TAMIL TALKS: Again the Sirima - Indira connection

LANKA GUARDIAN

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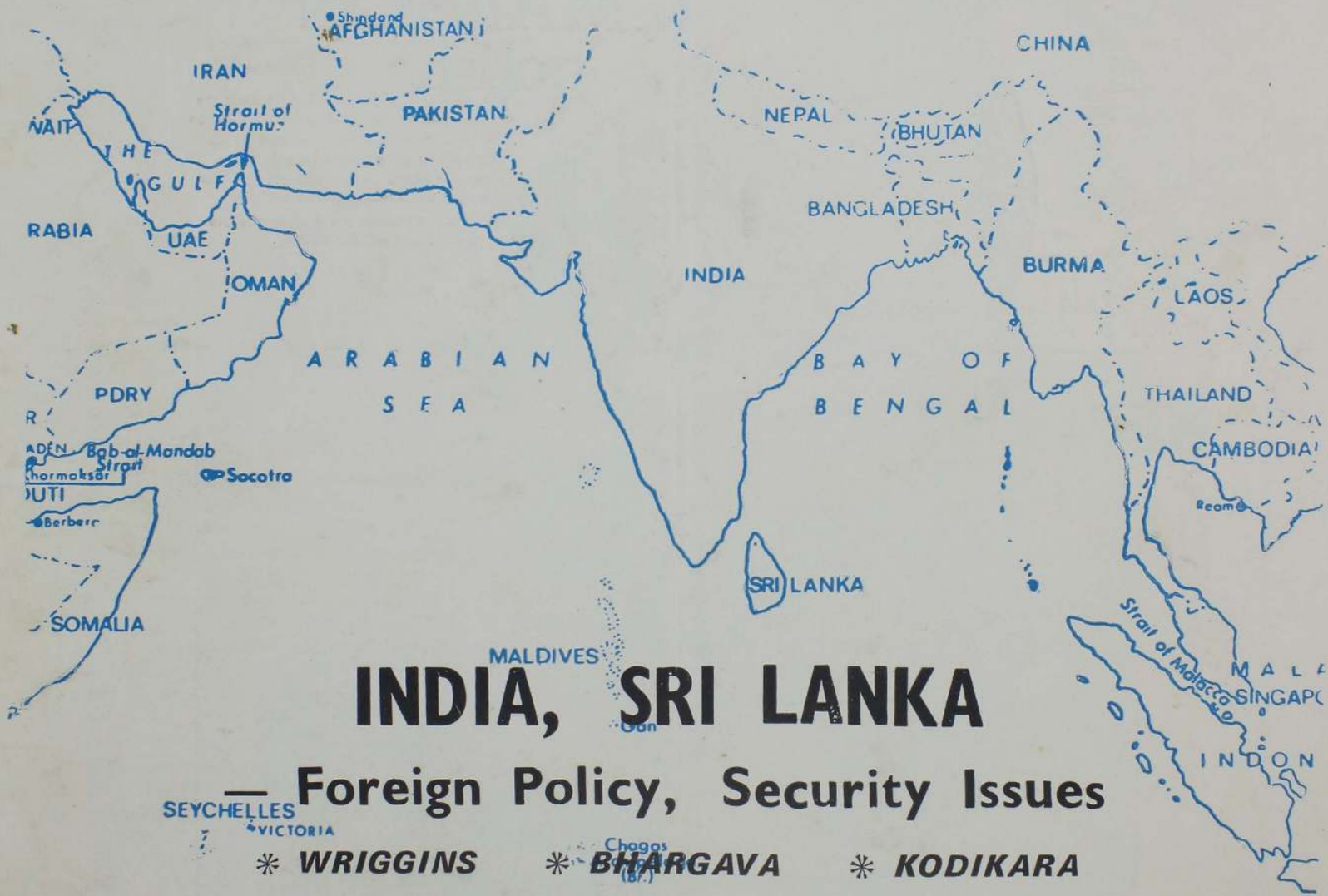

INDIA, SRI LANKA

— Foreign Policy, Security Issues

* *WRIGGINS* * *BHARGAVA* * *KODIKARA*

EXCLUSIVE GUARDIAN REPORT

Jan Pieterse in Nicaragua, El Salvador, Honduras

Lankan Politics and World Crisis — Dayan Jayatilleka

Our Payments Problems — World Bank Study

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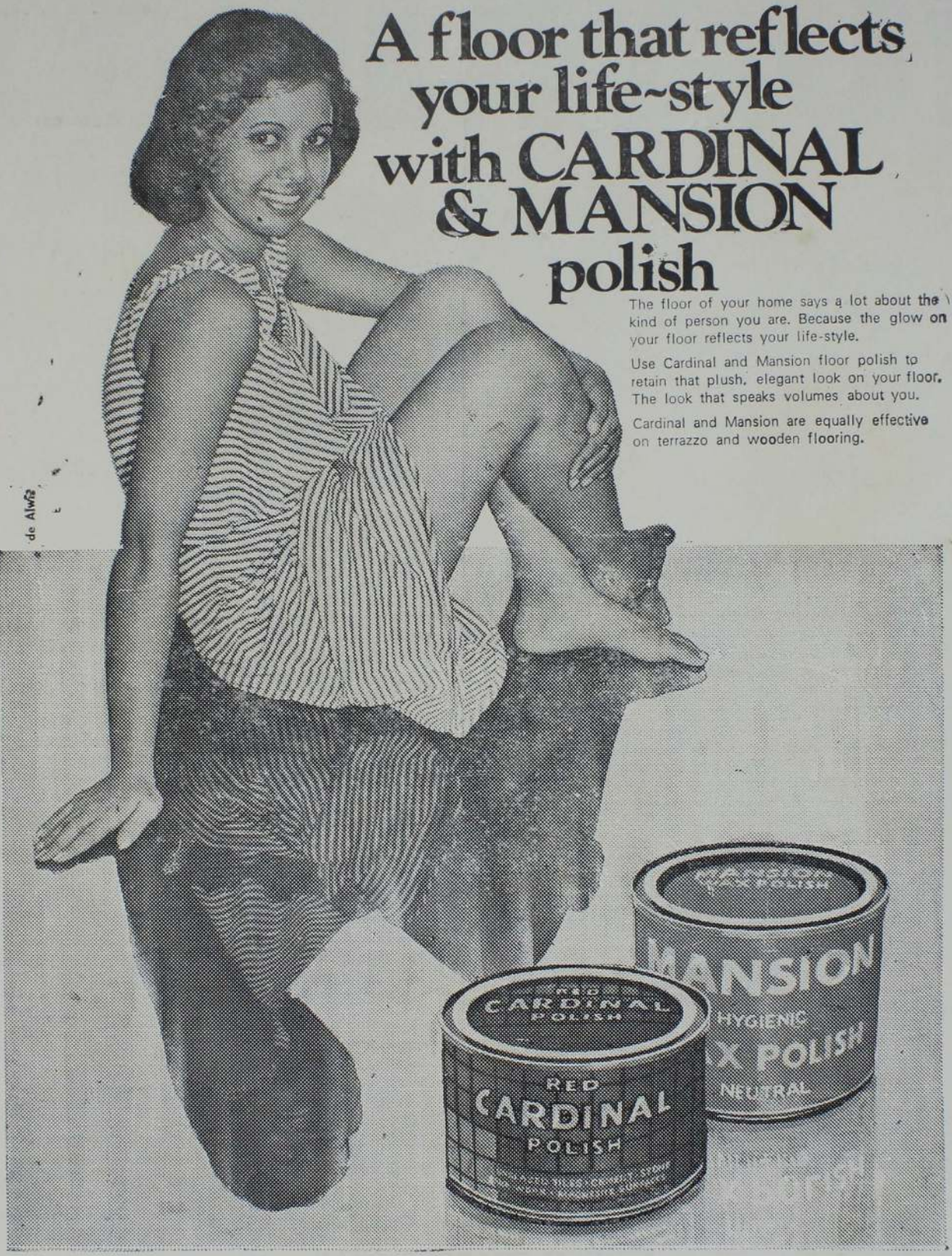

TRENDS + LETTERS

PAYING THE PRICE

Who'll pay the bill? Though the Finance Minister, Mr. de Mel, has said that the cost of the extensive damage done during 'Black July' was not as high as originally feared, he has also remarked that some "invisible" items which are difficult to compute rightaway have not been taken into account. Tourism is the most obvious, of course.

More recently, Mr. de Mel has spoken of a tough budget. Plainly he is preparing the way for stricter austerity. After months of hard bargaining, the IMF did release 100 million dollars as standby credit for a period of 18 months. (That was only half the sum we asked for).

The 'squeeze' has little to do with the disturbancos. It was coming anyway. Only things will get tougher, now. Long before the eruption, petrol and keroseme prices went up and with that hike a host of consumer items, not to mention transport fares. Last week the train fares were jacked up, again.

So who'll pay the bill? Obviously the consumer, Mr. Citizen — meaning, Sinhalese, Christians, Moslems, Burghers, and 'Sinhala Buddhists' to deploy a racial religious term that is increasingly in use these days. The burden will fall on all regardless of caste or creed. And since the poor constitute the vast majority, the already disadvantrged will bear the largest share of the burden, So will the Sinhala Buddhists who are also the majority when non-economic categories are used. Defending the flag and the faith is indeed a costly undertaking.

BANKING ON PATA

A spectre haunts the travel-com-tourist trade, the spectre of "another destination". The trade is confident that it can achieve a rapid recovery by next year and PATA but only if the regular tourist traffic from Europe does not move to 'another destination'. Though it may not quite qualify as a substitute for Paradise, Sri Lanka does have its distinctive charms. Yet it is not India, Egypt, the Holy Land, Spain, the Caribbean or Greece.

The charter operators who are our real masters may start looking for another place which has much the same to offer. "Then" says a leading travel agent "we really would have had it, and all those 4 star and 5 star hotels that are now coming up in the city will be the ghosts from a once dreamy past".

Just over a 1000 visitors came this August which is the month of the month of the **perahera** *and that magnificent pageant brings an average of 30,000. "PATA is our only hope" says a big hotelier, groaning as usual about BTT.*

LAW AND ORDER

The state-managed **"Daily News"**, *traditionally the most stolid champion of law and order, received a rude cuff across the ear from that international 'heavie' THE ECONOMIST for having produced an editorial on "Protecting Our Forest Cover" when Colombo was burning. More recently the CDN has made a spirited return to old form and raised an increasingly strong critical voice on 'goons and goondas' who enjoy in the words of the editorialist the patronage of powerful persons.*

Its editorial of August 22 said :

(Continued on page 7)

DOUBLE ISSUE

The post-July organisational and production problems have compelled the LG to produce once more a double number — September 1 and September 15. We hope the readers and advertisers will bear with us in this difficult situation. We expect to publish the October 1 issue and subsequent numbers on the due dates.

Curse of Kuveni

I refer to your Magazine 'Lanka Guardian' of 1st May, in connection with the article titled the 'Curse of Kuveni' by Mr. Sudarshan Seneviratne.

The 'Curse of Kuveni' was originally the title given to an epic poem written and published over fifty years ago, by my late father, Proctor — James Alfred Wijeyesinghe, of Kurunegala, narrating the history of Sri Lanka, from the arrival of Prince Vijaya, to the conquest of the island by the British, which he attributed to the Curse of Kuveni on Prince Vijaya, for disposing her in favour of a Pandyan Princess.

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CONTENTS

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SIRIMA'S COME-BACK

NEWS BACKGROUND

In urgent and desperate search of a 'Sinhala consensus' sections the middle-class look to Mrs. B. for a political posture that will help close Sinhalese ranks. This attitude springs from (a) a psychological condition and (b) a conscious political motive. The middle class is seized by a nervous sense of isolation in what is apparently a friendless world. And this feeling is intensified by the fact that politically the Sinhala constituency's loyalties are divided between two parties, the UNP and the SLFP, although they both stand firmly against separatism. The felt hostility of the external world strengthens the need for unity within.

Many a thinking Sinhalese also know that in his own interest and in the interests of the country, a "political settlement" must be found for the national question because it has become a festering sore of the body politic. But from experience, the experience of electoral politics and party conflicts since 'Sinhala Only' turned into a battle-cry and election slogan in 1956, the antagonism between the UNP and SLFP and their electoral tactics, have contributed to the failure to find such a political solution. A Sinhala consensus founded on a UNP-SLFP entente will **not** lead to a Sinhalese unity, and therefore a recovery of self confidence, but to a situation where each party knows that its traditional rival cannot exploit the issue to its own advantage which has always been the case whenever one tried to do a deal with the Tamils on its own. (The Bandaranaike-Chelvanayakam pact, the Senanayake-Chelvanayakam pact).

Paradoxically, the Tamil leadership also yearns for such a Sinhala consensus. They have learnt this the hard way. If the FP and TULF didn't actually practice "divide and rule' tactics, they certainly exploited the fact of Sinhalese division (UNP, SLFP) and made the best deal by opportunistically using each electoral occasion — pro-SLFP one time, pro-UNP the other.

The Tamil leadership, in short, used the arithmetic of parliamentary politics in a situation where the ethnic majority's political loyalties were almost equally divided between two rivals, to the Tamil advantage. Or so they calculated. The gains were temporary, if at all; most of the time, the gains remained on paper.

Jaffna, the much-vaunted land of mathematicians, failed to understand the difference between simple arithmetic and the higher algebra of party politics. No Sinhala party exposed to the vigiliant eye and instant denunciation of its rival, will risk its own near-permanent (Sinhala) base to keep a bargain made only to serve the immediate interests of electoral victory.

The politics of this past is already passed. Two events have made it so. First, the referendum has frozen electoral politics. The 1977 parliamentary situation has, by law, will extend until 1989. The consciousness of constituent and political base exists but not the pressing preoccupation with votes. Second, the proscribed "Tigers" and other militant bands have taken to the gun. So the pressure for a settlement is of a different kind.

The loss of civic rights has by no means dulled Mrs. B.'s instinct for politics and the politics of challenging and critical occasions

Rejecting separatism and denouncing terrorism, Mrs. B. identified herself with the government. But her approach had significant differences.

To the annoyance probably of many UNP'ers who like to forget the election slogans of "Indira-Sirima' etc, Mrs. Bandaranaike played the Gandhi card. In her very first statement she reserved high praise and placed great confidence in Shrimathi Indira Gandhi. And now SLFP circles are buzzing with the news that an emissary from Sirima has left for Delhi. Mrs. Gandhi's envoy, Mr. G. Parathasarthy saw the SLFP leader the day after his arrival. In striking contrast to Mr. Anura Bandaranaike MP who has given so clear an impression of shifting his position in parliament on the question of Indian mediation that Prime Minister Premadasa tore into him on August 25, the SLFP leader has pursued a consistent line on Mrs. Gandhi's role.

Secondly, she has adopted an understanding attitude to the TULF and sympathised with a party that is trapped in dilemmas of their own making. On the crucial question of negotiations and an all-party conference, Mrs. B. has asked how the TULF could renounce separatism **before** holding talks and then hope of going back to Jaffna, in other words, she is rejecting what the UNP insists should be a pre-condition i. e. the disawoval of separatism **before** talks.

An international negotiator of more experience than any other Sri Lankan politician (India-China conference, Sirima-Shastri pact, Sirima-Indira agreement) Mrs. B. obviously feels that a non negotiable pre-condition on a basic issue will block all possibilities for dialogue and settlement.

There have been two reactions to her stand — one violently hostile, the other respectfully complimentary, Finance Minister Ronnie de Mel lashed out at Mrs. B. at a public meeting in Potuhera, while the ISLAND observed editorially that her views were "refreshingly liberal" and offered "a heartening ray of hope in the present all-pervading gloom".

CENSORSHIP

News and articles in this issue of the Lanka Guardian have been subject to censorship.

INDIA AND HER NEIGHBOURS

Pakistan lodged a formal protest against India charging that Mrs. Gandhi's remarks about democracy in Pakistan was an attempt to support the anti-Zia "Movement for Restoration of Democracy" which has launched a massive nation-wide campaign for an end to 6 years of martial law. Denying the charge, the Indian Ambassador said Mrs. Gandhi was only expressing "concern".

The Bangladesh leader, General Ershad thought that an Indian barbed wire fence to prevent illegal immigration from B.D. was "an insult".

Long before all this, Foreign Minister Shaul Hameed told our own Parliament that he had protested against Indian interference when Sri Lankan's High Commissioner, Mr. Bernard Tillekeratne was summoned to the Foreign Ministry in Delhi and questioned about the emergency regulation that dispensed with coroner's inquest before the disposal of dead bodies.

In the course of a month, India appeared to have alienated three of her neighbours, and Opposition MP's in the Lok Sabha charged the Congress (I) of "encouraging dangerous new doctrines of interference". But both Mr. Gandhi and the Indian government stuck to the position that the "concern" was legitimate and was confined to the practice of democracy. Said a Foreign Office spokesman : "Our solicitude for democratic-values flows from our own commitment to these values". The Indian protest about the arrest of Khan Abdul Gaffar Khan, the "frontier Gandhi" was explained as personal concern over the fate of a close friend of Mahatma Gandhi and Nehru.

Has this concern over events in neighbouring countries an attempt to divert domestic attention from many political crises in the Indian states, arising mainly from separatist demands, and often erupting in violent forms ?

