achieve the security and stability needed for economic reform by signing a ceasefire agreement with the LTTE. Hence a defining characteristic of the peace process was to focus primarily on negotiations between the political elite that controlled the government of Sri Lanka and the LTTE. The negotiations with the LTTE were considered the single most important factor that needed to be addressed, or the one that needed to be given priority.

The other important element in this politics was to give a parity of status to the two main actors, the government of Sri Lanka and the LTTE. As stated by one of the supporters of the peace process within civil society, 'The Cease Fire Agreement signed on February 2002 is framed in such a way that the **parity of status between the two parties is acknowledged**' (Rupesinghe 2006: xvii; emphasis in original text). This framework for peace also 'assumed that through a process of **constructive engagement** that the LTTE will change its character and will transform itself into a democratic entity' (Rupesinghe 2006: xvii; emphasis in original text). Hence it was believed that treating the LTTE on equal terms with the Sri Lankan state would not only ensure the stability needed for economic reforms, but that the LTTE itself would get transformed into something more desirable. The empirical argument for this position was based on the idea that that there were already two armies in the country, and that the LTTE was in control of certain parts of the country. Some writers have extended this analysis to assert that there was already a state in the making in the areas controlled by the LTTE (Stokke 2006). This was dubbed as accepting a 'reality' that was out there.

There are many other untenable conceptual and political assumptions in this position. For example, it comes very close to

primordialist or essentialist interpretations of Sri Lanka's conflict. It assumes that the conflict in Sri Lanka is essentially an 'ethnic conflict', where the protagonists are the monolithic ethnic groups - Sinhalese and Tamils. The LTTE is seen as the representative of Tamils, and the Sri Lankan state that of the Sinhalese. Hence in order to arrive at peace one has to treat them equally and promote negotiations.

This meant accepting the notion of the LTTE being 'the sole representatives of Tamils' and ignoring intra-Tamil conflicts. Right from the beginning of this conflict, the struggle for political supremacy among the Tamils has been an equally important factor as the conflict between the LTTE and the government of Sri Lanka. By choosing the LTTE as the primary actor for the peace process, the architects of the peace process took up a political position supportive of the LTTE in this struggle.

In addition, the decision to give priority to the LTTE meant giving secondary importance to the grievances of other minorities. This created special difficulties in the case of the Muslim minority. There is a long history of a conservative Tamil leadership denying a separate political identity for Muslims, especially those from the Eastern Province, by arguing that they speak Tamil and the Tamil political leadership can speak for all the Tamil speaking people. Even the phrase 'in areas of historical habitation of Tamil-speaking peoples', which means the North/East Province, which is found in both the Indo-Lanka Accord and Oslo Communiqué of the UNF-led peace process, reflects this political position. The status given to the LTTE, and the absence of an equal status to Muslim representatives, strengthened this age old politics.

Within civil society, this perspective on peace was supported by those who use the famous conflict triangle to guide their work. In this conflict triangle there are three tracks. Track 1 represents the negotiations at the top among political actors - in the case of Sri Lanka, between the LTTE and government of Sri Lanka. Track 2 is represented by peacebuilding activities of civil society, and Track 3 is promoting peace in society at large. However the

activities of the entire triangle are geared towards the success of Track 1, which is appropriately placed at the top of the triangle. The single minded objective of those who use these tracks is to work towards the success of Track 1, or negotiations between the government of Sri Lanka and the LTTE. Activities of Track 2 and 3 are geared to achieve this objective. There is no room for Track 2 and 3 to have their own ideas of peace and conflict transformation. To be sceptical of whether the success of Track 1 itself will bring peace can even make you a 'spoiler'.

Close scrutiny of the clauses of the Ceasefire Agreement (CFA) shows the acceptance of these political positions, and accepting the so-called 'reality' on the ground. A monitoring mission - the Sri Lankan Monitoring Mission, consisting of citizens of Scandinavian countries - was formed to consolidate the ground situation that existed at the time of signing the CFA. The parties had to give 14 days notice before withdrawing from it. By signing the CFA, and through many other steps undertaken during the negotiations, the UNF demonstrated that it was ready to accept this position.

As we have argued in chapter 5, the paramount reason for this position was the UNF's desire to revive the economy, which had taken a battering during 2000 and 2001. The fate of the economy was a major concern of the UNF leadership, who represented those who would benefit from an out and out neoliberal economic agenda more than any other section of the political leadership. Hence they were ready to make a qualitative jump regarding their attitude towards the LTTE.

The strategy of the UNF also treated the economic agenda and peace in two different compartments. *Regaining Sri Lanka* (Government of Sri Lanka 2003) was essentially a document to revive the economy in general, and to move in the direction of greater liberalisation. As a result there was no link between the economic strategy and peace. In chapter 5, we have seen how this undermined support for the UNF within the Southern electorate. Similar characteristics are seen when it comes to dealing

with the North/East. Compared to the effort that went in to spelling out the details of the economic reform programme, the attention given to the North/East was marginal. In the section titled 'Vision For Growth', which has 13 pages, there is only one page devoted to the North/East. In Part II, which is the bulk of the document and runs to 111 pages, only 7 pages are on the North/East. Finally, in a 110 page annex which spells out details of implementation, only 2 pages are devoted to the North/East. What is more, what is to be done in the North/East is conceptualised purely as rehabilitation. This, too, is what donors have contributed through the needs assessment that was carried out in the middle of the peace process.

The role of the international actors was critical right from the beginning. One of the interesting aspects, that has come to light since the collapse of the UNF-led peace process, was how the CFA was drafted. In a speech made in Washington on 4th December 2005, the person who headed the government peace secretariat at the time of the peace process found the haste in which the CFA was signed a major reason for its failure. This haste excluded any consultation with key actors, such as the president and commanders of the armed forces. Elaborating on what happened during drafting the CFA, he revealed that

> the Norwegian side insisted that their text, which had the benefit of inputs from the LTTE, had the best chances of being accepted by that organisation, meaning that they did not wish to see any tinkering with the text. (Goonetilleke 2006:305)

In other words, the CFA was very much a Norwegian creation, and they were in a hurry to get the signatures on their text.