Pran Chopra, former Indian editor and now a political scientist attached to the Centre for Policy

(*Continued on page 7*)

THE FOREIGN POLICY SETTING

The geographical element

W. Howard Wriggins

The geographical characteristics of a country set intractable limits to what its statesmen can do, and Ceylon's situation is no exception. The island's position in the Indian Ocean area gives it a focal importance for seaborne trade routes and strategic naval calculations. The Indian subcontinent thrusts down into the center of the Indian Ocean for more than a thousand miles from the ocean's northern shores, and Ceylon is at the tip of India. It lies some 2,000 miles from Aden to the west, 1,500 miles from Singapore in the east, 2,000 miles from Mauritius to the southwest, and 3,000 miles from Freemantle in Australia to the southeast. Ships passing from Calcutta and Rangoon going west to Suez or the Cape, sailing from Bombay and going eastward to Singapore, ships linking the two halves of Pakistan together, and vessels following the principal avenues of ocean commerce from Suez to Singapore or Australia all pass close to Ceylon. In early days, Galle Harbor on the southern shore was the principal port of entry. During the nineteenth century Colombo gained the dominant position as tea exports required a nearer access to the sea and the artificial harbor was developed to give safe berth to vessels too large for Galle.

From the naval point of view, Ceylon has the additional gift of the most spacious natural protected harbor in the central Indian Ocean area. Only Bombay compares to it, but that is nearly 1,000 miles away from the open sea near the Indian Ocean's northern shore. On the east coast, Trincomalee Harbor runs inland some eight miles and the anchorage is large enough to shelter the full fleet of any of the world's great powers.

Extracts from 'Ceylon : Dilemmas of a New Nation' by W. Howard Wriggins. (1960)

Newer air routes, too, pass over Ceylon. Flights from Manila in the Far East, or from Australia and Indonesia to the Middle East and Europe use Ceylonese air fields. And because there are relatively few islands in the Indian Ocean as *points d'appui*, Ceylon has an enhanced importance in an age of air traffic.

The Indian Ocean in which Ceylon thus holds a central place has special geographical and political attributes which have played an important part in the history of the area, and these characteristics will probably contribute to future developments as well. The Indian Ocean has been likened to a landlocked sea. By controlling its five gateways and its most important shores for the past one hundred and fifty years one power — Great Britain — held undisputed sway. To the west, she controlled the approaches around the Cape of Good Hope, the entries via the Red Sea at Aden, and via the Persian Gulf by means of the protectorates in Trucial Oman and Muscat. The eastern portals were ensured by the base at Singapore, the Penang settlements, and British control of the Andaman Islands, while the southeastern lanes were dominated by Australia. Moreover, the northern shores of the Indian Ocean, from Iran in the west to Thailand in the east, through Pakistan, India, and Burma were also under the political control of Great Britain. It is fair to say that from the Napoleonic Wars until World War II the Indian Ocean was a British lake. The only exceptions — French, German, and Dutch holdings — were more beholden to British sea power for uninterrupted access and defense than they were capable of challenging British control.

At the same time, northern land approaches to the Indian Ocean were inadequately organized to pose a real threat. Beyond the Hindu Kush above Afghanistan, over the Himalayas, and beyond Tibet, Russian power during the nineteenth century gradually extended a European kind of government into Kazakhstan through Siberia and on to the Pacific. However, Tsarist administration was not effective and Russian hegemony received a serious set-back from a rising Asiatic nation — Japan — near the turn of the century. China's revolution in the first decade of the twentieth century remained incomplete and the land of the Manchua was never integrated into a reinvigorated polity until the late 1940's. It continued to be the pawn of Western sea powers and of Japan along its coasts and of Russian expansion in Sinkiang and Mongolia. During the time the Indian Ocean was a British lake, then, the countries to the north were immobilized by their own countervailing power or internal weakness. No effective threat from that region materialized, despite recurrent British fears for the Afghan frontier.

The area of ordered relationships and public security managed by British control of the Indian Ocean received one significant challenge prior to independence. During World War II, Japanese armies penetrated the thick jungle to the northeast of India and threatened direct assault through Assam ; and more vivid to the Ceylonese, a Japanese naval task force operated deep in the Bay of Bengal wreaking a heavy toll on British and coastal shipping. Carrier-based planes attacked Colombo and seriously damaged naval vessels and installations at Trincomalee, apparently the forerunner of a heavier assault on the Trincomalee area. But because the Japanese were then particularly hard pressed in the Battle of the Coral Sea, they had to withdraw.

The real disintegration of this strategic area was accomplished when the independence movements

achieved their goal. After 1947, no one power "enforc(ed) a single command and a unified security in the Indian Ocean. Instead of a single Empire, there (were) a congeries of succession States," each with weak defenses and several with possibly competing interests. The strategic area of the Indian Ocean became "balkanized" and the future role and needs of any one power in the area became commensurately uncertain. At the focal point of sea and air routes traversing the Indian Ocean, Ceylon is a center of attention, a magnet of risks.

In the future Ceylon will no doubt continue to have intimate contact with whatever powers are active in the Indian Ocean. This may be a reinvigorated European sea power based on the British Isles, or a newer sea power from the Black Sea areas of the Soviet Union. Alternately, Soviet Power may be projected directly into the Indian Ocean through the Persian Gulf ; American power may enter the Indian Ocean in efforts to forestall Russian or Chinese hegemony over the Eurasian continent ; it may be seaborne Japanese power as it was in 1942, or it may be, even, an expanded China, should it achieve hegemony over the Malayan Peninsula and possibly Burma and Thailand, and revert to its early seaborne tradition under the Ming Dynasty of the fifteenth century. Perhaps, even, it may be Ceylon's neighbor, India. Indeed, from the Indian point of view, if naval forces are engaged in the Indian Ocean, Ceylon's existence as an independent country of great strategic worth has considerable liabilities, not unlike the liabilities to Great Britain of Eire's neutrality during World War II. Indian publicists have pointed out that Ceylon is in fact within India's strategic defense area. If Indian security were threatened from the Indian Ocean, or in a combined attack from the Nepal area and the sea, Indian occupation of Trincomalee would be likely.

For the present the principal external sea power with interests in the Indian Ocean is Great Britain. She is dependent upon assured continued access to the sea lanes and the products of Commonwealth associates in South Asia and Australia, and the latter look upon Great Britain as a large market for their export products and as their principal trading partner. British naval effectiveness in the Indian Ocean has been dramatically declining since 1948, but as yet no other great power has taken its place.

Irrespective of what country or countries may at some time in the future become active in the Indian Ocean area, Ceylonese statesmen can count on a lively future. Because of their exposed nodal position in the Indian Ocean, they cannot expect to be ignored unless the Indian Ocean itself becomes irrelevant to world political developments.

The second fundamental geographical fact which confronts her statesman is that Ceylon is a tiny island country, separated by only a few miles from a massive continental power — India. Nine million people living in an area of 25,000 square miles are inescapably in the shadow of 400,000,000 people living in 1,100,000 square miles. Ceylon's statesmen do not ignore the fact that India has a large industrial potential and that, despite centrifugal political tendencies, the Delhi government appears capable of consolidating India until it may become one of the world's great powers. Even if India should fly apart, a South India independent of Delhi could be a threat to Ceylon, for she has been an area of South Indian expansion in centuries past. Relationships between the two countries are complicatad by the existence of immigrants from India who have been living in Ceylon for a number of decades and who form 10 per cent of the Ceylonese population. The standard of living in Ceylon is considerably higher than in India, and a recurrent stream of illegal immigrants remind Ceylonese of population pressures from the north.

Henceforward, (ie after November 1957 — ED) Ceylon stood without immediate military associates, dependent upon its own defense resources alone. The withdrawal of British bases increased the likelihood that Ceylon might remain aloof from a conflict originating in western Europe, for the Indian Ocean

was now virtually devoid of military installations held by countries from outside the area. Inescapably, the withdrawal of British naval and air power increased Indian naval responsibilities and strategicaliy swung Ceylon more firmly into the Indian orbit. There were few public references to this fact.

It is conceivable that India may in the future be the alternative defense associate now that British military strength has been withdrawn. India has very real interests in ensuring that no hostile power should establish itself on Ceylon. Foreign air strips and naval control of Trincomalee would unbearably expose the Indian peninsula to air and sea bombardment and to assault along her extensive coasts. Indian publicists have argued that Ceylon is within India's defense area, at the very "heart-center" of Indian Ocean defense. K. M. Panikkar read the lessons of World War II as demonstrations that Ceylon : "is for all defence purposes an integral part of India. . . . Ceylon can neither feed herself nor defend herself, nor in respect of any other important matter, stand on her own feet." Events might not go so far as to draw Indian power directly into Trincomalee. But with the termination of the British bases, Ceylon's destiny would again depend upon developments on the Indian subcontinent to the north, as it had for many centuries before the coming of the Europeans. British interests still ran through the Indian Ocean, but Britain's ability to defend them was less sure.

In terms of domestic politics, the absence of a foreign military base removed one useful gambit in domestic political debate and would perhaps sharpen internal social tensions now that a foreign scapegoat was no longer demonstrably present.

The Foreign Minority and Relations with India

The alternative of drawing closely within the Indian orbit, however, ran up against certain underlying anxieties that were expressed during the debates on the status to be given to immigrants of Indian origin. Negotiations with Delhi on their rights and status have been considerably affected by acute Sinhalese sensitivities. The latter recall earlier views of Mr. Nehru since repudiated by him but nevertheless considered to be still representative of certain of his associates to the affect that "culturally racially and linguistically Lanka is as much a part of India as any province" and political and economic developments "point inevitably to a closer union . . . presumably as an autonomous unit of the Indian Federation.

Leading Indians not infrequently remind Ceylonese that they are part of the Indian cultural area and owe a deep debt to the Indian past from which Ceylon has sprung. Like Americans when their transatlantic forebears remind them of their cultural paternity, the Sinhalese consider such reminders only half the story. As Ceylonese national sentiment is awakened, the Ceylonese prefer to emphasize their own elaboration of what was admittedly an Indian beginning. Indians abroad often present a debonair self-assurance, and air of complacent superiority. Conversations have a noticeable way of dying down when articulate, overbearing Indians are present. But when the "Brahmins" withdraw, life goes on and Burmese or Ceylonese feel free

(Continued on page 11)

TRENDS. . .

(Continued from page 1)

"Again, there are those people who believe that a little brinkmanship in love and war, now and then, is not a bad idea. Sadly their calculations invariably go wrong. In the result, what is intended as a warning oon becomes a blazing hell".

"As for the secret strategists behind the whole dismal performance, will they have the courage to give themselves up or quit public life. Hitler in his bunker nursed his self-delusion to the end. In Sri Lanka we may have to find the courage to name every paranoid racist with blood on his hands if we are to restore our way of life and values"

India and . . .

(Continued from page 4)

Research in Now Delhi told the *Washington Post* that the 'danger of creating a wave of dangerous Hindu nationalist sentiment in northern India "is that Mrs. Gandhi may lose control of the movement. The purpose, he said, would be to exploit Hindu chauvinism against regionalism and ride the wave to a parliamentary victory".

Elections in India are due anytime between early next year and 1985. Disagreeing with Chopra's analysis, Hector Abhayavardana. LSSP polit-buro member and a specielist in Indian affairs, told the *L.G* :

"The theory that Mrs. Gandhi is playing up to Hindu nationalism, while making political and electoral deals with parties in the States is too simplistic. Mrs. Gandhi is the only politician in India with a strong sense of India as a nation. That's her strongest card, not just the support of the Hindi -speaking core of India. Of course, she will make political alliances and arrangements but she can well afford this because there is no Opposition party or-parties which can challenge her nationally. As for Tamilnadu, she has a great natural advantage — the state is divided between two strong Tamil nationalist parties, MGR's and Karunanidi's".

Current ups-and-downs in India's relations with her neighbours, reportedly new "doctrines" of regional security, and both the H.W. Jayewardene and Parathasarthi visits to Delhi and Colombo respectively as special envoys of the Sri Lankan and Indian leaders focuses attention on many foreign policy and geostrategic issues. As background material useful for understanding the issues involved in the now widening debate in Sri Lankan intellectual circles, the *L.G.* publishes excerpts from the studies of three specialists — Howard Wriggins, an American area specialist and author of a standard work on Sri Lanka, Professor Kodikara of the Peradeniya University and G.S. Bargava, a wellknown Indian commentator.

India, manager of region's security ?

G. S. Bhargava

As with men and greatness, some nations are born to insecurity, some achieve it and some have insecurity thrust upon them. Ironically, unless a nation has abundant resources, the strain on its economy imposed by safeguarding its security may actually intensify the threat, thereby creating a vicious circle. This has been the case with India.

Although a definitive chronological division of the past is not possible 1971 can be regarded as a watershed in India's security history. This was the moment when both the internal and external aspects of the threats began to change for the better. But a new source of insecurity largely internal, also came into focus. It is my view that India will have to live with this threat in the 1980's.

Very often India's own perceptions of threats to her security have been at variance with those of outside observers. For instance, after the 1971 Indo-Pakistani war, which resulted in the birth of Bangladesh as a separate state, most foreign observers tended to dismiss India's continued preoccupation with Pakistan's threat to Indian security as an obsession, or even worse. In the case of the threat from China, outside assessments do not tally with the domestic ones either. Similarly, it is difficult for most Indians to appreciate the picture of India as a threat to her smaller neighbours or the idea that her relationship with Iran will become one of conflict. But these are, none the less, popular concepts with foreigners. In the same way, a security threat from the Soviet Union is so unthinkable that no unbiased Indian academic will contemplate it. By the end of 1974, when this study was conceived, India seemed from the outside to be more vulnerable to internal than external threats ; within India, however, the accent continued to be placed on identified external threats from Pakistan and China, with their complex internal ramifications, plus a possible maritime threat which India felt acutely in December 1971, when the United States sent a Seventh Fleet task force into the Bay of Bangal. In June 1975 the picture suddenly changed when a state of internal emergency was declared by the government of India. Does this mean that the external assesment of the nature of the threat to India's security is vindicated? How real is the widely held image of India is constant danger of fragmenting? The vastness of the country and the cultural and other diversities of the people preclude a uniform view of India's security problems at the popular level. Does this lack of unity mean that the country's territorial integrity is in danger?

A common blind spot of most foreign observers has been India's role, both invisible and visible, in shaping the security of other countries of the south Asian region, such as Sri Lanka, Nepal, and Afghanistan. I have therefore attempted to present India's security environment in such a south Asian perspective. The extension of the canvas is warranted by the crucial position India occupies in the area, because of her size, geo-strategic location, population, and also because of her political stability, which has cushioned her against many political tremors in neighbouring countries. These aspects, coupled with the military and technical capabilities she has displayed since 1971, have put India in the unique position in south asian in which her internal developments even those of a purely indigenous nature — have strategic significance for the whole of the region.

The East Bengal crisis two years earlier had implications for the outside world. What could have remained an internal problem of distribution of power and resources between the two disparate wings of Pakistan developed into a festering civil war which threatened India because of the inept handling of the situation after the 1970 general election by the President of Pakistan, General Yahya Khan. Some ten million Hindus were deliberately forced out of East Bengal into neighbouring Indian territory when the original exodus of the political dissidents and their para-military supporters had already abated ; failure to deal with the autonomy question by political means and persistent efforts to involve outside powers (especially the United States and China) by making it an Indo-Pakistani problem at a time when the Soviet Union and China were already competing for influence in the subcontinent — these were all examples of this ineptitude.

Except for a lunatic fringe on the right, whose numbers are perceptibly declining with the passage of time and whose effect is marginal, nobody in India sets a historical perspective, rooted in religion, to the the threat from Pakistan. The reason for this is a practical one. With more than 60 million Muslims in India, such an attitude would

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Excerpts from **'India's security in the 1980's'** *by G. S. Bhargava, Assistant Editor, 'The Hindustan Times'. This essay was published as an Adelphi Paper (No : 125) by the International Institute of Strategic Studies, London.*

mean condemning the country to interminable civil war: The problem for India is not realized by critics, who consequently doubt the sincerity of India's secular (non-denominational state policy; though the practice of this policy may have been uneven, India is not a theocratic or one-religion state not necessarily because the Hindu majority is more tolerant or liberal than the Pakistani Muslims but because India could not survive as such a state.

In other words, the emergence of Bangladesh as a sovereign state, based broadly on the principle of regional autonomy, had reinforced in the minds of India's policy-makers the awareness that similar regionalism, accentuated by religious, linguistic and ethnic factors, existed throughout India not very much below the surface, and that even while putting down violent eruptions of separatist elements such as the Naga and Mizo tribes in the north-east, the country's unity had to be built and strengthened on a basis of accomodation of legitimate regional aspirations and administrative decentralization. These are also the secrets of India's political stability.

Though American military aid to Pakistan after 1954 intensified the direct threat to India, it was manageable for India as long as Washington was conscious of India's important role in maintaining stability in the subcontinent. This meant that India had to deter Pakistan militarily while dealing with the United States diplomatically, so that American-Pakistani alliance did not assume a shared purpose so far as India's security was concerned.

India's goal of being **an independent manager of the region's security,** with subcontinental disputes being sorted out without external intervention, may be thwarted because Pakistan regards it as the thin end of the wedge of Indian domination. Lastly, with growing super-power rivalry in the Indian Ocean, there is a danger of intervention from outside in the affairs of the littoral states generally, and particularly those in India's security periphery. India, which has a stake in the exclusion of external influences from the region, feels vulnerable on that score.

India's involvement in the 1971 East Bengal crisis was not so much aimed at dismembering Pakistan, as ensuring that the new state of Bangladesh — which was anyhow emerging — would not be susceptible to anti-Indian influences of a new kind. One of the important provisions of the 1972 India-Bangladesh Treaty of Friendship and Co-operation was that neither would participate in an alliance directed against the other, or allow the use of its territory for any act which might constitute a threat to the other's security. Against this background, the coup could have adversely affected relations between India and Bangladesh if the new regime in Dacca had allowed the use of its territory against India or if a third country had tried to exploit the situation in Bangladesh for anti-India purposes. Normalization of relations between Bangladesh and Pakistan and amicable settlement of their economic and other disputes do not constitute such a threat. On the other hand, since the 1972 Simla Agreement with Pakistan, India has been pleading for a triangular power-system in the subcontinent which will keep out external powers. If the history of the last 28 years is an indication, no government in Bangladesh will side with Pakistan on purely Indo-Pakistani disputes. Also, a less visible India will be better loved in Bangladesh, and diversification of Bangladesh's relations is therefore no setback to India.