Donor countries agreed with the fundamental objectives of the UNF strategy. They were supportive of negotiations between the government and the LTTE, as they saw these as the essence of peace. They equally approved the economic agenda as it favoured markets, private sector development and further

liberalisation of the economy. The basic strategy and ideology underpinning the UNF strategy fitted well with the donor agenda of ensuring security and stability and promoting liberal capitalism. As argued by Duffield, this is the key objective behind the donors' new found interest in conflicts. It has merged the two fields of development and security within development assistance (Duffield 2001).

The best indicator of the unanimous support that the UNF strategy received from donors is the increased amount of aid received during 2003, the period immediately after the CFA was signed. As shown in Table 6.1, the total amount of aid increased from Rs. 17.2 billion in 2002 to Rs. 61.2 billion in 2003 - an increase of nearly 350%. These aid flows supported the UNF government in its management of the economy, especially in deficit financing. The utilisation of foreign sources of finances to cover the budget deficit increased from 0.5% GDP in 2002 to 2.9% GDP in 2003 - an amount larger than was estimated in the 2003 budget (Central Bank of Sri Lanka 2003).

Table 6.1 Selected indicators of foreign aid 2000-2003 (in Rs. million)

	2000	%	2001	%	2002	%	2003	%
Loans	10,070	66.2	19,396	77.9	10,113	58.8	53,213	87.0
Grants	5,145	33.8	5,500	22.1	7,079	41.2	7,956	13.0
Total	15,215	100.0	24,896	100.0	17,192	100.0	61,169	100.0
Foreign Debt (% GDP)	43.1		45.3		45.6		47.9	
Deficit financing Foreign Sources (% GDP)	0.4		1.4		0.5		2.9	

Source: *Annual Reports* of the Central Bank of Sri Lanka, 2000-2003.

The utilisation ratio of foreign assistance also improved. It increased to 21% in 2003, compared to 13% in 2001 and 15% in 2002. This was partly because the prime minister took a personal interest in improving aid utilisation by bringing the External Resources Department, responsible for aid agreements and negotiations with donors, under the jurisdiction of his office. He also created a special committee to oversee the mobilisation and utilisation of aid.

The increased flow of aid also helped to adjust the balance between loans and grants. The proportion of grants in aid flows increased from 33.8% in 2000 to 41.2% in 2002. Correspondingly, the proportion of loans decreased from 66.2% to 58.8% for the same period.

However this generous support did not improve some of the basic parameters of the relationship with aid agencies. For example, the foreign debt burden of Sri Lanka increased from the year 2000 to 2003 from 43.1% to 47.9% of GDP. 50% of this increase was due to depreciation of the rupee, according to the Central Bank's *Annual Report 2003*.

This high level of foreign debt also meant that, despite increased donor support, there were some cases where there was still a net outflow of donor funds. This was the case in relation to Canada, Denmark, France, IBRD, Italy, Netherlands (2000 only), UK and USA. Data on net positive flow also shows the persistence of a pattern that began in the mid eighties - Sri Lanka's overwhelming dependence on three donors, the ADB, Japan and IDA loans from the World Bank.

In addition, the government also managed to secure important agreements, like the Poverty Reduction Growth Facility (PRGF) funds from the IMF, and Poverty Reduction Support Credit (PRSC) funds from the World Bank. As stated in the Central Bank's *Annual Report 2003*, these approvals were an endorsement of the country's economic policies, and helped to secure concessionary assistance from other donors and to encourage foreign investors (Central Bank of Sri Lanka 2003).

A perusal of specific agreements signed in 2003 shows that the bulk of projects for which aid was committed dealt with the mainstream economic agenda. Only 15 of the 62 projects were directly related to peace, or had provisions for work in the North/East.[1] The other 47 covered subjects related to the normal process of development. This is not to argue that donors were not interested in expanding their work in the North/East. The 15 new projects mentioned above show donors were keen to expand in those areas affected by war. But what really happened was that the signing of the CFA, and condition of normalcy and stability created by it, enabled donors to increase support for the mainstream economic agenda. This actually did not have to wait for the success or failure of the peace process. Donors, who have always had the economic agenda as their primary concern, responded to this situation quickly.

The UNF-led peace process soon ran into a number of difficulties. A number of factors contributed to its failure. First, the UNF was trying to do far too much without even controlling the presidency. The issue was not that cohabitation between the president and the prime minister was difficult, but that the UNF overestimated what it could do with the power it wielded within the political structure. There is no doubt that the UNF hoped to fill this gap with the support of the international actors.

Secondly, securing political support for the underlying assumptions of the CFA was difficult enough. On top of it, the UNF was trying an extensive economic reform programme without considering its political fallout, and how to manage that. There were no strategies to manage the politics of reform, and the proposal itself was not sensitive to the social contradictions of more than two decades of liberalisation. If the economic programme had had a social programme that was politically attractive, the UNF could have convinced the Southern electorate in 2004, even with all the flaws of the peace process. But the economic strategy alienated large sections of the Sinhala community, whose support

[1] Data from the External Resources Department, Ministry of Finance.

was essential to take the peace process forward. As we have argued in chapter 5, at least part of the reason for this economic agenda was the UNF's desire to satisfy the demands of donors.

The UNF strategy, of treating the economic agenda and the peace process in parallel compartments, came in for criticism from the LTTE. In fact, this figured prominently when the LTTE withdrew from direct negotiations. In Anton Balasingham's letter to the prime minister giving reasons for their withdrawal, he correctly pointed out that

> The government's 'Regaining Sri Lanka' document completely lacks any form of identified goals for the northeast. Statistics presented for substantiating the policy totally ignore the northeast and solely concentrate on southern Sri Lanka. However, this has been promoted as the national strategy to the international community to seek aid. (LTTE peace secretariat, www.ltteps.org)

Direct negotiations lasted only one year and two months. The biggest achievement of the UNF peace process was an agreement to find a solution to Sri Lanka's conflict within a federal framework, which was announced by the Norwegians after the meeting in Oslo from 2nd to 5th December 2002. As stated in this communiqué

> the parties agreed to explore a solution founded on the principle of internal self-determination in areas of historical habitation of Tamil-speaking peoples, based on a federal structure within a united Sri Lanka. (Statement by the Royal Norwegian Government, 5th December 2002, Oslo www.peaceinsrilanka.org)

The LTTE walked out of negotiations because it was not invited for a meeting, held in Washington in April 2003, in preparation for the Tokyo donor conference which was the highlight

for donor pledges. Hence one of the main actors in this drama - the LTTE - did not participate in the conference. From this point on, until the dissolution of the UNF government in February 2004, discussions between the UNF government and the LTTE were held through the Norwegian mediator. The focus was on establishing an interim arrangement that could take care of rehabilitation. The UNF submitted a number of proposals, only for them to be rejected by the LTTE. In the latter part of 2004, the LTTE came up with a proposal to set up an Interim Self-Governing Authority - ISGA. The substance of the ISGA raised many doubts about how far the LTTE was committed to federalism. It was more in line with a confederate arrangement, which dovetails with the two nation/two state theory that underpins LTTE politics. However this could not be discussed, because the government was dissolved by President Kumaratunga and a general election was called. The defeat of the UNF government in this election effectively ended the UNF strategy.

The experience of the peace process also shows that the LTTE had its own agenda, which did not exactly dovetail with perceptions of the strong supporters of the two-actor/parity of status model of peace. The immediate objectives of the LTTE included the following - to extend its control over the North/East and the sea, gain access to government controlled areas (especially in the Jaffna peninsula), gain recognition internationally, and control the resources that could flow into the North/East for rehabilitation purposes. This is not to argue that the LTTE had no interest in peace at all. But its interest in peace was on its own terms. Subsequent behaviour of the LTTE, which included putting forward the ISGA proposals and ensuring the defeat of the UNP candidate in the presidential election, clearly showed that the LTTE had a very different view of the UNF strategy. The LTTE was not happy with the UNF's 'international safety network', which was starting to encircle them. As already mentioned, the LTTE saw the UNF economic strategy for what it really was - a strategy to review the economy as a whole. It had very little to do with the problems

faced by people in the North/East. The LTTE leader clearly articulated this position in his last Heroes Day speech, delivered on 27th November 2006 (*Tamil Times* December 2006).

Although the peace process could not proceed as expected, from 2003 onwards the economy revived. Donor support for the mainstream economic agenda also continued. The highly publicised $ 4.5 billion committed at the Tokyo donor conference included funds for the economic reform programme, funds for development of the South and new money for the North/East. The hurriedly conducted needs assessment for the North/East was to be the primary document through which foreign aid could be mobilised for rehabilitation of the North/East.

The government could begin to utilise the funds for the economic agenda and development of the South right away. But the bulk of the funds for the North/East got trapped in the unmanageable politics of the peace process. Hence as far as the North/East is concerned, the absence of an 'economic dividend' did not undermine the peace process as some would argue (Kelegama 2005). It was the other way about. It was the politics of the peace process that undermined the possibility of economic dividend. On the Southern side, it was the politics of the economic reform that undermined the support of the Sinhala population. However much economists would like to have economic answers to political conflicts, without getting politics right it is extremely difficult to see any real economic development in the North/East. In other words, there is no possibility of putting the 'development cart before the conflict resolution horse'.[2] What is possible in such circumstances is humanitarianism and supporting people's survival strategies.

Despite the failure of the UNF led peace process, some of the fundamental assumptions that prevailed during this period still dominate the thinking of some of the donors and others who are

[2] This was the title of a lecture delivered at the International Centre for Ethnic Studies. See Sriskandarajah (2003)

seeking peace. A central assumption, that solving the conflict means successful negotiations between the LTTE and the Sri Lankan state, and that, in order to achieve these, the LTTE and the Sri Lankan government will have to be treated equally, is a firmly held view of many who want to promote peace. Hence their current strategy now is to somehow revive the UNF led peace process.

Given the current balance of political forces internally, as well as externally, it is very difficult to see how this approach can be taken forward. This approach is also a contributing factor for much of the violence perpetrated by armed actors such as the Sri Lankan army and the LTTE. A direct corollary of the search for parity is to establish parity on the ground at military level. Hence the struggle to control areas, displace population, ethnic cleansing, etc. It contributes to spiralling violence, human rights violations, humanitarian problems, and estrangement within, as well as between, communities.

Stability and security of the Sri Lankan state

The second perspective that informs international actors is much more focused on reforming the Sri Lankan state. This position agrees that Sri Lanka has a serious problem regarding the rights of the minorities, and it has to be solved politically. Resolving the problem involves reforming the centralised Sri Lankan state and devolving power, while maintaining its territorial integrity. This position does not ignore the need for negotiations with the LTTE. But it does not treat the Sri Lankan state on a par with the LTTE. The notion of symmetry between the two parties is not accepted by this position. Its starting point is the needs of an existing state.

If the behaviour of the LTTE threatens the Sri Lankan state, or if the LTTE does not fall in line with the security agendas of global powers, this position can shift towards supporting the security and stability of the Sri Lankan state. This objective of stability of an existing state is part and parcel of the larger objective of the stability of the whole South Asian region. As argued by some

specialists on security studies, the post Cold War security terrain can be better understood in regional terms.[3] There is an emergence of regional security structures, in which South Asia is one region. The security of the Sri Lankan state is necessary for the security and stability of the South Asian region.

Secondly, the commitment and investments that donor countries of the developed West and Japan have made to the Sri Lankan economy since 1977 are certainly another factor as to why the security and stability of the Sri Lankan state is important. In 1977, Sri Lankan ruling classes made a decisive shift in the economic model so as to integrate it with global capitalism. Since then there have been regime changes in the country. But there has not been a shift in the fundamental direction. For anybody who has knowledge of variations in Sri Lanka's development policies before 1977, this is a significant historical development. Prior to 1977, regime change did have a significant impact on the fundamentals of the economic policies. This has ceased to be the case since 1977. Of course this does not mean that Sri Lanka has followed a reform agenda found in the neoliberal text books. A closer look at the economic history of many countries, even in the West, will show us this does not happen in most places. What really matters is not the technical details of reform. But that Sri Lanka does not go off the rails of the fundamentals of a market oriented, globalised economy, supportive of the private sector and foreign investments at ideological and political level. Currently, examples of such deviations are Zimbabwe and Venezuela. At least at present there is no danger of Sri Lanka taking such a path.

In addition, the Sri Lankan economy, to which the aid agencies have made a significant contribution, has been performing at a reasonably satisfactory level. Once again, it is not the 8-10% growth the promoters of neoliberalism are looking for as an answer to

[3] The best exposition that I have seen on this is by Barry Buzan and Ole Wæver, who represent what is called the Copenhagen School of Security Studies. See Buzan and Wæver (2003)

every problem that countries face. The available data shows that it has been a reasonable 4-5%. Since this has been achieved in the middle of a war, it is not easy to make a case for abandoning Sri Lanka. On the contrary, the terminology used by aid agencies points out the resilience of the economy.