A greater danger to India's security lies in a total breakdown of the system in Bangladesh, whether the reasons be economic or political. The fear of such anarchy overtaking the country.

There are two certainties about Indo-American relations: the two countries will not be close friends, at least not in the next decade, and American interests in the subcontinent will never be so deep as to involve Washington in a situation of direct physical conflict with India.

INDO—LANKA RELATIONS

Shelton Kodikara

A visiting Indian Finance Minister described Indo-Lanka relations in early 1981 as being "at their best". Even if one were to consider this comment in the context of the diplomatic courtesies observed by visiting dignitaries, it cannot be gainsaid that Indo-Lanka relations over the years since independence stand out as a unique example of the manner in which two neighbouring states in South Asia have succeeded in resolving disputes and problems, some of which appeared at times to be intractable, by recourse to political cooperation — discussion, negotiated settlement and continued diplomatic effort — carried out in a mutually operative spirit of give and take. At the time of independence Sri Lanka had an unresolved maritime boundary problem with India, involving disputed possession of a small island in Palk Strait, threat perceptions from India, and a protracted dispute regarding the citizenship status of persons of Indian origin resident in Sri Lanka. The citizenship issue, on which agreement was reached between the two countries in 1964 and 1974, still awaits finalisation in the context of changing circumstances, but the maritime boundary has now been demarcated, and threat perceptions, though intrinsic to a Small-Power Big-power relationship, are now more imagined and less real than they used to be in the early years after independence.

The bilateral relationship is unique, too, from India's point of view, in the context of her protracted problem of adjustment with Pakistan, her uneasy relationship with China the ambivalence of India's other small neighbours, Bangladesh, Nepal, and Bhutan, towards her. The incorporation of Sikkim into the Indian Union in 1975 led to qualms in the other Himalayan states, but appeared to be hardly noticed in Sri Lanka. Sri Lanka, being an Island state, enjoys considerable advantages over India's other smaller neighbours in being more accessible by air and sea; but by the same token, Sri Lanka's geostrategic location in the Indian Ocean area has always remained a significant parameter relevant not only to problems of India's own security but also to the general question of power rivalry in the whole Indian Ocean area.

From a geopolitical point of view, two influences in the Indo-Lanka relationship stand out as important: the locational factor, and disparity in size, population and power between the two countries. Sri Lanka's location at the southern tip of the Indian peninsula, separated from India by a narrow stretch of water, the Palk Strait, which is no wider than 20 miles in certain places, has continued from historical times, to exert a determining influence on the course of the island's history. The majority of the Sri Lanka people, whether they be Sinhala, Tamil or Muslim, belong to the same ethnic stock as India's population, and cultural affinities extend not only to religion (Buddhism, Hinduism and Islam), but also to language, Tamil being common to Tamilnadu as well as North Sri Lanka, and Sinhala being related to the North Indian vernaculars such as Hindusthani, Marathi, Gujerathi, Bengali.

Also important from the locational point of view is the existence of a strategic harbour at Trincomalee, facing the Bay of Bengal on the island's east coast. In and after the 16th century, western imperialisms had made sea-power the basis of the expansion in Asia and Africa. **A concept of the strategic unity of India and Sri Lanka had emerged during this period and, especially under the British possession of Sri Lanka came to be regarded as a pre-requisite to the defence and security of India. The British therefore made Trincomalee an important bastion in their defence network in the East. Although Trincomalee no longer plays a role as a naval base, its strategic location makes it a matter of much international concern, and India which has no comparable natural harbour on its east coast, is most concerned about its potential status and uses.** Writing in the mid-forties, K. M. Panikkar, the well-known Indian scholar-diplomat had averred that the strategic unity of India, Burma, and Sri Lanka was so obvious that one of the pre-requisties to a "realistic policy of Indian defence" was the "internal organisation of India on a firm and stable basis with Burma and Ceylon." Panikkar did not press this point of view after the independent existence of these countries has become an accomplished fact, though he continued to advocate the concept of the Indian Ocean as *Mare Nostrum* for India justifying an extended Indian security sphere in the Indian Ocean area. Following this general theory, another writer on Indian naval defence declared:

> *The first and primary consideration is that both Burma and Ceylon must form with India the basic federation for mutual defence whether they will it or not. It is necessary for their own security.*

This was written in 1949, but when a President of the Indian National Congress echoed the same sentiment the same year in a Bombay speech, he said that "India must sooner or later enter into a treaty with the Ceylonese people so that

Ceylon may become an organic part of the body politic", and went on to explain what was plainly an expression of expansionism as follows:

> *India and Ceylon must have a common strategy and common defence strength and common defence resources. It cannot be that Ceylon is in friendship with a group with which India is not in friendship — not that Ceylon has no right to make its own alignments and declare its own affiliations — but if there are two hostile groups in the world, and Ceylon and India are with one or the other of them and not with the same group, it will be a bad day for both.*

Nehru himself, in 1945, had pointed to the ethnic, linguistic, and cultural unity of India and Sri Lanka to support the view that the latter would inevitably be drawn into a closer union with India, "presumably as an autonomous unit of the Indian Federation". These were not just chauvinist effusions of responsible Indian spokesmen on the eve, and in the euphoria, of Indian independence. Many of them sincerely believed that the British withdrawal had thrust the responsibility of the defence of the South Asian region on Indian hands, and that India was the natural successor to Britain as the guardian of the Indian Ocean. Against what contingency **a federated defence structure must be created under Indian auspices** was not clearly enunicated by these spokesmen; nor did it occur to them that what the states in the Indian periphery might want to guard against was precisely Indian interventionism or expansionism. Burma underlined her independence and separateness from India by keeping out of the Commonwealth of Nations; for the same reasons Sri Lanka opted for the Commonwealth and sought, in the Commonwealth connection, to redress the balance against India. One Sri Lankan Prime Minister went to so far as to assert, in 1954, that Panikkar's writings were tantamount to an Indian proclamation of a 'Monroe Doctrine' for South Asia. On this, as well as on numerous other occasions in the fifties Pandit Nehru himself personally sent special messages to the Sri Lanka government or publicly repudiated any suggestion that India had designs to interfere with the island's sovereignty and assured Sri Lanka of India's goodwill and peaceful intentions towards her. Yet, perception of a threat from India was a very real element in foreign policy decision-making in Sri Lanka, more especially during the period 1948-56, but to a lesser extent even after, and India's own strategic concerns regarding Sri Lanka's foreign policy posture and alignments have been continuing. A former commander of the Indian Navy could write **as late as 1974** that:

> Sri Lanka is as important strategically to India as Eire is to the United Kingdom or Taiwan to China... As long as Sri Lanka is friendly or neutral, India has nothing to worry about but if there be any danger of the island falling under the domination of a power hostile to India, India cannot tolerate such a situation endangering her territorial integrity.

When, in July 1963, Sri Lanka and China entered into a Maritime Agreement giving most favoured nation status to the contracting parties in respect of commercial vessels engaged in cargo and passenger services to and from the two countries or from a third country, the nature of the agreement became a subject of great concern in India, where attitudes were influenced partly by allegations of the parliamentary Opposition in Sri Lanka itself that the agreement provided facilities to Chinese warships. Similarly, during the East Bengal crisis preceding the Indo-Pakistan war of 1971, the grant by Sri Lanka of air transit facilities through Colombo from West to East Pakistan after overflights by Pakistani aircraft had been stopped by India herself, caused considerable misgivings in Indian circles, where it was believed that Pakistani troops disguised as civilians were being transported through Colombo on PIA flights to Dacca. Whether or not facilities would be granted by Sri Lanka to the United States Navy in Trincomalee in the context of the present escalation of Indian Ocean power rivalry between the US and USSR is a matter not only of Indian, but of wider concern.

It is not an unnatural concomitant of India's own perception of her regional security interests that she should evince interest and concern over Sri Lanka's international relations. But it is also inherent in the geopolitical situation, in the locational determinism of Indo-Lanka relations, that a fear psychosis of India should persist in Sri Lanka to a greater or lesser degree, depending on variables such as the international situation, issues of domestic politics, and the personality factor. Reference has been made to disparity in size and population as being a basic determinant, apart from location, of the nature of the Indo-Lanka relationship. India has an area of 1,261,597 sq. miles, which is fifty times larger than Sri Lanka's area of 25,332 sq. miles, and India's estimated population of 650 million in 43 times larger than Sri Lanka's population of 15 million. Implicit in this disparity are tendencies on the part of Sri Lanka's decision-makers to seek diplomatic reinsurance in various forms against any attempt by India to dominate her and, on India's own part, a tendency to regard Sri Lanka (together with other small neighbours) as a legitimate object of India's interest and concern as a country lying within its security sphere and, concomitantly, a tendency also to assume that Sri Lanka's policies must be prescribed by the demands of Indian national interests.

FOREIGN...

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to talk, to joke, and enjoy themselves once more. To these more personal reactions are added the recollection that South India separates the Sinhalese from their benign North Indian ancestors and occasionally an ardent Tamil party in Madras appeals to the Ceylonese Tamils to form a Tamil union.

No one in Ceylon doubts Mr. Nehru's peaceful intentions toward Ceylon, but what of his would-be successors? When there is no Nehru, and when India and Pakistan are no longer preoccupied over Kashmir, and India becomes an industrial power, many ask, what then?

ACBC, YMBA, Sinhala Bala Mandalaya call for negotiations

A unique opportunity for a frank and open exchange of views between persons representing Sinhala and Tamil organisations and groups was afforded at a meeting initiated by the Citizens Committee for National Harmony which was held at the headquarters of the All-Ceylon Buddhist Congress on August 20th and 21st. The meeting was presided over by Venerable Dr. Hewanpola Ratnasara.

The meeting discussed the urgent problems arising out of the recent communal disturbances. Among the topics discussed were the steps that had to be taken by both Sinhala and Tamil communities simultaneously to end violence as a means of solving the Sinhala-Tamil problems and in particular to prevent a recurrence of the type of violence that took place in July.

The meeting discussed the need to create an environment of security and communal amity for the rehabilitation of the victims and their return to the homes and neighbourhoods in which they resided.

The meeting proposed a programme of work which could enable citizens and non-governmental organizations to contribute substatially to the solutions of ethnic problems on each of the main issues.

This programme envisages a close dialogue and collaboration between the Sinhala and Tamil citizens in carrying out this work. the participants expect to continue discussions to work out the programme in detail and organise groups wich could implement it.

Issued by the Citizens Commitee for National Harmony.

In addition, the meeting has made several recommendations for government action including the following:

Recommendations to government

* The trends towards confrontation should be reversed by political dialogue and negotiations between the two communities. Both the Government and the TULF, mindful of their present constraints, should agree to begin negotiations for a modus vivendi in a united Sri Lanka — without insistence on categorical positions on the part of either.

* Tendencies towards overlooking or even benefitting from mob violence — seen since the early 1970s — must be effectively checked by the law; otherwise the whole framework of law and order breaks down eventually.

* Recognising that deep cleavages have been caused in our society by the distrust and gap between government and opposition parties, the increased inequalities between the affluent and the poorest groups, and the tendency for a recourse to mob violence to resolve political issues, we believe there is a need for government to set in motion a process of reconciliation which can create conditions in which groups can have confidence in the democratic process of negotiation and conflict-resolution. This can be a great asset in the realising of communal harmony also.

* The conflict between the ethnic groups has now received world-wide attention. The Tamil minority has taken the point of view to many international fora and response to such attempts has been made by the Sinhala groups. As we have mentioned earlier, the problem though located strictly within Sri Lanka, has also an international dimension. In these circumstances, it is desirable that an international group of eminent persons with wide knowledge and experience of ethnic problems and respected by the international community examine this problem, this proposal has several advantages — first, while supplying a realistic assessment of this situation, it will bring to bear on our problems the fruits of the experience of similar problems in other countries; second, an outside point of view while bringing about a better international understanding of the problem, might be valuable in promoting some measure of accord between the Sinhala majority and Tamil minority views; third, it might act as a catalyst in the resolution of a problem that has long defied our own efforts.

The recent outbreak of communal violence has left the whole nation demoralised and shaken. We sympathise deeply with all those who are victims of this violence. We share the agony of the families of those killed by violence anywhere in the country. In this unprecedented human tragedy many lost their dear ones, their homes, all their possessions and life work. It makes us profoundly sad and resolved to do what we can to undo the damage especially to persons and human relationships. We must take steps to see that there is no recurrence of such inhumanity.

A people's response

The present tragic situation in communal relations is a responsibility of not only political parties but of all the people of the country. People of all communities must get together as individuals and through their variou-religious, cultural and social organis sations and act to overcome this process of self-destructions which has been gathering force. We must learn to accept and respect each other as human persons whose primary right is the right to life, to work and a peaceful home. Our racial tensions must be contained and resolved by mutual

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THE PHILIPPINES NEW PEOPLE'S ARMY

Felix Razon

When an Establishment magazine like Newsweek (7/21/81) could design to print a not intolerably biased report of how the New People's Army (NPA) in the Philippines has grown into a challenging force of about 10,000 fighters and millions of supporters, this fact indicates a new and phenomenal turn of events.

One could hazard citing the impact of three recent developments. First, the U.S. ruling class is alarmed at the fragility of its client state and seeks to drum up opinion for more military support for the beleaguered Marcos dictatorship, hence vice-president Bush's paean to the regime as a "model of democratic process." Second, it denotes a fact that, to quote the article itself, "In all of Asia, only the Philippines confronts an armed communist insurgency that is gaining ground." And third, the corporate media is trying desperately to distort the truth before the Filipino people's victory overtakes it.

What is the NPA

What is the NPA? For Newsweek, it is a ragtag band of "poor, young and uneducated" Filipinos, an outlawed group "shadowy" and "deadly." For the Marcos regime's Defense Minister, whom Newsweek quotes in the interest of impartiality, the NPA right now "does not pose a serious threat, merely an annoyance." The Minister estimates the NPA to consist of 2,500 scattered armed fighters with 50,000 supporters. Given these reservations, why did Marcos, "elected" last June for a six-year extension of fascist rule, vow anxiously to give priority to suppressing the NPA?

To answer this question, we should outline the current historical situation that pits the present dispensation against the NPA and its ideological/political alternative.

Centuries of colonial domination — 300 years under Spain, and nearly a century under the U.S. — have reduced the Philippines into a typical under-developed third world country. It is a classic example of a neocolony characterized by starkly unequal positions of wealth and power for various classes. While 95 percent of 50 million Filipinos — peasants, workers, middle strata — are exploited and impoverished, less than 5 percent enjoy the wealth produced by the people's labor. This privileged elite represented by the landlords, junior partners of foreign investors, and bureaucrats (military officers, technocrats) now headed by Marcos, collude with the U.S. government and its corporate leaders in maintaining an iniquitous and utterly repressive system.

With the class contradictions exacerbated by the global capitalist crisis whose symptom is the U.S. defeat in Indo-China, a crisis registered locally by the imposition of martial law in 1972, we find in the beginning of this decade an experienced and powerfully organized mass resistance against the landlords, compradors (middlemen for foreign business), and bureaucrat-capitalists like Marcos. This resistance is presently led by the National Democratic Front (NDF), a broad coalition of all sectors — including the NPA and the Communist Party of the Philippines combatting the Marcos dictatorship and its principal patron, U.S. imperialism.

The NPA is the chief armed organization of oppressed Filipinos opposing the Filipino ruling classes and their underwriter, U.S. monopoly capitalism. It is the military-political organization led by the Communist Party of the Philippines which, in fighting for national independence against foreign domination and for democracy against fascist terrorism, represents the most effective combative instrument of the NDF.

Overall, the NPA is today the largest people's mass organization of the majority sector (peasants and workers) comprising 90 percent of the population, but it also includes students, professionals, tribal minorities, priests, and other elements. In the southern Philippines, the NPA coordinates with the More National Liberation Front and its military arm, the Bangsa Moro Army, in their common resistance against the U.S.-Marcos partnership.

From the time of the 1896 revolution against Spain, the Filipino people have realized that they cannot permanently liberate themselves from oppressors who use state violence to maintain hegemony without their own army. This is the bitter lesson learned after the defeat of two hundred uprisings prior to 1896, and a dozen revolts ruthlessly suppressed by the American colonial government before formal "independence" was granted in 1946.

During the Japanese occupation, the Communist Party formed the HUK-BALAHAP (People's Army Against the Japanese). However, due to various opportunist errors of the Taruc-Lava clique which controlled the party, the Huks suffered defeats in the Fifties. Subsequently, when the Taruc-Lava clique decided to liquidate armed opposition and switch to parliamentary reform as the party's dominant strategy, this capitulationist and revisionist tendency led to the disintegration of their armed groups into bandit elements, and finally to their abject surrender to Marcos in 1974. It is to the credit of Amado Guerrero and his followers that when the party was re-established in December, 1968, it affirmed the fundamental political line that "only through revolutionary armed struggle could the decadent semicolonial and semi-feudal system be overthrown and an independent and democratic society be established." (Ang Bayan, 3/31/81). The NPA was born from that founding principle.

People's Army Grows Through Twists and Turns

An incontrovertible proof that such a political line is the key to how the Filipino people can seize the historical initiative in changing their society is the rapid if tortuous growth of the NPA. Founded on March 19, 1969, the NPA began with only 60 men and 35 rifles. It was confined to a single district in Tarlac, a province in Central Luzon. After twelve years, it is now firmly rooted in all strategic parts of the nation. It controls 29 guerilla fronts covering 400 municipalities with a population of at least 10 million (about $\frac{1}{4}$ of the total population) in 47 provinces (out of 73) throughout the islands. Moreover, about 5 million people in the fronts render active support to the NPA.

According to Luis Jalandoni, official spokesperson of the NDF, the NDF counts in its mass base at least "800,000 people belonging to revolutionary organizations of peasants, youth and women. It has 40,000 local activists who are consciously developed through political education and mass struggles" (Philippines Research Center Newsletter No. 37). This growth in quantity and quality can be further measured by the fact that whereas in the beginning, NPA fighters originated from the ranks of students and intellectuals with poor weapons, now the bulk (over three fourths) of the NPA comes from the peasantry and the working class (up by 100 percent in the last five years) equipped with many more high-powered rifles (up by 200 percent) captured from tactical operations against the enemy. Also a significant index of growth is that for every NPA member, there are roughly five members of the people's militia providing support.

Not that these achievements were won easily. The Party frankly admits that in the early period, from 1972 to 1977, the NPA underwent tremendous difficulties and sustained heavy casualties owing to serious limitations in skill, organization, equipment and mass support. Propaganda units assigned to areas where the peasant movement was quiescent or dormant, were annihilated. Nevertheless, during that same period of twists and turns, the NPA expanded to hitherto virgin territory: some islands in the Visayas, the middle part of the archipelago, and Mindanao.

Protracted People's War and Self-Reliance

Such a process of terrorism inevitably coincides with the strategy of protracted people's war that the party is waging under the resolute guidance of Marxist-Leninist leadership. People's war is being conducted in the context of the U.S.-Marcos fascist hegemony, and the fierce contention of the superpowers in Southeast Asia. In its infancy, the NPA followed closely the examples of its predecessors in the Philippines and abroad, but now it has accumulated invaluable lessons some of which have been formulated in Amado Guerrero's essay *Specific Characteristics of our People's War* (1974).

As guerilla warfare encompasses larger areas every year, and as bigger

and more tactical offensives are carried out successfully, people's war will enter the advanced substage of the strategic defensive phase where regular mobile warfare becomes the dominant form of combating the class enemies.

A glance at some tactical offensives conducted by the NPA reveals that most are ambushes, raids or quick-decision battles. They invariably capitalized on the element of surprise, concentrating heavy fire on small enemy formations with the purpose of destroy ingcreative assimilation of the practices thereafter gathering all weapons and ammunition. In the Island of Samar, for example, where the Marcos regime has amassed an unprecedented total of 10,502 troops and police, the NPA applies the technique of evading decisive battles with the numerically and logistically suparior enemy, constantly shifting to seek out small detachments and wiping them out. Employing this general manuever, the NPA also seeks to disperse the enemy forces throughout the islands, converting a geographical fact into a political advantage.

What we must underscore here, partly in response to those who accuse the NPA as pallid imitators of the Chinese model, is the principle of self-reliance which the NPA type of guerilla warfare is meant to institutionalize. Self-reliance, Party documents emphasize, is the key to armed struggle in an archipelago **without any friendly country as rear base and source of arms**. Selfreliance serves as the motivating principle whereby the NPA endeavors to develop fighting skills, mastery of the terrain, popular support; and, of course, creative assimilation of the practicies engendered by other third world struggles.

Since 1969, the NPA has wiped out thousands of Marcos' officers and soldiers, policemen, para-military personnel of the Civilian Home Defense Forces, enemy spies and informers, despotic landlords and their armed goons, bandits and assorted bad elements who prey on the people, refusing to reform despite repeated warnings. At present, the NPA is preparing more squads and platoons to engage in full-time operations, with the support of expanded people's militia units.

One sign of the NPA's accelerated and improved striking power can be seen in its ability to concentrate a company in most of the 29 fronts, and more than one company in the more advanced regions with considerably enlarged scope of planning and coordination. Eventually, with more party cadres in the NPA and Red fighters concentratng on military work while others focus on mass work, the NPA hopes to efficiently bolster its full-time fighting units and rapidly step up operations against reactionary troops. This will then expand and consolidate further the guerilla fronts in a balanced way, establishing the groundwork for guerilla bases and later for revolutionary base areas at the core of the present guerilla fronts.

Like Fish in the Sea

We must emphasize that contrary to popular and academic mythologizing, the NPA is not simply or only a military formation. This is a militarist fallacy, a species of elitist determinism. The NPA cannot be just another war machine, a behemoth similar in form and substance to its enemy, the Armed Forces of the Philippines. It cannot be that precisely because it strives to overthrow the hierarchical and authoritarian system propped up by U.S. imperialism. In striving to radically transform this setup, the NPA is therefore trying to embody the democratic principles and practices of the national democratic revolution. While each NPA unit has leaders or cadres, these leaders are elected or chosen by the fighters for their political experience and organizational capabilities. Grassroots or participatory democracy operates through discussion, criticism/self-criticism, and summing-up sessions. In its work and for its survival, the NPA depends on intimate, organic ties with the villagers — the sea in which the guerillas swim like fish.

One cannot properly appreciate the nature and function of the NPA without the historical perspective we have sketched above, but especially without the prior act of locating the NPA in the site of the ongoing mass struggles against the U.S.-Marcos dictatorship in the Philippines today.

As the Party's 12th NPA anniversary statement pointed out, "The armed struggle is not apart from the revolutionary mass movement. In fact, as the main mass organization under Party leadership carrying out the main form of struggle — armed struggle — the NPA is an indispensable part of this movement. The armed struggle (essentially also a mass movement) supports the underground and open mass movement in the rural and urban areas, while these in turn help to advance the armed struggle. The two are inseparable in the people's democratic revolution. One draws strength from the other." Indeed, a dialectical process occurs. As the armed struggle intensifies, more people in the countryside and in the cities are mobilized to assert their national and democratic rights in one militant mass action after another. And with the deepening and heightening of these mass actions, more and more advanced elements will join the people's army and participate directly in combat.

Like fish in the water, the NPA as the armed political agency of the people is fully immersed in the popular resistance against feudal and fascist oppression. It rejects the deterministic fallacy that a revolution is nothing but a palace coup where the quantity of weapons and technological expertise decide the issue. This conception of revolution as a mere change of personnel is a version of the prevailing mechanistic or narrow empiricist thinking which regards technology as the key determinant in social change. While weapons are important and necessary, the radical transformation of Philippine society depends on the organization and energizing of the political consciousness of the people the development of which are not dependent on arms supply *per se*. With the correct political line, as pursued in the brief 13 years of the NPA's existence, the problem of arms and logistics is unrelentingly tackled and solved every day.

Three Simultaneous, Intertwined Tasks

We reiterate that we cannot detach the NPA's military or armed activities from its political and organizational projects. In fact, the NPA tries to fulfull three interconnected tasks simultaneously: armed struggle, agrarian revolution, and base-building. Of the other equally imperative

tasks, we can cite here some eyewitness accounts.

A Wall Street Journal report (6/21/80) describes the NPA's integration with the Igorot masses in Northern Luzon. Ka Dexter, the leader of the NPA unit, noted that "Most of the time when we take military action, it is at the demand of the people. It isn't to be separated from our political work and propaganda . . . We helped with irrigation, farm work, any kind of labour, even house building." He asserted that the NPA is "the primary form of organization waging armed struggle, the primary form of struggle."

In Cagayan province, adjacent to the Igorot homeland threatened by the World Bank-sponsored Chico dam, the NPA has entrenched itself by persistently implementing its Revolutionary Land Reform Program: rent reduction by as much as 50 percent or more, elimination of usury, increases of farm laborer's wages, confiscation of abusive landlord's property, etc. It has also promoted "exchange of labor, mutual aid, and cooperatives" with fair prices aranged between peasants and merchants. A free-lance journalist Ben Shandel reports of his two-year stay in Cagayan: "In 'liberated' barrios the NPA's authority has ended such perennial crimes as landgrabbing, tenant harassment, embezzlement, chicken stealing, cattle and grain rustling, and rape." In every village, the NPA systematically organizes the peasants, farm laborers, youth, women, and children, forming local militias and associations to launch literacy and health education campaigns. But the main emphasis is on land reform.

Reese Erlich, a recent visitor in the guerilla zones, has written extensive accounts of the NPA's work in the countryside where 80 percent of the Filipino people live. He interviewed among others, Rene Bonifacio, a 60-year-old peasant in a central Luzon province (San Francisco Sunday Examiner and Chronicle, 3/1/81):

"We are poor people, but we never stopped fighting. Here in Central Luzon the Japanese never completely conquered us. We were a stronghold for the Huks. Today it is the same for the NPA.

"Back in the early 1970s this barrio wasn't organized, because irrigation is poor. We can't grow enough rice. We can grow no vegetables at all. Back then we paid 50 percent of our crop to the landlord, more when he cheated us. My cousin from another barrio came one day and told me about the NPA.

"First it helped us set up a peasant association. We organized every peasant in the barrio to demand lower rent.

"When we first met with the landlord, he just laughed. But then he heard the NPA were in the area. At first he sent his overseer to bribe them with a few M-16 rifles. But the NPA turned them down and backed our demand for lower rents. After about a year he saw that all the barrio was united and the PC couldn't wipe out the NPA. He lowered the rent. Today he even pays taxes to the NPA."

As the organized peasant masses gain material benefits and attain both realistic and visionary perpectives from agrarian revolution, the most advanced or conscious elements will perceive the correctness of the NDF Program as a whole and enlist in the NPA, while others offer support in manifold ways: providing food and shelter, keeping surveillance on the enemy, maintaining communication lines, harassing and demoralizing the enemy, etc. In effect, the NPA fights to organize the masses in the countryside, defend their gains, and destroy the coercive apparatus of the exploitative classes. Depending on the concrete conditions, the focus varies; but the triple tasks are combined in a flexible way to advance the people's democratic revolution by stages, by leaps and bounds when conditions are ripe.

All accounts of the NPA's vicissitudes, their setbacks and triumphs — from Lawrence Johnson's "Time Bomb in the U.S. Empire" in *Mother Jones* (Dec., 1979) to latest reports in the *Far Eastern Economic Review* — testify to the highly successful integration of the guerillas with their mass base, and the impact of the NPA's victories on the urban mass movement (both open or legal protests and the underground resistance) which is essential for the anticipated insurrection in the cities when the reactionary forces have been paralyzed, neutralised or demolished in the surrounding countryside. While the traditional axiom of "encircling the cities from the countryside" still informs Party analysis, a mechanical or dogmatic interpretation of the theory is eschewed for an authentically dialectical understanding of the relation between city and countryside, so that in the ultimate reckoning the NPA's role cannot be judged divorced from the fate of the whole people's struggle against the Marcos fascist/U.S. imperialist hegemony.

In its 12 years of existence, the NPA has proved itself the genuine people's tribune, a combat-tested servant and vanguard. Its destiny is coeval and indivisible with that of the Filipino people.

— **WORKERS VIEWPOINT**, USA.

ACBC, YMBA, . . .

(*Continued from page 12*)

comprehension and equitable acceptance of each other's rights within a united Sri Lanka. A continuing frank dialogue and attitude of give and take is required for this.

Among those who participated were members from the following organisations :-

Citizens Committee for National ; Harmony; Young Mens Buddhist Association; Shanti Sana Bhikku Sangamaya ; Mahabodhi Society ; Colombo Chettys' Association ; Centre for Society and Religion ; Pubuduwa of the Catholic Church : All-Ceylon Moors Association ; Moors Islamic Cultural Home ; All-Ceylon Muslim League ; Ceylon Workers' Congress ; Social Economic Development Centre (SEDEC) ; Community Education Centre — Malabe Marga Institute ; Dutch Burgher Union (DBU) ; Kantha Handa.

All-Ceylon Buddhist Congress ; Sinhala Bala Mandalaya ; Satyodaya ; Centre for National and Tamil Affairs (CINTA) ; National Christian Council ; Colombo Diocesan Committee for Social Study and Action ; Sri Lanka Methodist Church ; All-Ceylon YMMA Conference ; All -Ceylon Union of Muslim Youth League Fronts ; Sri Lanka Humanitarian Society ; Democratic Workers' Congress ; N.C.C. Commission for Justice and Peace ; Society for International Development (SIDA) ; Service Civil International (SCI)·

CENTRAL AMERICAN TRAVEL NOTES

EXCLUSIVE

Jan Nederveen Pieterse

(Jan Pieterse, a PhD student at the State University of New York, attended a World University Service Conference in Managua in late June)

Coming into San Salvador one evening in early July, under a heavy and darkening sky. By six thirty a tremendous downpour is unleashed followed by thunder and lightning flashing across the sky turning black. The one-hour trip to the city is made across a brandnew American style motorway, with tall-booths and all. Lush mountains on either side, part of the mountain range that stretches from Alaska to Tierra del Fuego. An ultramodern, straight and empty stretch of highway. Alien element in a strange landscape. The heavy downpour, cracks of thunder and lightning opening up over the dark mountains, it feels like heading for the Golgotha of the twentieth century.

There's little military presence. At the airport checking is light. By the side of the motorway there are only two soldiers standing on a high rock, silhouetted against the darkening sky. Mid-way there's a lightly manned checkpoint, and at the tollbooth exit a soldier inconspicuously takes down the plate-number of the taxi. Yet among the first things one sees upon entering the country is a huge billboard showing the face of a young boy next to a soldier rifle in hand, and the proclamation: "With God and with the people we maintain the peace. United for the fatherland, people and armed forces".

Heavy rains are coming down on San Salvador. Everything's normal, so I'm told. There's no curfew. Yet come eight thirty all the restaurants close up, the bars empty out, everyone's catching the last bus home. Only a few neighbourhood spots stay open. The inner city seems pretty well closed up. It's only on account of the rain, I'm told. At night soldiers patrol in teams of two. In the daytime there are no patrols, no military traffic in the inner city. Only a few points such as the American Embassy are heavily guarded. It seems the military are keeping a low profile, perhaps part of a policy of not appearing a military dictatorship. Apparently the city, and the international airport, fall squarely within the government controlled zone. It would be on the inland roads between city and country where the checkpoints are, the military cordon. It gives the feeling of a compartmentalized country, the capital encircled by the mountains. A free zone, or a huge collective prison. The compartmentalization of the country has come to correspond to a compartmentalization of the mind. Here everything's normal, I'm repeatedly told, in the country there's fighting. Some say it in such a matter of fact way, as if the fighting has been separated out of their mind, as if it had no actual bearing upon life in the city, where people go to work in the morning, taxis circulate and old men sit on park benches. Yet business is low in the markets, prices are high in the shops, tourist traffic has dwindled, access to part of the country is restricted. In the inner city gaping holes appear and buildings are without paint. The Gran Hotel San Salvador is a ruin. A bomb? No, an American withdrew his capital. The university complex is empty and partly shot to pieces. An alternative university is operating in secret, in private homes. The American Embassy is in tough shape. Around the original building layers upon layers of armed concrete walls have been erected, with narrow tourniquet gates spared out, armed guards inside, cameras monitoring all points, Salvadoran soldiers aiming their guns from watchposts, go-slow thresholds on the surrounding streets. High-strung consular officers deal with a stream of visa applications, the form for which inquires, in one breath, whether one has had any communicative diseases and whether one is, or ever was, a member of a communist organization or any organization affiliated with it. Yankee power and Yankee phobias on display in a fort in the suburbs. Saigon revisited Central America blues.

Why no urban guerilla in San Salvador, as was the case in Managua? The answer I'm given is that in crowded San Salvador control is too tight. San Salvador with its old inner city and new suburbs holds a million people, its a more concentrated urban agglomeration, different from sprawling Managua. It may also reflect the nature of the struggle: Somocismo generated a higher degree, one notch further, of convergence of oposition forces, left and right, rural and urban, than the struggle in El Salvador does at this stage.

What's the death count now over the past four years? Fifty thousand? In Nicaragua, where the death count is as high, the dead are present, commemorated in countless ways. In every other city street there are small mementos in recognition of the companeros who have fallen on the spot, the FSLN symbol overhead, and along with the names, invariably, the word **presente.** Barrios and neighbourhoods have been named after local fighters and commandantes. The **Heroes y Martyres** are part of the victory of Sandinismo, the testimony of the sacrifice upon which a humane society is being built is fundamental to the consciousness of the revolution.

But here in San Salvador, the city where everything's normal, there's no sign of the dead, not a monument, not a standing stone, not a name

or a face has remained. The only place where a trace of the dead can be seen is in people's eyes. The absense of the dead, the invisibility of the sacrifice, is part of what gives the city its alien atmosphere. An ambience of speechless frowns and haunted silence. And yet they roam the streets, the legacy of the dead. In the mad people crying out on city plazas. Pointing their fingers, sticking out their tongue to a stranger. In the homeless ones, the children begging for a colon. In those who wade through city crowds their eyes fixed unto a point unseen. And those who come down church steps supported by relatives.

It is in the churches that a record of the suffering is being kept. They're austere structures, erected in raw cement, with faded slogans of militancy painted on the side. Inside the walls are of bare bricks, with a simple cross and a rudimentary altar. In the two churches I wandered into in the inner city of San Salvador, there was nothing of the lush sculpture, the golden adornments, the celebratory decorations that I saw in the churches of Nicaragua, churches that still exuded the medieval splendour of the Holy Church. The sermons exuded a different mood as well. In San Salvador, the service sounded serious, straigtforward: Good afternoon, friends. In Managua I heard a sermon that drew on all registers of ecclesiastic rhetoric and theater, thundering of sin and salvation: Differences that seemed to tell of the different politics of religion, different relations between church and state.