It is these reasons related to security and the economy which underpin the second perspective of supporting the Sri Lankan state, while urging it to find a political answer to the Tamil question. This is the manner in which the fields of security and development have merged in the aid discourse in Sri Lanka. It fits neatly into the interpretation provided by Duffield (Duffield 2001).

The presence of this second perspective was apparent even during the 2002-2004 peace process. With the breakdown of the peace process it has become much stronger. Sometimes the behaviour of the LTTE has helped to consolidate it. The result is that, even after the breakdown of the peace process, Sri Lanka continues to receive assistance both at political and economic levels. We explore this by looking at the changing policies of the three co-chairs of the peace process - the US, Japan and the EU, and multilateral aid agencies - the ADB and World Bank. This covers the key political actors and donors as far as Sri Lanka is concerned.

The United States is the prime example of a country whose involvement in the peace process is principally from the point of view of supporting an existing state, rather than from a point of view of being an impartial mediator between the Sri Lankan government and the LTTE. In addition, the US government continuously emphasised that it supported the territorial integrity of Sri Lanka. However it has also consistently accepted that Sri Lanka has a political problem in the area of ensuring rights of minorities. It has advocated that the problem has to be resolved politically through negotiations. All US ambassadors have made this clear in their speeches and statements.

When the Sri Lankan peace process began, the LTTE was a banned organisation in the US. Despite this, the US provided strong

support for the peace process. It became a co-chair of the exercise. The deputy secretary of state, Richard L. Armitage, took almost a personal interest in the process. It is very difficult to think of another occasion when a Sri Lankan issue had such high level interest within the US administration. Analysts have pointed out several reasons for this position, such as general concern about terrorism at a global level, a request by the Norwegians, a lack of concern on the part of India for any US involvement, and most of all the belief that the peace process was actually going to achieve something (Schaffer 2005). The last sentiment was confirmed by Armitage in a speech to the Centre for Strategic and International Studies in Washington, when he stated that 'the parties to the conflict appear to be ready to reach a resolution, more so than any other time in the past twenty years' (*Daily News* 17th February 2003).

However it was pretty clear right from the start that the US idea of a successful peace process envisaged disarmament, and the entry of the LTTE into the democratic process. In the same speech that gave the reasons for the US interest in the peace process, Armitage also said the following with regard to what was expected from the LTTE.

> The Tigers need to honour the restrictions and conditions that the ceasefire - and future negotiations - set on their arms supply. Logically, down the road, this is going to include disarmament issued (sic) themselves. Internal self-determination, within the framework of one Sri Lanka,[4] is not going to be consistent with separate armies and navies for different parts of the country. (*Daily News* 17th February 2003)

Hence, according to the US position, the so-called ground reality which existed at the beginning of the peace process has to be

4 The speech was made after the Oslo Declaration.

reversed, so as to ensure that the Sri Lankan state enjoys a monopoly position when it comes to carrying arms. The US made this position clear right at the beginning of the peace process.

In addition, the US also has a military co-operation agreement with the Sri Lankan government. According to a former ambassador, the 'gradual resumption of military cooperation between the United States and Sri Lanka in the mid-1990s and beyond' (Schaffer 2005:3) happened because of the Sri Lankan government's efforts to begin the peace process. Currently there is also co-operation between the US and Sri Lanka on the global war on terrorism, which is a major issue for US foreign policy. These factors go along with a policy of supporting the Sri Lankan government to find a political solution to the conflict, while not treating the LTTE and the government on equal terms.

This particular position of the US government created complications for a peace process which had, as its fundamental premise, parity or symmetry between the two parties. These complications reached a high point when the LTTE could not be invited to a meeting in Washington, and the LTTE used this as one of its reasons for walking out of negotiations. The LTTE interpreted this as a break in the principle of treating both parties on equal terms (see Balasingham's letter to the prime minister, *Tamil Net*, April 23rd 2003). Although the US ambassador at that time, Ashley Wills, in an interview after the walkout, regretted the LTTE did not attend the Tokyo Donor Conference, he emphasised that the US official position was that the conference should go ahead in spite of the LTTE boycott (interview with Reuters - *Daily News* 26th April 2003). Richard Armitage reiterated this in an interview after the conference, when he said that it was

> the position of United States government that this Tokyo conference should absolutely be held - notwithstanding the fact that the LTTE chose not to participate. The international community cannot be blackmailed by a group who refuses to take part in the peace process. (Interview, *The Island*, Saturday 14th June 2003)

The US government was also a strong supporter of the declaration that came after the Tokyo conference. The final part of the declaration, entitled 'Linkage between Donor Support and Progress in the Peace Process', had several clauses aimed specifically at the LTTE. Among them were ones that related to the participation of a Muslim delegation in negotiations, progress towards a final settlement on the principles of the Oslo declaration, adhering to human rights norms, the issue of child soldiers and demilitarisation. US representatives in their statements always emphasised the need to adhere to these principles.[5]

Subsequent to the collapse of the 2002-2004 peace process, and with the escalation of violence, the US government made it very clear where they stood. Ambassador Jeffery Lunstead, who followed Ashley Wills as the US ambassador in Colombo, in a speech to the American Chamber of Commerce in Sri Lanka on January 9th 2006, had a clear message to the LTTE when he spoke of military assistance given to Sri Lanka. In one part of his speech, he bluntly stated

> through our military training and assistance programs, including efforts to help with counterterrorism initiatives and block illegal financial transactions, we are helping to shape the ability of the Sri Lankan Government to protect its people and defend its interests. Let me be clear, our military assistance is not given because we anticipate hostilities ... We want peace. We support peace. And we will stand with the people of Sri Lanka who desire peace. If the LTTE chooses to abandon

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A bizarre phenomenon that was seen in Colombo during this time was the position taken by some sections of civil society. Their adherence to the principles of symmetry and parity was so strong that they were critical of these conditions in the Tokyo declaration, although many of them were principles that civil society has fought for for a long time.