The most imposing cathedral in San Salvador, in the heart of the city, at the Parceo del Barrio, is the Cathedral de San Salvador. But of this vast structure it is only the skelton that remains, all of the outer walls, the facades have gone, the iron rods that supported them are sticking out. High above construction on a new dome has begun, in fresh grey cement, the blue sky shining through the empty windows. This is the cathedral where Mons. Romero was murdered while celebrating mass. There is not a sign or a poster commemorating him. There are only posters, outside and inside, of Juan Pablo II, displaying his expert smile. Of Mons. Romero there are posters in Nicaragua but not in San Salvador.

In the suburbs life is not just normal, it's perfectly normal. Cars speed along the palmlined boulevards, restaurants stay open late. Nightlife goes on here, as in San Benito, where foreigners find their entertainment. Somebody must be having a good time around here. A focal structure is the elegant Camino Real, the universal "hotel intercontinental", the airconditioned palacio of the foreign press. The dining room is decorated with a huge red heart pierced by three big swords. Peculiar. In this sanitary neighbourhood there's no trace of the homeless and mad people as in the inner city.

Out of conversations at bus stops and in empty bars a picture emerges. Political stagnation in the country is total. A military victory on either side is not foreseeable. There's no dlalogue at all. Participation of the left in the elections is out of the question. The presidential elections coming up in December are a farce anyway. Duarte **again?** Or Molina (National Party, i.e. army) or Arena (ultraright)? It's too ludicrous to even discuss. Many people proclaim their neutrality: they support neither the government nor the guerillas,who are both deemed extremist. In some cases it's an alienated neutrality — as of the artisan-artist who wouldn't discuss politics but who lit up when talking about smoking dope, jazz, "rock puro," and other pursuits of culture. Reflecting varying degrees of alienation, people's estimates of the distance from the city at which fighting is going on also varied wildly, from 25 km to 160 km. In other instances it's an impassional neutrality. Condemnation of the government is universal (voiced with a look over one's shoulder.) There have been too many murders. Moreover the country is **desorganizado, maladministrado.** Living standards are deteriorating. There's criticism of the FMLN as well. Their strategy of economic sabotage is hitting the people as much as the government, and is thus resented by people. If this is a political and military struggle, according to one argument, it should be fought with political and military means. Affirming their neutrality people place themselves on the middle ground which according to their own political analysis does not exist. Discontent in the city is mounting. If this situation lasts an urban uprising would be a possibility. Some change must come.

Nicaragua

Nicaragua exudes the atmosphere of militant, confident Sandinismo. The world's youngest revolution, now at its fourth anniversary. Compared to countries that have experienced a "revolution from above" that I'm familiar with (Benin, Ghana, Suriname), these are the differences that strike me: Here it's been a long struggle and a mass struggle, a protracted people's war that directly involved the broad masses, in town and country. The experience of prolonged mass struggle has crystallized into a spirit of social discipline, and high levels of political consciousness and practical organization. Striking also are the militias without uniform, guarding neighbourhoods and city access roads armed with automatic rifles. Sandinismo is a people's movement, the politics of a people that has waged war in pursuit of its own identity. Hence to assume, for instance, that Nicaragua is to end up as either another Cuba or another Mexico, over the years, as American liberals are wont to believe, is missing the point. It is to fall into the trap of existing models, and to miss the point that Nicaraguan political self-consciousness is far too pronounced to allow them to imitate models blindly. There's little interest in Nicaragua in building another Copa Cabana. The world situation is different as well. The Soviet Union could not afford another Cuba; widening cracks are appearing among the once cohesive Atlantic powers, as well as among the American states. Mexico itself is performing a balancing act upon the brink of crisis.

The problems that Nicaragua faces as an underdeveloped countty — not nearly as underdeveloped though as the poor countries in Africa — are being approached with an innovative attitude. Reconstruc-

tion has gone apace. Economically Nicaragua is doing relatively well, according to an **Envio** report (June 1983) on the economic balance of 1982. Nicaragua is the only country in Central America where living standards have not gone down in 1982 a year of severe crisis throughout the region. It is also the only country in the region that has not accepted an IMF regime. What maintains people's living standards is a high social wage, notably through improved health, education, transport and other services. For instance, frequent and regular bus services connect all parts of Managua, at a fare of one cordoba (ca. three pennies). Basic necessities are subsidized (and some items are rationed). Many goods are from East European countries that provide more favourable terms of credit. There's a ceiling on government salaries. These are some instances of what an **alternative** to IMF austerity politics looks like.

This another point missed by the American commentators, nestled in the Intercontinental Hotel. Their class bias compels them to consort with the plaintive bourgeoisie (there's the case of the journalist who travelled all the way to interview his list of "nine dissidents"). Their free world missionary bias compels them to focus on elections and press freedom as the hallmarks of civilization, rather than on changes in mass living conditions. The political backwardness of their own society does not enable them to understand that the true yardstick for Nicaragua 1983 is not the United States but Nicaragua 1978, not the metropolitan world but Honduras, El Salvador, or all the other third world countries where the mass of the people is being pushed into deepening deprivation by IMF conditions and ruling class accomplicity. It is what passes for political wisdom in North American editorial boardrooms that is extended to Managua ; what is broadcast from Managua by American reporters bears no relation to political analysis, it's just a game of mirrors. It's media politics.

There are no easy answers to the dilemmas of Nicaragua's transition, to the balancing acts of pluralism and the mixed economy, or for that matter to the attempts of any third world nation trying to break away from the metropolitan mold. What is missed by mechanical analyses based on existing models, derived from established doctrines, or reflected from metropolitan mirrors, are spiritual resources of the people — a spirit that gave rise to the struggle for social justice, and that was stretched and replenished by it. Since the ouster of Somoza the struggle has entered a new phase, it is new the infrastructure of power **behind** Somocismo that is being confronted, the puppetmasters in Washington, Rome and Tel Aviv and their regional sideshows.

Late at night in the barrios, by eleven or midnight, the muchachos in wheelchairs come outside to catch the cool night air, sitting in the middle of the street chatting with a neighbour by the light of a streetlamp. There are many wheelchairs in Managua. There are many slogans painted on the houses. Leading up to the celebration of the fourth anniversary on July 19, several manifestations were taking place. One afternoon in June I chanced upon one of them. Workers of the Ministry of Planning assembled in the street before a small monument, saluting the flag they would carry to that evening's occasion — the commemoration of the **Repliegue a Masaya,** the tactical retreat undertaken by Sandinistas and urban insurgents in June 1979, when thousands of people marched through the night through mountainous terrain to the town of Masaya, 35 km away, to replenish their forces and reorganize their ranks. Now everyone stood still facing the monument, passing cars stopped and drivers got out to join in, as did passers by. The Sandinista hymn was sung. What the dense atmosphere of the occasion came closest to, in my own experience, was the commemoration of the dead of the second world war in Europe, which in the Netherlands takes place on the fourth of May, when the whole country keeps a three minute silence. Many elements go into that silence but an anti-fascist commitment is one of them. Thus surfaces of the Sandinista struggle, as a war of liberation from Somocismo and the National Guard as an occupying force. As an indefatigable collective commitment.

That evening tens of thousands of people assembled for the march to Masaya, again through the night, along the same difficult route, headed by the same commandantes who led the 1979 operation. Tens of thousands of people marched by in their old combat dress, in disciplined columns, their songs and their faces shining with every emotion from enthusiasm, youthful joy, compassion and serious determination, for this march was not just a commemoration, but as much an exercise of a disciplined people's army under Sandinista command.

The struggle has entered a new phase. The defence of the revolution, its consolidation in the face of the global powers that be. **Patria libreo morir.** Every other day funeral processions file through the towns. Aged campesinos interviewed at the border, arms in hand : Been fighting for decades, now I'am prepared for the **ultimo sacrificio.** If its up to me, they shall not pass! **No Pasaran,** the words are written on every other door.

Politically the **contra** actions do not present a problem. No one doubts that the FSLN has the support of the mass of the people. Criticism of particular Sandinista policies still does't mean support for the contras. When asked what people think of the contras, or Pastora, the typical reaction is : **Bullshit** (one of the few American words in Nicaraguan vocabulary). Not worthy of discussion. Militarily and economically however the problem can be much more tricky. Partially on account of the nature of the terrain, mountainous and difficult to defend. On account of the US cash payments, that attract many elements, and the Honduran backing. And on account of the factor of kinship, as in some regions (Nueva Segovia, Jinotega) contras have managed to gain a toehold in those villages where many of the National Guardsmen originally came from. This is part of the price to be paid for a humane revolution —

a revolution that was not in the business of blond but in the business of sweat, as Thomas Borge put it in 1979, a revolution that refused to kill its vanquished oppressors, It is this mercy that is now bouncing back on Nicaragua, harnessed by the United States.

Given sustained CIA efforts and support sanctioned by the US Congress, the contra actions would pose a problem economically as well, draining resources from development, interfering with production in the border regions. If you can't steal the cow, you can poison the well. This presumably is the objective of the programme: not the overthrow of the Sandinistas, which is not feasible, but to dampen the halo of Nicaragua's "good example," to control the political agenda of the region and the way it is perceived in international media and fora, and to divert attention from the real problematic of the regional class struggle.

The Joint Chiefs of Staff (in the U.S. **Military Posture** for fiscal year 1984) identify four "resource –rich regions of instability" — the Middle East, Central America, southern Africa, and Indochina. The methods of counterrevolution deployed in Central America come closest to those used in southern Africa, notably the counterrevolutionary guerilla operations against Angola and Mozambique. Recently operations in Central America have become more sophisticated in adopting a counter–revolutionary strategy that mimicks the revolutionary forces — hit–and–run guerilla tactics, "liberated zones," pictures of guerilla fighters in the international press, stealing the aura of revolution. While the contras in Nicaragua thus mimick the FMLN in El Salvador, in Guatemala rifles and beans, and in El Salvador itself, small units, beans and "human rights," have become the new fashion in counter-insurgency. From Angola and Mozambique we know how shallow the attractions of "friendly fascism" are. While the outer forms of counter-revolution mimick those of revolution, **mauvaise foi** will inevitably spill through the cracks between illusion and reality, while the gunboats become larger on the horizon.

(To be continued)

The World Capitalist Crisis and Sri Lankan Politics

Dayan Jayatilleka

This is the transcript of a talk delivered at the opening session and an intervention made at the closing session of a seminar on The Referendum and Representative Democracy' held in February/March this year at the Centre for Society and Religion. Other speakers in the series were Felix Dias Bandaranaike, M. Sivasithamparam M. P., Vasudeva Nanayakkara, Pieter Keuneman, Bernard Soyza, Kumar Ponnambalam, Fr. Tissa Balasuriya, Reggie Siriwardena and Charles Abeysekera.

A portion of this talk was published in **Logos** *Vol 22 No 1 March '83. This issue of Logos, devoted to 'Referendum '82 : Eclipse of Parliamentary Democracy in Sri Lanka', features articles by Hector Abhayavardhana, Felix Dias Bandaranaike, Tissa Balasuriya, V. I. S. Jayapalan, Radhika Coomaraswamy and Victor Gunawardena.*

My point of departure will be the economic crisis. I think that the level of analysis will be different from that of the other speakers because I want to approach this from a slightly more theoretical perspective. And I think my unit of analysis will also differ because I want to locate this very squarely at the global level. I think a lot of us make the mistake of seeing the dynamics of Sri Lankan politics in a solely Sri Lankan perpective. The nation-state tends to be our primary unit of analysis. So when we talk about the economic crisis, we talk about the 'national economy' and when we talk about politics we talk about our 'national' political structures, and institutions. As such we tend to have a some what circumscribed view of developments. But I wish to stress that at least for the past 450 years or so, since 1505, the dynamics of Sri Lankan politics has been determined primarily by global forces. Ever since the incorporation, at first partial, and then total, of Sri Lanka into the capitalist world-system, first under the Portugese and Dutch and then finally the British, events, processes inside the Sri Lankan social formation have originated or been determined primarily by forces and factors that operate at the global level. In other words whenever we talk about some event or some phenomena in Sri Lanka, for example a student strike at Colombo campus, can we talk about it without talking about the fact that free education is being cut back as a response to the crisis of the Sri Lankan economy which in turn cannot be understood except against the backdrop of the crisis of the world capitalist economy? So we must shift our traditional perspective and approach matters from the standpoint of **world-economy.**

The moment one shifts to be level of world-economy you can see that the Referendum and many things that are happening are not due to the whims and fancies of this or that political personality. Who wanted the Referendum was it the Prime Minister, or the President or some Minister? Why are these nasty things happening? Is it because so and so is undemocratic, or so and so's personal fortunes are involved? No, these queries trivalize the issue. The moment we shift from that to a world-economic perspective or a world — systems perspective, then you can see that there is an objective logic that is the driving force behind all these events. I'm not excluding the subjective factor; I'm not trying to eliminate the role personalities or emotions or subjective factors. What I do want to stress is that there is an underlying logic, an objective logic of political economy. And lets try to understand that logic, for we have to understand reality if we are to change it.

What is this world that we are talking about? When I talk about a global perspective I'm not speaking about 'the globe' as such. I'm speaking about a world-system. Now the contemporary world-system, we could conceptualize as the contradictory unity of the capitalist and socialist world-systems. They co-exist and interact with each other but also contradict and contend with each other. This is a dialectical phenomenon. Sri Lanka is a peripheral unit within the capitalist world system and has been so for several hundred years. So when we discuss Sri Lanka we must focus on the capitalist world-system. It was discerned by a man who died hundred years ago on March 16th-Karl Marx — that capitalism as a mode of production contained inherent contradictions — the main contradiction being that between the socialized nature of production (that is production as a collective task) and the private nature of the appropriation of the fruits of that production. Now that is the underlying paradox or structural asymmetry or contradiction within the capitalist mode of production. **Based on that** is a series of other contradictions. One of these is the whole contradictory phenomenon of 'over production'. So because of these inherent contradictions in the capitalist mode of production we have periodic crisis. This was denied by economists at the time. But now any self respecting economist does talk about the crisis of the capitalist system, because it has hit him or her in the face. But at the time that Marx laid bare the well springs of this crisis and for a long time since, it was denied that capitalism was an inherently crisis-ridden system.

The Logistic

When we talk about the crisis of capitalism however, even leftists tend to confuse **different types** of crisis. There is the business cycle — the up and down movement of 4–5 years duration which almost everybody knows about. There is also another longer trend of up–swings and down–swings of about 50 years duration. That is the phenomenon of 'long waves'. This trend in capitalism, was first discovered in the 1920's by the Russian. Marxist economist Nikolai Kondratiev and the whole idea was taken up and popularized by Ernest Mandel and others, some ten years ago. So that itself is a fairly newish kind of discovery. **But still newer is the discovery that there are even longer waves, waves of even longer duration, lasting hundreds of years.** These waves comprise of an up–swing of about a hundred years and a down–swing of about a hundred years. That whole thing is called 'the logistic'. Logistics were introduced by **Rondo Cameron** in "The Logistics of European Economic Growth : A note on Historical Periodization" published in the Journal of European Economic History Vol 2 No 1, Spring' 73. The history of long cycles and trends exhaustively discussed in a special issue of Review, Vol 2, No 4. Spring'79. 'Review' is the journal of Immanuel Wallerstein's Fernand Braudel Centre.

Now what we are trying to say here is that there are certain economists who, when they talk of crisis, talk only one type of the crisis, i. e. the business cycle. These economists say that we are in a bad phase but we'll get out of it — the crisis is bottoming up etc. But there are more perceptive economists and social scientists who tell us that what we have is in fact **a conjunction of two or more types of crisis.** One is the cyclical downswing of the short business cycle. The other is that we are in the downswing of the Kondratiev long wave. And then we are in a longer downswing — a hundred year downswing dating from around 1893 onwards. What I'm trying to say is that this is not just any short–term cyclical crisis. This is in fact a period in which three downswings are superimposed one on top of the other. The world capitalist system is in one of the long, hundred year B phases or downswings. (The upswings are called A–phases the downswings are called B–phases). We are, in other words in a B phase of the long centuries old "logistic". We are also in the long B phase of the shorter, fifty year "Kondratiev cycle". We are also in the downswing of the normal boom bust "business cycle". So these are three downswings that are impacting upon us. And that is really the depth and extent of this crisis. So in this context what are the implications, what are the differential responses of various sectors and classes of the capitalist world economy to the crisis ? To put it very schematically, the capitalist world economy that we are talking about is a multi — tiered, multi structured entity. We can identify broadly three tiers, the Metropolitan centres comprising the developed capitalist countries (also called the core capitalist countries) the periphery consisting of the dependent capitalist countries of Asia, Africa and Latin America and the inter mediary sub–imperialistic semi — peripheral zone.

The crisis is affecting the developed capitalist countries in the form of stagflation that is a combination of stagnation, 'over production' and inflation. This combination is one that was not seen to be possible, after the great depression of the 1930's. Incidentally, world capitalism got out of the depression not because of any, brilliant economies on the part of Roosvelt or Keynes ! It got out of it because of the World War. It 'spent its way' out of the crisis in World War II. But the whole Keynesian project in the post war period was predicated on state intervention and a trade–off between inflation and unemployment. If unemployment rises higher you allow a little inflation at one end, and then it brings down unemployment and so on. But the specificity of the current crisis is that you can't trade–off the one for the other. You have unemployment, and you have stagnation and inflation all combined, and there does not seem to be any concerted or coherent policy option presented by any section of the world bourgeoisie at this point of time, to deal with this.