peace, however, we want to be clear, they will face a stronger, more capable and more determined Sri Lankan military. We want the cost of a return to war to be high. (www.srilanka.usembassy.gov)

More recently, a clarification of the US position was given by an officer at the State Department. At the press conference after the Donor Co-Chairs meeting held in Washington in November 2006, Under Secretary of State Nicholas Burns, answering a question from a journalist who was still not sure how the US government treated the Sri Lankan Government and LTTE, stated

> the Sri Lankan people and government are good friends to the United States. We support the government ... We believe the government has a right to try to protect the territorial integrity and sovereignty of the country. The government has a right to protect the stability and security in the country ... We also believe that the Tamil Tigers, the LTTE, is a terrorist group responsible for massive bloodshed in the country and we hold the Tamil Tigers responsible for much of what has gone wrong in the country. We are not neutral in this respect. (*Daily Mirror*, November 23rd 2006)

This statement was made at a joint press conference in the presence of representatives of the two other co-chairs and the representative of Norway. Hence the under secretary emphasised that this was only the US position. But it was a very clear statement of the current US position. Its importance got enhanced even more when the current ambassador, Robert O. Blake, quoted this passage in his speech for the Bandaranaike Centre for International Studies five days later (Robert O. Blake Jr., 'The United State and Sri Lanka. Mutual strategies in development and security', *Daily News*, 4th December 2006).

The title, 'Mutual Strategies in Development and Security', of the speech by the current US ambassador mentioned above,

aptly sums up how the United States government views its policies towards Sri Lanka. It is a policy to support the security and stability of a state that has got increasingly integrated into global capitalism.

In formulating such a policy for Sri Lanka, the stability of the entire South Asian region – and not just Sri Lanka - is important for the US. Being the only superpower, US policies are not made for single countries, but have to take into account the larger unit of South Asia. Actually this was the case even when the Sri Lankan peace process was active. In a paper presented to a seminar organised by the Centre for Policy Alternatives (Schaffer 2005), the former US ambassador to Sri Lanka, who is currently at the Centre for Strategic & International Studies in Washington DC, placed US policies towards Sri Lanka in the overall context of US policies towards Asia. These have become important for the US because of the growth of Asian capitalism. Placing the concerns about the Sri Lankan conflict in this context, she went on to state that 'the principal US interest in play in Sri Lanka is the risk ethnic conflict here poses to the peace of South Asia and Indian Ocean region' (Schaffer 2005:3). According to her, this wider interest within which Sri Lanka figures is certainly influenced by the dramatic changes that have taken place in Indo-US relations. In her paper she asserted that

> In the past fifteen years there has been a revolution in US-India relations. India's economic growth, the increasing size and prominence of the Indian-American community, and India's reassessment of its interest in the wake of the end of the Cold War have made the United States into India's most important extra-regional power. (Schaffer 2005:2)

Japan, which is the other country in the troika that constitute the co-chairs, has been the largest bilateral donor for Sri Lanka. This has remained so during the peace process. Japanese aid policy is based on the classic paradigm of state to state relations. What the Japanese call Overseas Development Assistance (ODA) is a

transfer of funds from one state to another, in order to assist the recipient state primarily in economic development. For much of its history of assistance to Sri Lanka, this has been the dominant paradigm. Even when the state that it is assisting has become an actor in a conflict, unlike the case with some other bilateral donors, there has been little questioning of this paradigm (see chapter 4).

The beginning of Sri Lanka's peace process coincided with a new direction in Japan's foreign policy. For many years Japan has been one of the largest aid donors globally, and, in keeping with a policy of promoting Japanese interests through aid, the focus had been on linking aid with trade. The new direction sought to change this emphasis. It aimed at utilising development assistance for political purposes, such as resolving conflicts, and this new direction was to be tried out first in Asia where Japan had a greater degree of experience and interests. Spelling out the objectives of Japanese ODA in the context of this new foreign policy, the prime minister of Japan, in a policy speech delivered at the time of the Sri Lankan peace process, stated that

> In addition to efforts to improve the efficiency and transparency of Official Development Assistance (ODA), it will be extended strategically, with a priority on human security, including such areas as stability and growth in Asia, post-conflict consolidation of peace, and the environment.[6]

It is interesting to note that in this same speech he made a special mention of Sri Lanka and Aceh, when he stated that 'Japan will continue to contribute to peaceful nation building in various regions, including the Democratic Socialist Republic of Sri Lanka and Aceh in the Republic of Indonesia'.[7]

6 Text of prime minister's policy speech in *The Japan Times*, 1st February 2003.

7 Text of prime minister's policy speech in *The Japan Times*, 1st February 2003

Japan's decision to become a co-chair of the peace process, appoint a high ranking Japanese diplomat like Ambassador Yasushi Akashi as the Japanese representative to the co-chairs, host the Tokyo donor conference, and its readiness to increase its assistance, reflect this new direction in foreign policy. This has a direct bearing on the *Country Assistance Program* published in April 2004. Pointing to the ceasefire agreement that had been signed, it considered 'the consolidation of peace to be an indispensable part of the assistance program for Sri Lanka, and this recognition turns a new page in the history of Japan's assistance to Sri Lanka'.[8]

However, unlike some others donors, the new-found interest in the case of Japan did not mean that it gave less attention to supporting the mainstream development agenda. The *Country Assistance Program* tackled the links between development and peace by arguing that these should not be treated as a simple dichotomy: 'If peace does not take root, long-term development cannot evolve, and conversely, if the vision for long-term development is not realized, the consolidation of peace will remain precarious'.[9]

On the basis of this vision, the 2004 *Country Assistance Program* committed assistance under two headings:(a) Assistance to support consolidation of peace and reconstruction; and (b) Assistance that is in line with the country's medium and long term vision for development. Under the peace heading, the principal assistance was to the North/East for immediate humanitarian and rehabilitation assistance, and assistance for nation building, which had the objective of long term reconciliation. Under development, the focus was on (i) the improvement of economic infrastructure, (ii) raising the capability to attract and acquire foreign currency,

8 *Japan's Country Assistance Program for Sri Lanka*, April 2004, www.infojapan.org

9 *Japan's Country Assistance Program for Sri Lanka*, April 2004, www.infojapan.org

and (iii) poverty alleviation.'[10] This assistance to mainstream development covered a range of sectors such as power, transport, export promotion, foreign investment, IT, human resource development, tourism, social infrastructure, health and regional industries. This was quite extensive, and certainly absorbed the bulk of the committed aid. This does not mean that the Japanese government was not ready to increase assistance to the North/East in the future. Japanese representatives made this very clear during the Tokyo conference. But this depended very much on the success of the peace process.

Therefore the new interest in peace did not in any way dilute the traditional Japanese interests in supporting the economy. The Japanese were also conscious of the need to continue support to the 'South', which in their view was achieved through financing mainstream development activities. On various occasions a spokesperson from the Japanese establishment stressed this fact.[11] Therefore what really happened during the peace process was to add a layer of peace on top of the traditional development assistance for the economy. But with the collapse of the peace process, the aid programme could not expand to the extent it wanted to in the North/East, and what remains is the traditional development assistance.

Hence Japanese support to the economy of Sri Lanka, the strength of which is essential for the security and stability of the Sri Lankan state, continues despite the collapse of the peace process. Data for net receipt of development assistance given below shows that, just prior to signing of the CFA, Japanese assistance accounted for close to 60% of net flows of aid. This reduced to 38% in subsequent years, primarily because of increases from other donors. Some of this increased assistance was certainly

10 *Japan's Country Assistance Program for Sri Lanka*, April 2004, www.infojapan.org

11 See interview with Yasushi Akashi on the eve of the Tokyo Donor Conference, *Sunday Times*, June 8th 2003.

because of the tsunami. However, by 2006 the importance of the tsunami has waned. During that year, Japan signed agreements to support Galle port development, infrastructure development in the East and the development of tourism. The bulk of the funds were for the Galle port development project.

During the UNF-led peace process, strongest support for the model followed came from some of the European Union (EU) countries. Both governments and civil society organisations of EU countries had been involved in the Sri Lankan crisis through various means. They have tried to use most of the instruments such as lobbying, putting pressure on the government, foreign aid, etc., to bring about a political settlement to the conflict. The presence of a large number of Tamil refugees in the EU countries has been a contributing factor to this. Generally, the strongest support for political aspects of the 'liberal peace' thesis, i.e., that conflicts can be resolved through establishing institutions that uphold liberal values, and strategies that focus on diplomacy and multilateralism in resolving conflicts, has come from EU countries. These values did play a role in the European approach to Sri Lanka's conflict during the peace process.

However, the other side of the coin is that the EU is still a product, no doubt unique, of the state system which dominates the world. Therefore when it comes to dealing with the rest of the world, the dominant unit is the state. While the EU has taken many steps to put pressure on the Sri Lankan government, and has been more enthusiastic about the parity model of the CFA, when this model failed its normal relationship with the Sri Lankan state continued.

The EU took a significant shift towards supporting the stability and security of the Sri Lankan state, after various acts of the LTTE which undermined the peace process. It took a decisive step detrimental to the LTTE when the foreign minister of Sri Lanka was assassinated by the LTTE in August 2005. This was followed by a travel ban on LTTE members. Further escalation of violence resulted in listing the LTTE as a terrorist organisation on 31st May

2006. This event demonstrates how the state system, which is still an integral part of the globalised world, behaves. While the peace process was on, and the non-state actor behaved within certain norms, it was given recognition and support. But when the peace process was undermined, as a result of both the state and non-state actors working in parallel, there was differential behaviour towards the two. While the pressure on the state was channelled through the established structures of global governance, the censure of the non-state actor was much more severe.

The European Union's differentiated behaviour towards the Sri Lankan state and the LTTE also has its own security and strategic interests. In the post Cold War period, these strategic interests have a strong link with the rise of radical Islam, and the presence of migrants from the periphery in European countries. There is a fear that uncontrolled migration will bring in problems of the periphery to Europe, and this, combined with the presence of a Muslim population and their radicalisation, will create a security nightmare. The result has been for the EU to take steps to create 'Fortress Europe', from which unwanted migrants and refugees are barred.

Sri Lanka's conflict has generated many refugees who have sought asylum status in Europe. While some have received the right to settle in these countries, many European countries repatriated failed asylum seekers, even during the war. For some time European countries have been seeking a formal agreement with Sri Lanka, in order to regularise this return flow of refugees. In January 1994, Switzerland became the first country to secure an agreement. The peace process created conditions for a much wider agreement. Indeed one of the major achievements of the European Union during the peace process was to secure a similar agreement applicable to all member countries. This took place during the visit of the Sri Lankan foreign minister to Brussels in July 2002. This has had an impact on the asylum policy of individual countries. For example, Britain, making use of the provisions of this agreement, declared Sri Lanka a 'safe country', which allows Britain to send failed asylum seekers back to Sri Lanka speedily.

The primary aim for the three big multilaterals - the IMF, World Bank and the ADB - has been to promote a market economy or capitalism. The IMF's budgetary support was conditional on the government carrying out stabilisation measures and structural reforms. The World Bank and ADB have been involved in policy based lending for the same purpose. The economic crisis of 2000 and 2001 marked a serious challenge to the economic agenda promoted by these agencies. In addition to factors such as global economic recession and drought, the impact of the war was a contributory factor to this crisis. Even if the other factors were rectified, the continuation of the war would have jeopardised the recovery process significantly.

Hence the UNF-led peace strategy was welcomed by these agencies wholeheartedly. In addition, the UNF promised to carry out a reform agenda that these agencies had been clamouring for for years. The Bank and other multilateral agencies were ready to help the government to take this mission forward. The meeting of minds between the government and aid agencies due to these factors was such that, in a rare departure from normal tradition, the country strategy paper of the World Bank openly praised the regime in power. For example, the opening page of the executive summary of the *Sri Lanka. Country Assistance Strategy of the World Bank Group for 2003-2006* stated that on the political front a private sector oriented government led by Prime Minister Ranil Wickremasinghe had 'assumed control and has moved forward decisively in starting to implement a comprehensive reform program' (World Bank 2003). The IMF was ready to sign the much sought after PRGF loan package. The ADB finalised a new country strategy which included assistance to the North/East in September 2003. In a dramatic gesture of the ADB support for the peace process, the ADB president travelled to Killinochchi and met members of the LTTE political wing, and pledged support and more assistance for rehabilitation of the North/East.[12] The ADB, World

[12] The visit was in March 2003, just before the LTTE walked out of the peace process.