Now the ruling bourgeoisies of the core capitalist countries caught up in this crisis are trying to transfer the burden of the crisis on to the peripheral capitalist countries. In other words, on to what we call, some what inaccurately, the 'Third World' countries. Why Before we understand that we must talk a little bit more about the nature of the current crisis.

Crisis which crisis ?

There are many economists who look at different aspects of the crisis and say this is this kind of crisis or that kind of crisis. This is rather like the story in Sinhala about the blind men trying to identify the shape of an elephant. One touched the trunk and said an elephant was like this, another touched the legs, another the tail and they all had their particular, contradictory, views of what an elephant was. But the truth was that it was all of these.

It is the same thing with the current crisis. Some hold that it is crisis of over production, i. e. that global output has out stripped effective global demand. Others say that this is a crisis of the falling rate of profit, that the rate of profit has declined from about 1967. Still others say that is a crisis of hegemony.

Now this last, is a rather interesting concept. Because the post war 'long boom' from 1945–1967, the prosperity we saw globally, took place under the leadership of the United States, and a whole set of structures and institutions IMF, World Bank, GATT Bretton Woods; and indeed a whole network of relationships built up by the United States. Now the whole system is in crisis because the **hegemony** of the U. S. has been undermined by the victory of the people of Vietnam particularly, and by whole series of events. So because the entire supportive system or the surrounding network of structures is in crisis, the economic system is also in crisis, and no lasting economic recovery is

possible without these being repaired.

So there we have **three** views of the nature of the current crisis, which I consider equally valid. The reality is that it is in fact a combination of all these and it is this combination that gives the current crisis its **specificity.**

Now how do the core capitalist countries try to get out of this crisis ? In order to jack up the falling rate of profits they have to increase the rate of expropriation of surplus value. Where, or, more precisely, in which 'zone' of the multi-tiered capitalist world-economy, does this take place, in the main ? If it were to be in the core capitalist states, then the metropolitan bourgeoisies run the risk of fuelling the rise of radical political movements — socialist, communist, fascist. In other words, they would be running the risk of de-stabilization in their home territories. Which is why they don't want to go that route. Of course they are in fact increasing the exploitation of their own working class and thats what Reagonomics is all about; thats what Thatcherism is all about. But the main burden of the crisis is being transferred or being exported to the periphery, because they don't want to run the risk of revolution at the centre. So the working masses of the 'Third World' are being asked to bear the brunt of this whole effort to jack up the falling rate of profit. We can see this tendency from about 1967 onwards. And how is this done ? Very briefly, we could say that it is accomplished through the export of capital and production to the 'Third World' under the aegis of the transnational corporations. The transnational corporations are in fact the main driving force of global capitalism in the post war period. And this explains the whole phenomenon of a dependent industrialization in our part of the world which was previously reserved for agricultural products, raw materials minerals and so on. Now we witness the whole process of dependent industrialization and the extention of dependent capitalist relations to agriculture, through production for the global supermarket. This is precisely because wages are cheaper in our part of the world.

The 1960's policy debate

Now in other words there was a whole new economic model that was fashioned in or rather, for, the 'Third World'. You can see that from the 1960's onwards the new model of dependent accumulation (a new economic model of dependent capitalist development industry and in agriculture) takes shape. This new economic model is discussed in Sri Lanka around this time in Mr. Dudley Senanayake's UNP regime. Two economic projects are visible — that of Dudley Senanayaka and Gamini Corea, and the 'oppositional UNP' economic model which Mr. Jayewardene and Mr. Esmond Wickremasinghe at that time begin to articulate. This is the same time that Mr. Jayewardene begins talking about the need of the Executive to be free from the whims and fancies of legislature. This is something that one often forgets. That is that at the same time he presents this political argument for 'stability of the executive', he also presents a certain economic policy which gives heavy weightage to free trade zones, tourism, etc. In fact the idea of FTZs is first mooted around that time. Then it is also in the same period which marks the beginning of the global crisis that we witness the cut-back in social welfare and especially in education, triggering off the student struggles in the universities in 1966 and '68/'69. The further extension of development capitalist relations in agriculture through the so-called "Green Revolution" also takes place at this time. The whole phenomenon of the JVP's emergence at that period of time is a result of the crisis, the cut-backs, and the class polarisation in the countryside.

The politics of dependent development

Now the point I'm trying to make here is that the new economic model also neccessitates the new political 'super structure' or, in other words, a new model of (political) domination. Lenin said that politics is but the concentrated expression of economics. A certain type of politics goes with a certain type of economics. So in other words the 'death of democracy' or the onset of dictatorship and so on and so forth, must not be seen as an episode or event, nor something that springs full blown from the head of Mr. J. R. Jayewardene like Minerva from the head of Jupiter ! It is in fact a **process,** which has its origins in the latter half of the '60's and decade of the '70's. And that is how we must see the Referendum — not as an event, but as part and parcel of an on going process or set of interrelated processes. That is very important; if you dont do that then you have a very simplistic view of good and evil — of J. R. Jayewardene as the incarnation of evil. Then all the rest are the forces of 'good'. If you base yourself on that picture, you work out an incorrect strategy and tactics. And then you ask the people to go to the presidential polls and save democracy by voting for Mr. Kobbekaduwa who will restore Madame Bandaranaike to power. Meanwhile, the people who perhaps have a greater appreciation of democracy than many of us, decide to do just the opposite ! Perhaps there is something wrong with the people, or then again, perhaps there was something wrong in the message that was going out because the people had experienced the reality, and the reality of it was that these anti-democratic trends and tendencies were quite manifest very much early on, in the '70's. This is true in the economic realm as well. Look at the first budget of the United Front government. Cheryl Payer in her book 'The Debt Trap', a study of the IMF and the third world, uses Sri Lanka as a case study of how left oriented or progressive coalition if you will, reneged on its electoral promises and did just the opposite of what it promised under pressure from the IMF. Some of you might recall the posters put out by the left wing of the CPSL, protesting the first budget of Dr. N. M. Perera. Then we have the '71 insurrection and its crushing and the installation of emergency rule. Now emergency rule became an unexceptional, a normal phenomenon. You will recall the 1000 day emergency under Mr. Dudley Sena-

nayaka's regime. In the '70's, emergency rule became a fact of life. The emergency, the use of the Essential Services Act, under which the Green Cabin Cafe was declared an essential service, and the Bank strike and so on. And in '72 you have the white Paper on Foreign Investment. So these two things, the increasing dependency of Sri Lankan capitalism and the increasing authoritarianism at the level of politics, go hand in hand in the 60's and the 70's. You would recall Madame Bandaranaike returning from a trip to West Germany and in '74 saying there would be no more nationalizations and going on to say how very good the workers in West Germany are because when they go on strike they oil their machines! Then in 1975, with the break up of the UF coalition, Felix Dias Bandaranaike introduces the Draft Foreign Investment Guarantee Law. And we later heard from the IMF representative in Sri Lanka Mr. Anoup Singh that the IMF stabilization package which the UNP has been implementing was accepted in principal by Mr. Felix Dias Bandaranaike but was postponed until they had faced the elections! Then you have the '76 Railway strike, the student struggle, the whole shift in the parliamentary balance, the lapse of the Emergency and the electoral overthrow of the government.

Now that is a very important experience for the UNP, for if you read Mr. T. D. S. A. Dissanayaka's book on 'J. R. Jayewardene of Sri Lanka', you will find quite a section of it devoted to the Weerasooriya incident, to the Peradeniya student struggle and the Railway strike and the subsequent general strike. After all, that is how the UNP came into be in office. Because with the great disorder unleashed, there was no organised entity capable of shifting the struggle onto another track altogether. Thus, the collapse of the SLFP brought about the ascendency of the UNP. Now the UNP has never forgotten the whole wave of struggle and the instability which characterized that period '76 — '77. And that is what J. R. does not want to see ever again. But remember, this was not a planned revolutionary upsurge. This was a spontanous combustion which lead to a change in the parliamentary balance. There you had a cluster of left wing MPs in the SLFP, later on the Communist party and the LSSP grouping together calling for no confidence motion and so on. Parliament was truly used as a platform. There one notes that just like in the 1930's when Mr. A. E. Goonasinghe on behalf of the labour Party had to stand for universal franchise when all other establishment politicians including Mr. S. W. R. D. Bandaranaike were opposed to universal franchise, once again in '76 it was the working class that made it possible to have democratic elections. There was a lot of talk at that time of elections being postponed. So you see, it was the working class and the students who unleashed the struggle which secured us a free general election in 1977. The 1978 Presidential Constitution goes hand in hand with the FTZ and the IMF stabilization package.

So what we are talking about is a construction of a political shell within which this new economic model can operate. And that is not just an event but something that has an objective logic behind it. So long as the internal structure of the Sri Lankan economy is capitalist it has no options but to link up with the metropolitan capitalist centres. It is really very hard to think of an independent or even semi-autonomous capitalism in Sri Lanka. Countries like India, Brazil, Mexico, Venezuela or Iran which have a sufficient resource base can follow an autonomous or semi-autonomous type of capitalist development. But for a rather fragile economy like ours, any kind of capitalist development has of necessity to be a dependent one in terms of capital inputs and markets. So whichever party or party fraction that upholds and protects this dependent capitalist system, whichever party that operates within the confines of that system, even if it calls itself a progressive party can do little other than what the UNP is doing. If it tries to it will give rise to a coup d'etat. What is taking place now is a gradual fascistization of the existing structures and the bringing into play of fascistic para-state or para-military formations. The process has been going on for over more than 10 years — in fact closer two decades. It is like a cancer, and now it is in its terminal stages.

You may recall the debate of the FTZ when the bill came to parliament. The president was then the Prime Minister and Mrs. Bandaranaike was also in parliament before her disenfranchisement. And Mr. Jayewardene asked "Why are you opposed to this. You wanted to converge the whole country into a FTZ if your Foreign investment Guarantee Law had gone through. Are you opposed to it because I'm doing it? Are you jealous?" He asks. But there is a very important element of truth in that, because any political party, any political formation representing basically the same class interests and committed to upholding a certain set of property relations domestically **cannot but** move towards authoritarianism. And the Referendum has to be viewed in that context of Sri Lanka approaching the standard 'Third World' pattern where dependent capitalist growth goes hand in hand with authoritarianism where dependent dictatorship or what some call neo-fascism, are the order of the day. It is not bourgeoisie democracy but some form of the **'exceptional** state' that is the 'Third World' **norm** and Sri Lanka, which because of the uneven development of capitalism under imperialism has been lagging behind, is now catching up.

The 1980's

The current economic crisis will last at least to the end of the decade and very probably till the early 1990's. This is the view of most informed economists. We are in a situation where the recovery of the 3rd World economy is said to be contingent upon the recovery of the developed Western economy an these two are interlinked. Even if there is a recovery of the developed west it is likely to be a partial and weak one, quite inadequate to act as the locomotive of recovery of the 3rd World economy. So at least until the end of this decade there is not going to

be any real improvement in the economic field. The world economic situation is going to be much worse from 1984 to 1986 and consequently so for Sri Lanka.

In Sri Lanka, the **crisis** should not be confused with **stagnation.** We are yet in a period of fairly rapid growth. But let us not be fooled. In the 60's Iran went through a rapid growth phase under the Shah. So also did the Philippines in the late 60's. Similarly the present crisis in Central America, cannot be understood apart from the whole export led growth strategy of the Central American Common Market in the late 60's. What we have in Sri Lanka is dependent capitalist growth against the backdrop of global recession — and this generates tremendous socio-economic disparities, contradictions and tensions.

At the New Delhi Non-aligned Summit President J. R. Jayewardene said, that the present cut backs were imposed at the explicit behest of the IMF and IBRD. As the depression gets worse there will be even greater effort on the part of the developed capitalist countries of the West to transfer the major burden of the crisis to the 3rd World. The IMF's treatment of Brazil and Mexico are cases in point.

Within the 'Third world' itself the ruling cases will pass on the burden of the crisis for the poorer sections of the people i. e. the working classes. So we can envisage further cut backs (particularly in Education), further privatisation and opening up of the economy to market forces. This can also be envisaged in the Plantation Sector under the guise of the drive to revive exports. The export drive will make us more dependent than ever. These efforts will however not help because we will be still further subject to unequal exchange and this will only widen the gap. To bridge the gap we will resort to encouraging foreign investment to get the "much needed foreign exchange". But what really happens is that foreign investment take out more than it puts in. There is a nett outflow in terms of profit and other remittances. That is well documented by the UN affiliated agencies like UNCTAD. So the gap continues to widen much more. And to bridge that we borrow; and when the IMF and World Bank refuses we are driven to commercial banks; and we start borrowing to pay back.

One thing I see is happening is increasing dependency not only at the economic level but also at the level of politics and foreign policy, diplomacy and military strategy, because it will be perceived necessary by the regime, for Sri Lanka to integrate itself into the geopolitical and geostrategic grid, of the Western Alliance. It is a vain hope to believe that if we join the US strategic network the US will bail us out. This they will not do. They first have to bail out "their own" the working class their citizens and industries. So they cannot afford to bail out anybody ! If they could they would bail out El Salvador, Philippines and countries which are much closer to them than Sri Lanka. But I do envisage increasing foreign policy dependence. Sri Lanka's move to remove the reference to Diego Garcia from one part of the Non Aligned Declaration is a case in point.

What is the consequence of all this ? I think we are in for a period of sporadic spontaneous outbursts of protests from a variety of social sections. We find the ongoing student protest a direct response to the creeping privatisation of education. This cannot be taken in isolation. It is part and parcel of the cut back in education and social subsidies recommended by the IMF and World Bank. We will find many more such protests — the Polytex Garment strike, the Cold Stores work stoppage and the abortive Port strike were indications. It is most likely that such things will be met with repression.

So together with the deepening economic crisis I see further privatisation, increasing dependency, and at the level of politics, increased authoritarian tendencies. We are heading towards a dependent dictatorship which is so characteristic of the tri-continental world. Theotonio Dos Santos calls this "dependent fascism" while Prof. James Petras terms it 'Neofascism'. We could also call it a process of 'Aseanisation' leading to setting up of a 'Marcos model' of rule. It is not impossible that we will see the dissolution of Parliament and an increasing role of the military, upto and including the declaration of martial law. We see the judiciary under attack and this is very serious. But I most certainly do not agree that the anti democratic tendency is limited to or even emanates from the person of Mr. Jayewardene or even from the UNP as a party.

Some analysts concentrate on UNP policies as the fundamental evil. This confuses an objective process, with the persons active in it. Mr. J. R. Jayewardene did not cause the economic crisis. The SLFP cannot end it. This is a process beyond the will of individual human beings. We must train ourselves to understand that the contradiction is between the productive forces and the production relations. One should not reduce the **class struggle** to an anti-UNP or an anti JR struggle. We must reject this critique of individuals and their policies in favour of an analysis of the structural crisis of dependent capitalism. If we mistakenly identify JR as the villain, then we fall into the trap of tailing behind the "good bourgeoisie" (i. e. the SLFP) to oppose the "bad bourgeoisie". True, there is an intra-capitalist struggle. But what this struggle is about is the desperate search by the bourgeoise for a way cut of the economic crisis. They are searching for a way which is profitable to them and is at the expense of the working masses. This fight amongst different groups of capitalist politicians is about how best to use the Government and the state apparatus for the benefit of the capitalists. By aligning with one section of the capitalist class in its struggle to save itself we are robbing the working class of its independence and political momentum and surrendering the working class to the political needs of different sections of the capitalist class. Historically, in the struggle against direct colonialism and feudalism (or semi feudalism) the working class had to ally itself with the democratic bourgeoise. But a position like that taken now. in the period of neocolonialism is

'as alien to Marxism — Leninism as medieval alchemy is to modern physics.'

On the other hand there could be qualitative new development of new forms of struggles and strategies in the North. There are new orientations in the North–an ideological orientation on the part of the youth groups there. They are using Marxist–Leninist categories. This is very significant.

In the South in terms of political development the traditional political parties cannot meet the new situation, having been accustomed to parliamentary forms of struggle. They are not able to shift to extra parliamentary forms of struggle and will not be able to successfully mobilise mass protest on price hikes and other economic issues and will become ineffective except for issuing statements. This situation could lead to stress and strain at the base, particularly of the JVP, for the leadership will not take up the armed struggle option again. It may be quite possible that cadres at the middle and lower levels may break off from the JVP.

The great Italian Marxist Antonio Gramsci who incidentally was a hunch–backed dwarf, had as his favourite motto, the saying 'pessimism of the intelligence, optimism of the will'. I think it is a very good recommendation under any circumstances. But I think we can go a bit further. We can recommend '**optimism** of the intelligence **and** optimism of the will.' Why optimism of the intelligence ? Because capitalism is in this very deep crisis. Crisis is precisely the period of restructuring/rationalization of a system. The system is not going to break down. I mean world capitalism is not going to crumble and disappear. But it is precisely in this period of re–shuffling or re–structuring that cleavages arise, that space open up for the anti–systemic forces. As Mao tse tung said once when he was asked to describe the international situation. "There is great disorder under the heavens, the situation is excellent." Now one would have expected a man, when he talks about 'great disorder', to wail and moan. But he said the situation was excellent. It is interesting to note that the Chinese write the word 'crisis' in two characters — one denoting 'danger' and the other, 'opportunity'. Given the correct leadership the working people of this country can emerge as the masters and makers of their own destiny.

IMF : Three hated initials

Charles Vanhecke

SCENE : The pavement in front of the National Hotel in Brasilia. *Time* : last April. A young woman was preparing to step out of a limousine when a swarm of photographers rushed forward, forcing her to retreat into the vehicle hiding her face behind a newspaper. The newshounds just had time to glimpse an attractive brunette wearing an almost schoolgirlish dress with a collarette.