Bank and Japan Bank for International Cooperation (JBIC) were the key players in formulating the needs assessment which supplemented *Regaining Sri Lanka.*

A closer look at support from the World Bank and ADB at the time of the peace process shows that it had two components. One, to review the economy, and the other, to support the reconstruction and rehabilitation of the war-torn North/East. Although support for North/East rehabilitation was identified using terms that included peace or conflict, in actual fact this was simply support for rehabilitation of infrastructure in the North/East. The World Bank country strategy used the phrase 'reducing conflict related poverty', while the ADB preferred the term 'post-conflict assistance'. ADB actually uses the term post-conflict in its updates published in July 2006, although by this time the CFA had been reduced to a mere piece of paper. Therefore the basic idea was to support the mainstream development agenda and provide assistance for rehabilitation of the North/East. The formulation of the strategy never envisaged that there could be a conflict between the politics of economic reform and the peace process.

In other words, although these country strategies use terms like peace or conflict, there is very little conceptualisation of how development is interrelated with conflict. The possibility that the UNF economic strategy, which, according to authors sympathetic to the strategy, was dictated by the need to get donor support (Kelegama 2005), could contribute to alienating the support of the Southern electorate was not considered. There was no recognition that peace would need more than reconstruction of the North/East. However once the link between peace/conflict and development is conceptualised in this manner and in two compartments, it is very easy for these country strategies to continue as before, even when the war resumes. This is precisely what has happened with the collapse of the peace process. Progress reports of both the World Bank and ADB strategies shows how much mainstream

development support continues while there is on-going conflict.[13] On the other side, it has been difficult to make progress in development of the North/East.

The end result of the processes analysed above is that Sri Lanka continues to receive foreign assistance at a considerable level. The figures that we have provided in Tables 6.2 and 6.3 demonstrate this. These figures are on the basis of net flows, which take into account debt repayments that Sri Lanka has to pay. If we take only the disbursement figures, they show an even greater commitment of donors to Sri Lanka. Speaking at the recently concluded Development Forum[14], the director of the External Resources Department highlighted that 'the total disbursements by all development partners in the year 2006 was US$ 1,052 million', which is the highest ever achieved.[15] A perusal of the agreements signed in 2006 shows that this assistance covered many areas of mainstream development, such as water supply, road development, port development, improved planning, e-learning, education sector, local government capacity, and general economic and technical co-operation.[16]

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13 See Country assistance strategy progress reports, www.worldbank.lk and Country strategy and program updates, www.adb.org

14 The Development Forum is a regular gathering of aid donors which has replaced the Paris Aid Group meeting.

15 Highest ever aid of $1.05 billion in 2006, *Daily Mirror* 5th February 2006.

16 It is true immediately after the tsunami some of this assistance would have covered tsunami reconstruction, but by 2006 this was less important.

Table 6.2 Net receipts of foreign assistance from major donors 2000-2005 ($ million)

	2000	2001	2002	2003	2004	2005
Australia	3.4	2.4	15.8	18.8	9.5	0.9
Canada	-2.3	-2.2	-2.7	-3.0	-3.3	-0.1
Denmark	-0.6	-0.6	-0.6	-0.7	4.8	0.0
Finland	0.0	0.0	0.0	0.0	0.0	0.0
France	-4.2	-5.0	-5.3	-5.8	-3.4	0.3
Germany	11.1	18.3	0.2	6.5	25.0	31.2
Italy	0.0	0.0	-0.5	-1.1	-1.2	8.7
Japan	134.3	135.9	89.9	241.4	160.4	224.9
Netherlands	-1.9	4.8	6.5	9.1	-5.0	8.2
New Zealand	0.0	0.0	0.0	0.0	0.0	0.0
Norway	4.3	3.3	5.2	4.5	3.9	3.5
Sweden	3.2	1.7	3.0	4.0	12.8	6.4
Switzerland	0.0	0.0	0.0	0.0	0.0	7.2
UK	-4.2	-4.6	-0.7	-2.2	-2.4	0.0
USA	-19.0	-26.3	-29.1	-30.8	-23.7	9.8
ADB	62.9	64.6	129.5	181.8	151.5	165.6
EEC	0.0	0.0	0.0	0.0	0.0	0.0
IBRD	-2.5	-1.5	-1.7	-1.8	0.0	0.0
IDA	29.5	7.6	59.2	165.3	30.1	73.5
IMF	0.0	0.0	0.0	0.0	0.0	0.0
United Nations	0.0	0.0	0.0	15.6	0.0	96.9
Total aid for year	**213.9**	**198.5**	**268.8**	**601.6**	**358.9**	**637.1**

Source: computed from Central Bank data.

This continued support for Sri Lanka's development after the collapse of the peace process does not mean that the Sri Lankan state is having a free ride with the international actors. In this globalised world, this support is conditional. The Sri Lankan state has to behave in a particular way for this support to continue. On

Table 6.3 Net receipts of foreign assistance from major donors 2000-2005 (% distribution)

	2000	2001	2002	2003	2004	2005
Australia	1.6	1.2	5.9	3.1	2.6	0.1
Canada	-1.1	-1.1	-1.0	-0.5	-0.9	0.0
Denmark	-0.3	-0.3	-0.2	-0.1	1.3	0.0
Finland	0.0	0.0	0.0	0.0	0.0	0.0
France	-2.0	-2.5	-2.0	-1.0	-1.0	0.0
Germany	5.2	9.2	0.1	1.1	7.0	4.9
Italy	0.0	0.0	-0.2	-0.2	-0.3	1.4
Japan	62.8	68.5	33.4	40.1	44.7	35.3
Netherlands	-0.9	2.4	2.4	1.5	-1.4	1.3
New Zealand	0.0	0.0	0.0	0.0	0.0	0.0
Norway	2.0	1.7	1.9	0.7	1.1	0.5
Sweden	1.5	0.9	1.1	0.7	3.6	1.0
Switzerland	0.0	0.0	0.0	0.0	0.0	1.1
UK	-2.0	-2.3	-0.3	-0.4	-0.7	0.0
USA	-8.9	-13.3	-10.8	-5.1	-6.6	1.5
ADB	29.4	32.6	48.2	30.2	42.2	26.0
EEC	0.0	0.0	0.0	0.0	0.0	0.0
IBRD	-1.2	-0.8	-0.6	-0.3	0.0	0.0
IDA	13.8	3.8	22.0	27.5	8.4	11.5
IMF	0.0	0.0	0.0	0.0	0.0	0.0
United Nations	0.0	0.0	0.0	2.6	0.0	15.2
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: computed from Central Bank data.

the economic side, if the Sri Lankan economy deviates from the overall pro-market, pro-private sector, liberal capitalism inaugurated in 1977, this support will be seriously questioned. This has already happened while the support for the economic agenda continued. For example, Sri Lanka has received only a small part of the PRGF

assistance from the IMF. The balance has been held up because the necessary reforms that were agreed upon with the IMF did not take place. ADB has suspended support to the Ceylon Electricity Board, once again because the reforms of the institution that they were expecting did not take place. Hence this support is conditional. Any significant deviation from these policies will have negative repercussions.