"Is she an actress ?" the hotel commissionaire asked. "Yes, but the play she's in is called the IMF," said one of the journalists, who had been kicking his heels for hours in front of the building, the top hotel in the Brazilian capital.

The mysterious lady, a Chilean national, had gone to extreme lengths to remain incognito. She had given the hotel reception and switchboard precise instructions designed to throw snoopers off the scent. She claimed, before being unmasked, that she was in Brazil "on holiday" with her husband.

The lady in question — in fact an IMF official — was indeed involved in high drama of a kind, as the journalist had quipped. It had all began six months earlier, in November 1982, when Brazil, realising it was being throttled by a foreign debt of almost $ 90,000 million, and without a penny to pay interest on it, had sent a distress signal to the IMF.

The Washington-based organisation agreed to help. But two months later it sent out on official to check whether the promises of good housekeeping that Brazil had made in return for the loan were in fact being kept.

For several days, the Chilean woman buried her nose in the nation's accounts. She took a particularly close interest in the government spending deficit, which, the IMF insisted, would have to be cut back drastically. She was keen to know whether the Brazilian government's "criteria" for calculating the deficit were the same as those used by the IMF — which, as some impertinent commentators suggested, was an elegant way of expressing the Fund's fear that some of the statistics might have been rigged.

For several days, the "lady from the IMF" hagged the headlines. There is plenty of competition for front-page treatment in Brazil — hunger marches, ferocious droughts that scorch some parts of the country to a cinder, floods that swamp others, not to speak of lots of pretty Brazilian faces (and pretty bodies, for that matter). But for a good six months the "star" from the IMF remained in the limelight, even after it emerged that she was only a second string. Her popularity was due purely to the colours she wore — those of the glorious, infamous Fund.

During the heat wave in Rio de Janeiro at the end of last year, the main topic of conversation was not the temperature or the next carnival, but whether or not Brazil would be applying to the IMF for yet another rescheduling of its loan. The Brazilian Finance Ministry denied it right up to the last moment. To confess that the country would have to knock once again on the IMF's door was about as bad as General Fortunato Leopoldo Galtieri having to admit that the Argentinines had surrendered to the British at Port Stanley in June 1982 (something he never did). To most Brazilians, the IMF is a kind of robbers' den from which no one can emerge unscathed.

Brazilian cartoonists also depict the Fund as a bloodthirsty ogre devouring the children of the world while their parents fall in line behind the Stars and Stripes. When the Brazilian government had finished negotiating with the IMF, members of the opposition openly ridiculed their favourite target, Minister of the Plan, Antonio Delfim Netto, the man responsible for what they called Brazil's "bogus economic miracle". More recently, those same critics began forecasting a second visit to the IMF. It has now taken place : Brazil is once again selling its soul to "the devil".

The IMF has the same brand image all over Latin America. It is automatically humiliating for any government to have to turn for help to that "evil", if not "perverse", agent of international capitalism. And if the government is leftwing, the act is virtually treasonable, as General Morales Bermudez discovered to his cost when he came to power in Peru in 1975. The coffers of State had been emptied by his predecessor, General Velasco Alvarado, who had tried to keep to the objectives set by the nationalist and socialist revolution that began in 1968. In return for a number of loans, the new President was forced to heed the "recommendations" of the lender, the IMF.

Called in eight years ago, the Fund has stayed put in Peru ever since. It is the virtual overlord of the country. Its officials have built up an almost marital relationship with the Peruvians — difficult, sometimes stormy, and always tense.

For a long period, the person despatched from Washington with the task of going through Peru's accounts with a fine-tooth comb was another woman, a certain Koenig — the "unspeakable Koenig" as she was derisively called by the inhabitants of the capital, Lima. From 1975 on, it was decided that there was no alternative but to introduce austerity measures, which caused an endless succession of strikes. Social unrest has been mounting ever since, and, encouraged by the guerrilla movement, has now brought the country to the brink of tragedy.

General Bermudez was no more rightwing than his predecessors. As a former finance minister, he simply wanted to look the facts in the face.

(*Continued on page 36*)

Investment areas and criteria for attracting foreign investment

Unlike the later documents, the 1949/1950 Budget speech does not clearly state preferences regarding areas of investment. But by stating that 'the investment of foreign capital would be particularly welcome in industrial investments because industrial development cannot take place without scientific, technical and industrial knowledge',[1] the very first policy statement of independent Sri Lanka reflected the view that foreign capital is most suited to assist in the attempt of developing countries to industrialise. This view continued in the 1955 statement, and here it is mentioned that: 'In general, it may be said that foreign investment would be particularly welcome in fields where there is a genuine programme of production, where indigenous capital or technical know-how are inadequate and where the country's balance of payments position would be strengthened through a reduction in imports or an expansion in exports'.[2] Clearly, the authors had the industrial sector in view, although it is not specifically stated. On the other hand, it also said that: 'Investment of foreign capital in the spheres of trade and distribution is relatively less urgent except where technical know-how is an essential aspect of the trading activity'.[3] Other than this remark, no other limits were put on foreign investment, and the mere existence of some measure of local capital was not considered a reason to exclude investment in that area. What we see in subsequent developments is further concretisation of the emphasis on the industrial sector as an important area for attracting foreign capital.

Regarding areas of investment, the 10 Year Plan of 1959 continued the emphasis on the industrial sector, but the tilt was towards import-substitution. It gave an indication of the need to protect areas where local capital had established itself, but was ready to relax this if products are for export with a well-known brand name. The trend to attract investments for import-substitution industries became more explicit in the '60s. The Budget Speech of 1960, delivered in the September of that year, contained clear statements about concessions to be granted to foreign investors for import-substitution industries. But they were not expected to enter into areas where the state or the private sector had established themselves. Fifteen such areas, where the state sector was active, were named: these included iron and steel, textiles, mineral sands, paper, cement, tyres and tubes, ceramics, tiles, chemicals, fertilizers, sugar and by products, plywood, ayurvedic drugs, salt, leather footwear etc. However, later developments in actual investments showed that these restrictions were not very strict.

By the time the 1966 White Paper on Foreign Investment was published certain important changes had occurred regarding the areas of investment. One of them was the beginning of the emphasis on the export-oriented sector; and it is also mentioned that 'the Government is examining the question of setting up of one or more free industrial zones for the assembly of manufacture of goods for export'.[4] The main benefits of this area are also mentioned. Even in areas where the state sector was active, foreign collaboration was welcome especially if it leads to exports. Another significant change is the mention of two new areas for possible foreign Investment, other than the industrial sector which had received an emphasis from the beginning. These were tourism and deep-sea fishing. From now on, these, along with export -orientation, became the keysectors for which foreign investment was sought.

The 5 Year Plan of 1970 and the White Paper of 1972 also continued the trends set by the 1966 White Paper with regard to the areas of investment. The 5 Year Plan had a section on the **Role of Foreign Investment** in the chapter on Export Planning, indicating the link between the two. Tourism and fisheries development continued to be the new areas of importance. The White Paper had incentives for tourist development under a separate heading, indicative of the importance that this sector was receiving. Investment in solely financial, banking or commercial enterprises was not considered as in the case of the 1955 statement. In areas like the new agro-industries, internal air transport, ship building and ship repairing, investments were to be considered in it meant net foreign exchange earnings. **In the White Paper of 1972 there is also the mention of the establishment of an Export Processing Zone in Trincomalee. All types of export processing industries were to be invited to this zone.** In the state sector, foreign collaboration was welcome, but 'expansion in heavy capital goods industries, selected basic industries and those processing major mineral resources'[5] was to be reserved for this sector.

The new areas for which the government was attempting to attract investments were the areas to which foreign investors were moving into in the case of many developing countries. Export-oriented industries and tourism began to attract foreign investors in the mid-sixties. These were precisely the areas which the government emphasised in its official documents. What we see from the 1977 onwards is the more determined expansion of the trends that had already developed before that. In 1978, the Greater Colombo Economic Commission (GCEC) was set up specially to promote export -oriented industrialisation. Although garments still dominate in the Investment Promotion Zone at Katunayake, industries have come up in many other sectors as well. The manufacture of coal (activated carbon), chemicals, petroleum products, rubber and plastic products, manufacture of food and beverages, the manufacture of tobacco products and the

cutting and polishing of gems are other areas where there have been foreign investment in the IPZ. As far as the GCEC is concerned, more than the area or the sector, it is factors such as employment generation and export-orientation that seem to be important. We shall consider these criteria below.

In the case of the investment approved under the Foreign Investment Advisory Committee (FIAC) there had been expansion in many other sectors. Here, export-orientation does not seem to come in as a factor for approval of the project by the FIAC. A recent publication of the FIAC lists the following areas as having investment opportunities: agriculture, fisheries, hotels, tourism and recreation, housing, coconut palm products, manufacturing industries, rubber-based industries, textiles and garments, urban development including housing.[6] Thus, there is expansion into a whole range of sectors through the FIAC. Many of the projects where there is foreign collaboration in the state sector have also come through the FIAC.

Apart from approving foreign investment on a sectoral basis, the policy statements appear to indicate various other factors such as the generation of technical skills, foreign exchange earnings etc. as criteria for attracting investment. In fact the trend has been to consider investments on the basis of these criteria rather than having a sector wise policies. This trend which began with the seventies is the practice followed today.

For the beginning the government considered a transfer of foreign capital as a means of transferring technological skills and managerial skills to the local population. Therefore the, training of local personnel was an important criteria. This was stated in the Budget Speech of 1949 – 50 and the policy statement of 1955. The 10 Year Plan, in arguing for direct investment instead of loans, used the transfer-of-technology argument as a key factor. In 1960, although not specially mentioned as a guideline for approving foreign investment. In this documemt, apart from export-orientation, the other criteria considered in approving industries were the use of local raw materials, adoption of intermediate labour-intensive technology, technology-producing capacity and siting of industries in the less developed parts of the country. Thus, while some of the earlier criteria remained, some new criteria had been added.

This is an important development in the documents of the seventies.

At present, the projects that are put up to the GCEC and FIAC are taken up case by case for approval. Some of the criteria considered are stated in the documents of these organisations and others can be inferred by the factors on which the incentives depend. Tax holidays of the GCEC depend on the employment generated. The other criteria on which tax holidays depend are: 'nett foreign exchange earned on export sales; introduction of new technology; magnitude of fixed capital investment; substantial exports to new markets.[7] So these seem to be the criteria considered important by the GCEC. The FIAC criteria also seems to be the same. In one of its recent publications, it was stated that 'projects are evaluated in terms of the technology transfer involved, access to markets abroad, gains in foreign exchange, spread of skills as well as the contribution to output and employment'.[8]

Thus at present in approving foreign investments, rather than emphasising a specific sector, the government policies has begin to give greater attention to certain other criteria in terms of development priorities of the country. Among these priorities export-orientation, foreign exchange earnings, technology transfer and employment generation have come out as being most important.

Relationship to local capital

Although independent Sri Lanka welcomed foreign investment in her first Budget Speech, the same Budget Speech mentions that 'the major interests in ownership and effective control of an undertaking should be in Ceylonese hands'.[9] Whatever may have happened actually, from the beginning the Sri Lankan governments seem to have had the desire to give benefits to local capital. The 1955 statement which was a document from a government of the same party was more flexible regarding this aspect. Here the government desired collaboration with local capital (including that of the state) but also did not make it compulsory or lay down rigid laws regarding this area. It goes on to say that 'the combination of local and foreign capital will depend on the circumstances specific to individual investments and the government does not consider it desirable to impose a uniform regulation in this respect'.[10]

The makers of the 10 Year Plan had the relationship to local capital very much in focus when discussing foreign investment. In this document, the 'management contract' system (which is a device by which the ownership of an enterprise will essentially move into local hands) was a cornerstone of the policy. 'Under it, the foreign firm would only undertake to construct the project and operate it (on stipulated terms) for a specified period. It would also undertake during this period the training of Ceylon nationals, so that the take-over may be smoothly effected'..... 'In these cases the contract would specify the period after which the foreign ownership would be transferred to local ownership (publicing private) and the conditions governor the transfer. The period, of course, should be long enough to allow the enterprise to reach maturity and the foreign owner to enjoy a reasonable share of the returns'.[11]

Thus it is not only speaking of the need for local control, but also had specific suggestions for it. This Plan also attempted to safeguard areas in which local capital had established itself. Reiterating a government policy statement it said, areas 'where local capital has not, already established itself and is not likely to do so in the near future'[12] as a criteria for approving foreign investments. But the general rule was to encourage joint ventures and allow 100% foreign investment only if local capital was not forthcoming or if products were made under a well-known brand name. This last was repeated in the 1960 Budget Speech.

The 1966 statement is almost a repetition of what was said in 1955 with regard to the question of participation of local capital. Joint ventures were desired but no rules were laid down. But where the initial investment is largely or exclusively foreign, it is generally desirable that the progressive transfer of the major part of the ownership to local interests should be possible. The significant development in the seventies in this regard is the laying down of partcipation with local capital much more as a rule. As mentioned in the 5 Year Plan, 'if the proposal is for investment in the private sector, the undertaking should be in collaboration with local enterprise. The general rule will be that Ceylonese collaboration should hold the greater part of the shares and retain effective control. Relaxation of this requirement may be considered in exceptional circumstances'.[13]

In the White Paper of 1972 this wording had been changed slightly to relax the rules regarding degree of foreign control. It goes on to say, 'if the proposal is for investment in the private sector, the undertakings should **generally** be in collaboration with local enterprise. The general rule will be that local collaborators should hold the greater part of the shares and retain effective control. Relaxation of this requirement may be considered in exceptional circumstances **so that the major shares or even the entirety of the investment could be foreign, where the benefits to Sri Lanka will be substantial'.**[14] Underlined are the sentences in the 1972 White Paper that differ from the Five Year Plan. **The end result of these additions and changes is to make even 100% foreign ownership possible.**

The policy framework which operates today had made 100% foreign ownership possible in the GCEC investments. It also allows free transfer of shares within or outside Sri Lanka with no taxes or exchange control on them. The FIAC approvals on the other hand have, as a rule, 49% as the maximum share holding for the foreign collaborator. But, 'in the case of five-star luxury hotels of over 200 rooms, the equity share of the foreign investor could be as much as 70%. In the case of construction projects undertaken for the Mahaweli Development Programme, the foreign equity share could go up to 60%. In contrast in those instances where there is no significant transfer of technology such as garment industries, the equity share holding of the foreign investor is limited to 25%'.[15] FIAC also does not permit transfer of shares to foreigners freely. This means the FIAC reflects some of the earlier thinking which had attempted to give the local partners greater

control, but in the GCEC investments and in certain cases of the FIAC, this has been relaxed.

Investment Guarantees

The earlier statements had very little to say regarding guarantees for the safety of investments. In the 1955 statement, this was cofined to a single sentence: 'In the event of compulsory acquisition, however, foreign investors should be entitled to fullest compensation'.[16] **In contrast the 10 Year Plan of 1959, while speaking broadly of the role that foreign investment can play, very clearly underlined the need to give political guarantees against nationalisation.** As mentioned earlier probably part of the reason for this is the nationalisatic sentiments and talk of nationalisation and some of the actual nationalisations of the local private interests that was associated with the 1956 government. Before, there seems to have been no reason to give special guarantees to the foreign investor.

Ten years later, the investment guarantees had moved to a more internationally agreed level. While the guarantees for compensation is repeated, in the White Paper of 1966, it also mentions the fact that agreements had been signed with the USA and the FRG for the protection of investment. By the time the 1972 White Paper was published, this had been supplemented with the signing of the World Bank Convention on the settlement of investment disputes.

By 1981, Investment Protection Agreements had been signed and and ratified, with the USA, the FRG the UK, Singapore, the Republic of Korea and Hong Kong. With France and Romania, agreements were to be brought into force shortly. In the case of Switzerland, Japan, the netherlands, the Belgium–Luxemburg Economic Union, Malaysia and Sweden, the final text had been agreed upon and agreements were expected to be in force by the end of the year. Negotiations had reached an advanced stage with Yugoslavia, Canada and Finland. Several other negotiations were at an initial stage.[17] Apart from these expansions of the Investment Protection Agreements, the other qualitative change was that these agreements were given further protection by the Constitution. Article 157 of the Constitution of Sri Lanka says the following:

> "157. Where Parliament by resolution passed by not less than two-thirds of the whole number of Members of Parliament (including those not present) voting in its favour, approves as being essential for the development of the national economy, any Treaty or Agreement between the Government of Sri Lanka and the Government of any foreign State for the promotion and protection of the investments in Sri Lanka of such foreign State, its nationals, or of corporations, companies and other associations incorporated or constituted under its laws, such Treaty or Agreement shall have the force of law in Sri Lanka, and otherwise than in the interests of national security no written law shall be enacted or made, and no executive or administrative action shall be taken, in contravention of the provisions of such Treaty or Agreement"

This means any changes regarding the Investment Promotion Agreements, once they are adopted, will require a Constitutional Amendment. Therefore, in the area of guaranteeing the security of investments, Sri Lanka has not only resorted to international agreements, but has also carried out significant changes internally.

Conclusions

The comparison of the policy statements since Independence for their general content and the specificities reveals the following important points:

* From the beginning the aim was to attract foreign investments for industrial development. Earlier it was for import–substitution industries and later for expot–oriented ones. This had happened by the mid sixties and along with it came the proposal for FTZs. Tourism and fishing were the other areas that were attracting investments by this time and policy statements also gave importance to them. Today, investments are attracted to many other areas, including construction. All along, in the policy statments we observe a lack of an enthusiaism to get investments for trade.

* In the early sixties, certain industries were reserved for the state sector. But by the mid sixties, attempts to get foreign investments to collaborate with the state sector began. This trend continued in the seventies and is very significant today.