The other aspect of concern is the worsening situation with regard to the conflict. This means that, although there is support for the security and stability of Sri Lanka, it is not at the expense of negotiations and the call for a political settlement. Currently almost all donor countries are closely following humanitarian and human rights costs of an escalating conflict. A number of reports have come out on these issues. Countries and international organisations have expressed their concern about the worsening situation. Co-chairs of the peace process have kept the issue alive through regular statements. At the recently concluded Development Forum, all major international actors - the World Bank, ADB, Japan and the US - expressed their concern about the implications of the conflict. What surprised many were the blunt comments from the vice president of the World Bank. In his opening address he stated that

> The renewed and deepening conflict in Sri Lanka over the past six months or so looms over everything else that we might say here. There is no way to politely skirt this issue. As a major development partner to Sri Lanka, the World Bank would be failing if we did not place the conflict front and center in our deliberations for it is this that constrains the country's development and stands in the way of its tremendous potential.[17]

[17] Praful Patel, Opening Remarks at the Sri Lanka Development Forum 2007, web.worldbank.org.

Strengthening this sentiment, the current US ambassador stated that the US 'remains unwavering in our conviction that there can be no military solution to the conflict'.[18]

Finally, the overall direction in Sri Lanka's foreign policy will be closely observed. In a peculiar way, Sri Lanka's non-aligned foreign policy brought friends from various ideological persuasions. This was demonstrated when the Sri Lankan state was first challenged by an insurgency in 1971. On top of this, Sri Lanka found many new friends with the liberalisation of the economy in 1977. In this period the role of the developed West and Japan assumed a prominent position. However the fact is that Sri Lanka's old friends, such as China and India, have not disappeared from the scene. In fact, with the economic growth of these two Asian giants, their role in Sri Lanka is likely to expand. Therefore the question is: how will Sri Lanka, which is locked into global capitalism on one side, and unable to resolve an intractable conflict on the other, position itself in this complex international environment? Mistakes on this front will have immediate repercussions on the current structures of support.

A fragmented state in a globalised world

Contemporary Sri Lanka is characterised by two features. On one hand, it is a society that is globalised through various structures and processes. The implication of this is that it is extremely difficult to understand most aspects of social life in Sri Lankan society today only by focusing on what is going on within the country. Analyses that confine themselves within the nation-state tend to miss the most important dimension that is shaping the country's future. Certainly the beginning of this history of globalisation goes back to the colonial period. But opening up the economy four decades ago intensified it.

[18] US Ambassador Robert Blake remarks to the Sri Lanka Development Forum, January 29, 2007, www.colombo.usembassy.gov

On the other side, Sri Lanka has become a fragmented state due to the two-decades-long conflict. However, it is important to note that the conflict has not undermined this process of globalisation. The conflict has brought the international system into affairs of the country which were hitherto protected on the basis of notions of sovereignty. The global system has intervened in conflict affected areas, as well as in the rest of the country.

Therefore spatial patterns in the country bear a resemblance to the scenarios described by Duffield, where the exclusionary logic of global capitalism operates (Duffield 2001). Spatially, while one part of the country is linked to global capitalism, the other part is characterised by the conflict and all its social and economic consequences. It is controlled by an armed group, which in turn is linked to the global system in various ways.

This integration of Sri Lanka into the global system, and the intervention of the global system in Sri Lanka's conflict, has brought out different political responses within the country. On one hand, we have the nationalists and traditional left who still operate within a pre-globalisation framework of nation-states. They do not take into account changes that have been taking place within the nation-state system in the period of global capitalism. This is not to argue that nation-states are redundant. But nation-states have to adjust to the pressures of global capitalism. On the other side, are the liberal internationalists who not take into account the contradictions of the globalisation process. The latter approach does not pay adequate attention to politics and power within the international system, or the contradictions of global capitalism. What we need is an analysis that can unpack the contradictions, as well as the opportunities, that the international system provides us to promote the cause of peace and development.

Donor assistance was an integral part of the construction of this fragmented state. Right throughout the post-independence period, donor support was never apolitical. Regimes that adhered to policies that were conducive to the development of capitalism received generous support from donors. Hence, due to the opening

up of the economy in 1977, Sri Lanka received extremely generous support from donor countries. At the initial stages, despite regular pronouncements from foreign policy establishments for a negotiated settlement of the conflict, neither the undermining of democratic institutions by the ruling classes and the institutionalisation of political violence, nor the continuation of the conflict, reduced this assistance to any significant degree in order to force the ruling classes to rethink their policies towards the conflict.

This attitude could not continue for ever. Internally, the deteriorating situation, and, internationally, the recognition that conflicts in the periphery are a new security problem in the post Cold War period, have brought conflict as a central concern of most aid agencies. As argued by Duffield, there has been a merger of security and development terrains among the aid agencies operating in Sri Lanka (Duffield 2001).

At present most donors operating in Sri Lanka have conflict as a central concern. Most will agree that there is a need for a political solution to the conflict. However, within this unanimity of the idea of political solutions and negotiations, one can identify two distinct approaches. The first, which prevailed during the UNF-led peace process, was based on treating the Sri Lankan state and the LTTE, which is an armed group that controls one part of the country, on a par with each other. However there was no political space for this to continue. It collapsed due to its inner contradiction. The second approach gives priority to promoting capitalism in Sri Lanka, and ensuring stability and security for that purpose. It is the contradictions or interactions of these two approaches that determine how the Sri Lankan state is locked into the global system. It is within these contradictions that one needs to find space to promote economic growth, social justice and peace in Sri Lanka.

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