* The need for participation with local capital was emphasised from the start. But always room was left out for the relaxation of the rules. Today 100% foreign investments are possible.

* While at the beginning foreign investments were attracted to certain sectors, later attraction was on the basis of other criteria like technology transfer, use of local raw materials, export orientation etc. Today this seems to be the dominant trend.

* With regard to the investment guarantees at the very beginning there was not much attention given to the question as if it was not a problem. During a later period beginning from the mid–fifties assurances are given in the policy documents. At the beginning these were statements in the documents and later on the Sri Lankan government began to enter into Investment Protection Agreements with various countries and to sign International Conventions on settling investment disputes. Finally, this has been supplemented with the inclusion into the Constitution of the country a clause that guarantees the safety of investments.

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(*Continued on page 36*)

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Needed: Devaluation?

The more important features of balance of payment developments in Sri Lanka during the past six years can easily be read from Table 4 as well as Annex Table A-6. In 1977 the merchandise trade balance was positive. Since that time, slow growth in export earnings coupled with rapid import growth raised the value of imports to roughly double the value of exports by 1980-82, **The most significant factor has been the stagnation or decline in earnings from traditional export — tea, rubber and cocounts — whose share in total exports dropped from 74% in 1977 to 45 in 1982.** The volumes of both tea and rubber exports have been stagnant throughout the period. The needed replanting and rehabilitation programs will necessarily limit the potential growth of these exports during the next few years. Petroleum products exports — in essence re-exports of surplus refined products — have grown rapidly in value but have started to decline since 1982 because of supply constraints and softening of product prices. **Garments and textiles exports have grown very rapidly but their continued expansion is constrained by quota limitations.** The services account has deteriorated slightly since 1979-80 and is now roughly in equilibrium. The resulting huge current account deficits, equivalent to 16% of GDP during 1980-82, would have been larger yet had it not been for the substantial increase in workers' remittances, but further growth in this item is expected to be limited.

Roughly half of the large current account deficits during 1980-82 has been financed by gross aid disbursements. The other half as well as amortization has had to be met primarily by a drawdown of reserves and non-concessionary borrowing. As a result, by the end of 1982, net international reserves were negative while the import coverage of gross reserves was equivalent to about two months, an uncomfortably low level for a country highly dependent on imports of basic commodities such as food, fertilizer and petroleum. **At the same time, Sri Lanka's debt service burden is increasing fairly rapidly. This is especially worrisome in view of the stagnation in exports.**

As of end-1982, Sri Lanka's external debt outstanding and disbursed was composed of the following : government and government-guaranteed debt : SDR 1,778 million ; IMF credit : SDR 342 million ; short-term borrowing by the public sector : SDR 190 million ; and non-guaranteed private debt : SDR 174 million. The total external debt, therefore, is about SDR 2,484 million or equivalent to 57% of GDP. The servicing burdens for this existing debt through 1986 are shown in Tables A-7 and A-8. In 1983, the debt service ratio for government and government-guaranteed medium and long-term debt is estimated at 10.7%, while the debt service ratio on IMF credit amounts to 4.6%, for a total debt service ratio of 15.3%. This compares with 11.3% in 1980. In addition, the debt service ratio on short-term and private non-guaranteed debt in 1983 is estimated at 4.4%, for a total overall debt service ratio of about 20%. As a percent of GDP, total debt service in 1983 will amount to about 5%.

Debt service ratios projected for debt outstanding and disbursed **as of end-1982 only** would, depending on whether exports are assumed to grow by 10% or 5% annually, be as follows by 1986 : on government and government-guaranteed debt and on IMF credits : 16.4% or 18.8%, respectively, and on short-term and non-guaranteed private debt, 3% or 3.4%, respectively. These ratios clearly understate the debt burden in coming years as new debt will be contracted. To illustrate, a $ 100 million dollar borrowing on cammercial terms during 1983 (assuming 10% interest, 3 years grace and 10 years maturity) would add about 1.3 percentage points to the debt service ratio by 1986. Similar borrowings in later years would have similar effects which clearly points to the need for restraint in borrowing on commercial terms.

In sum, the current low level of reserves, the growing debt service burden, and the stagnations or slow down in virtually all sources of exchange earnings means that **a substantial shift in policies is urgently needed.** It is imperative that vigorous policies, geared to promote exports and to provide some uniform stimulus for import substitution, be initiated without delay so that the expanding import needs of a growing open economy can be met. As discussed in Section IB above, the Sri Lankan rupee has appreciated substantially vis-a-vis its trading partners and export competitors when comparative price levels are accounted for. From this and other evidence, including weak credit demand for new investment, **it appears clear that the establishment and maintenance of a realistic exchange rate is a pre-condition for the revitalization and further development of the economy.**

The large change in the effective exchange rate for traditional exports has been needed not only to allow for differential inflation rates but to compensate producers for declining world market prices. It is very likely, that whereas the maintenance of detailed cost of production data on traditional crops has led to adequate, although not necessarily optimal, adjustments, the lack of similar date on either exports of non-traditional products or import substitutes, and therefore the inadequate adjustment in incentives, had led to a price squeeze on current activities and insufficient profitability to stimulate new investment. There are, undoubtedly, other impediments to export growth or import substitution in Sri Lanka, but **impediments can be overcome where clear and strong profitability exists.**

The depreciation of the rupee in February 1983 to Rs 23 per US dollar was **a step in the direction** of re-establishing an appropriate exchange rate. Other changes in the effective exchange rate in 1983 are being achieved largely through new tax measures and policy measures embodied in the

budget speech. Thus, import duties have been raised substantially. Also, turnover taxes were lowered for tourist hotels and abolished for gem and jewelry exports, while raised sharply for all others sectors. Although all tax holidays have been abolished, the production of new, non-traditional exports has been exempted. In addition, tea producers have been given further tax relief, the export duty for rubber has been reduced and replanting subsidies for both tea and rubber have been increased. Finally, Rs 250 million has been voted for export development grants. On balance, the change in the effective exchange rate in 1983 over 1982 for imports, traditional exports and non-traditional exports was 14%, 17% and 15%, respectively, compared to a nominal devaluation of 11%.

The problem with the Government's approach is that, while the new measures are perhaps necessary in view of the current exchange rate and did help raise government revenues, they constitute a less desirable alternative to an adequate exchange rate depreciation. They are unlikely to provide either a sufficient or continuing stimulus to export development because the level of resources required to finance the export subsidies will eventually become excessive while the sources of funds (import duties) will dry up. In addition, such policies introduce numerous distortions in the price and incentives system. The increase in import duties is in itself an anti-export measure, as it raises domestic costs of production generally. While the development of new exports may, in its early stages, require some form of subsidy, **the primary incentive for development of tradable goods and services should be provided by a realistic exchange rate.**

It should be added that any change in the exchange rate must be followed by adjustments in administered prices, among others in order to avoid financial losses for the budget. These adjustments must be made promptly because long delays in necessary price adjustments have often caused problems in the past. It is essential that, once an appropriate exchange rate is established, it should thereafter be maintained by further adjustments on a regular basis so as to maintain the correct signals to producers. The utmost flexibility in the setting of all prices and maintaining of incentives will be crucial to ensure uninterrupted growth.

Industrial Growth in the Private Sector

One of the main objectives of the Government's reforms in 1977-78 was to stimulate the growth and development of private sector industry. National accounts estimates of growth in the manufacturing sector, which include activities of public corporations as well as private firms, suggest that although an initially favorable stimulus was provided in 1978, subsequent performance has been disappointing. Using 1977 as the base year, Table 6 gives the structure and growth of manufacturing subsectors in recent years, distinguishing between export processing, factory industry, and others. It shows that an important part of the problem has been the stagnation in export processing activities, which is in turn due to stagnation in the production of the traditional export crops — tea, rubber, and coconut. It also reveals, however, that **growth rates in factory industry declined** significantly during the 1979 through 1981 period.

How private manufacturing in particular has performed is unknown, as separate statistics on value added are not available. Some evidence has been gathered, however, on the basis of interviews with a variety of private Sri Lankan companies engaged predominantly in manufacturing. This evidence supports the trends indicated in the earlier macro-economic discussion and can be summarized as follows:

(a) An initial real growth in firms' turnover and profits was reversed in 1981/82 and accompanied by some tendency toward excess inventory accumulation.

(b) The favorable economic environment during the initial years following liberalization encouraged firms to invest, and the value of fixed assets increased substantially in real terms through 1980/81. Since 1981/82, however, investment growth has slowed.

(c) Taxes on profits grew less than proportionately to profits, a phenomenon consitent with the lack of tax buoyancy at the macro-economic level.

(d) Despite a favorable tax position, firms' liquidity position deteriorated significantly in 1981/82, reflecting a decline in overall profitability.

(e) For at least some exporting companies, the shares of exports in total sales are declining.

Reasons for the general slowdown in private sector manufacturing include alternative and more profitable opportunities in trade, construction, and tourism; rising costs and **inadequate exchange rate adjustments to** protect import substitution and encourage exports; high long-term as well as short-term interest rates; poor and costly agro-technology; a need for management extension, and garment quotas.

While no comprehensive statistics are available distinguishing the private from the public sector, both the Central Bank and the Department of Census and Statistics (DCS) have, in recent years, conducted surveys of factory industries in both sectors. A response rate of 80% was obtained in the 1979 DCS survey, and Table 7 draws on the information provided to identify some aggregate characteristics of public and private sector manufacturing activities. These characteristics, of course, reflect difference in the composition of industries in the public and private sectors as well as difference in technology and management. To the extent that it is the former **one still has to question whether the expansion of public sector industry with low capital productivity is appropriate to a labor surplus/capital-scarce economy such as Sri Lanka.** In any case, the available evidence shows that capital productivity as indicated by the lower capital/net output ratio (c) in Table 7 is substantially higher in the private sector. This is due to both a lower capital/labor ratio (a) and higher net labor productivity (b) and holds up at the subsector level. For example, even in subsectors such as food, beverages and tobacco (ISIC-31), textiles (ISIC-32) and metal products (ISIC-38), where capital/labor ratios are similar in the public and private sectors, net labor productivity is substantially greater in the private sector. (ISIC — International

Standard Industrial Classification.) If capital productivity continues to be higher in the private sector, an investment rate (d) of 18% in the private sector will generate more rapid GDP growth than the investment rate of 23% in the public sector. (It should be recalled that the relatively high private sector investment in 1979 coincides with a more favorable policy environment than now exist. These are convincing reasons why priority should be accorded to the re-establishment and maintenance of a favorable environment for private sector industrial growth.

World Bank team visited Sri Lanka in March/April 1983 to take a preliminary look at the full range of problems in private sector indusrial development and to recommend a program of action. Export competitiveness, rationalization of the tariff schedule, selected export development activities, and a more dynamic system of financial intermediation are expected to be key components in this program.

Although there are complaints about the adequacy of local equity capital, small and medium industries — which have relatively low capital requirements — have advantages in that they have typically low import intensity and high employment intensity. Satisafctory growth of private sector industry may be obtained by creating a favorable environment for both small and medium industry, which would be locally financed, and foreign participa tion for larger-scale industry.

The Government has, in fact, been promoting three types of industrial investment: investment in the special export processing zone through the Greater Colombo Economic Commission (GCEC), foreign investment in Sri Lanka proper through the Foreign Investment Advisory Committee (FIAC), and local investment in Sri Lanka proper through the Local Investment Advisory Committee (LIAC). The characteristics of these alternative channels for investment are given in Table 8 which shows typically higher foreign participation in the larger-scale undertakings.

For higher investment per job is shown in Table 8 for large-scale projects; for example, in 1981 an average of Rs 280,000 in investment per job is planned for non-textile FIAC projects and Rs 179,000 for non-textile GCEC projects compared to Rs 29,000 for non-textile LIAC projects. The role of textile projects in job creation is apparent in the typically smaller investment requirements shown on this table. With the deceleration in growth in textiles, more conscious policies for employment growth will have to be devised.

Export of industrial products will be a particular concern of the World Bank industrial sector report, which will try to determine what new price incentives and/or institutional support may be required for success in this area. Experience through 1981 was certainly disappointing, with non-textile, non-petroleum industrial exports growing at only 8% a year in nominal terms — the same rate as international inflation. Although these exports amount to only US $ 30 million, it is important that the foundation for growth be established.

III. Balance of payments prospects and aid requirements

Sri Lanka's immediate balance of payments prospects (1983) have been helped considerably by the unexpected decline in petroleum prices and the reduction in world interest rates, which together are expected to contribute to roughly a $ 70 million saving on current account. Improved tea, rubber and coconut products prices should help Generate a recovery in merchandise export earnings while some stock building during 1982, especially of petroleum, and the rise in import duties should help keep import growth down. As a result, the current account deficit may decline from the equivalent of 15% of GDP in 1982 to 12% in 1983. Disbursements from the large existing aid pipeline as well as from new commitments especially of food and commodity aid should prevent a further loss of international reserves during 1983. **Nevertheless, the country's basic medium-term balance of payments outlook remains unfavorable; the long-term stagnation in exports and the structural imbalance in the merchandise trade account are now being accompanied by rising debt service payments.**

The stimulation and development of a dynamic export sector in Sri Lanka as well as of efficient import substitution industries will clearly take time, but an **essential pre-condition is the maintenance of a realistic exchange rate.** For the process to succeed the creation of an adequate financial incentives' environment will also have to be accompanied be a variety of institutional changes such as improvements in the management of the state plantations, intense export promotion programs and aggressive development banking. **In addition, the private sector has to have room to expand.** Under present circumstances in Sri Lanka, however, the public sector continues to absorb too large a share of total resource availabilily. Not only will the share of government spending in total spending have to be reduced, but also within the government sector a serious imbalance has developed between current and capital spending. The public investment program has been simply too big to allow for adequate operation and maintenance spending. Moreover, as the many capital investments reach their stage of completion, the needs for increased operation and maintenance spending will rise rapidly if the expected benefits of those investments are to materialize. These characteristics of the current economic situation in Sri Lanka determine the country's requirements for new aid during 1983 and 1984.

The principles governing this aid should be as follows. **First of all, the Government's request, expressed in the budget speech that no new, public sector capital projects be initiated during 1983 and 1984 should be adhered to, irrespective of whether these projects are included in the five-year public investment program or not.** Instead, it is imperative that financing gaps in ongoing works be filled so as to be able to complete those investments. Major examples include a $ 50 million financing gap for the Victoria headworks, a $ 136 million gap for downstream development of System B, left bank and a $ 68 million gap for downstream development of System B, right

bank. The impact of such assistance will, of course, be felt only later on. Secondly, in order to assist the balanceof payments and help raise **the precariously low level of reserves,** there is a need for much increased levels of food and commodity aid. Third, to the extent that the incentives and institutional environment for private sector development is rectified and strengthened there is likely to be substantial need for external credits for the banking system. Fourth, **the Government is currently preparing investment programs for the revitalization of the estates in the state plantations sector. These programs will probably require substantial foreign assistance.** Given the importance of this sector, they should receive **top priority** from the donor community starting in 1985.

Food and commodity aid commitments of $ 146 million during 1982 were far below last year's recommendations and Sri Lanka's needs. Present indications are for a commitment level of slightly more than $ 100 million in 1983. At this stage of Sri Lanka's development process, the country would be much better served, both on balance of payments and on budget grounds by increases in the level of food and commodity aid and a relative reduction in project assistance. We would accordingly recommend food and commodity aid commitments of at least $ 150 million for 1983, and of $ 175 million for 1984.

The relative decline in estimated and recommended project aid commitments during 1983 and 1984, compared with the previous three years, is necessary in view of the need for the Government to achieve a reduction in capital spending to make room for increased operation and maintenance expenditures so as to maintain the expanding stock of investment. Even so, the expected new commitment levels during 1983 are still high and do include some new projects which have been added to the program. There will thus continue to be considerable pressure on resources, making it difficult to achieve reasonable budget and balance of payments deficits, and a continuing danger that project implementation is slow, that costs escalate and that the benefits of the overall public investment program decline correspondingly.

Given the continuing requirements of the Accelerated Mahaweli Program to cover cost overruns as well as to intensify downstream development to achieve the program's ultimate objectives, commitments of non-Mahaweli project aid during 1983/84 should be aimed to the maximum possible extent at reducing financing gaps in ongoing projects, providing general sector support and ensuring adequate credit for private sector investment. The aid community should, however, regard this 1983/84 drop in foreign project aid commitments as a temporary but highly necessary step to help Sri Lanka overcome its current problems and eventually help the country succeed in its development efforts. The 1983/84 levels of non-Mahaweli project aid should not be considered as a basis for future aid levels, as the recommended drop in real terms is large.

IMF: . . .

(*Continued from page 27*)

But because he applied to the IMF, he was immediately reviled by the leftwing opposition, who fired at him the supreme insult in that part of the world : he had no *huevos*. Translated into more decorous language, this meant he had not shown enough "virility" in dealing with the gringos of the Fund.

The same psychodrama is played out wherever the IMF is called in — and takes over. It is an undeniable fact that, when the medicine it urges on the patient is taken, there is usually an abrupt fall in buying power and an increase in unemployment. In Europe, these two effects combined are bad enough. But in Latin America, where so many countries are economically unsound, they can lead to strangulation.

That is why many ordinary Latin Americans, in Rio de Janeiro or elsewhere, discuss the IMF with all the self-confidence of experts on international economics. They are always glad for an opportunity to vent their anger and sarcasm on the three hated initials. But although always prompt to lay most of the blame for their respective countries' misfortunes at the door of North America and its "secular arm", the IMF, they do not forget — fortunately — to accuse their own leaders as well with whose failings they are all too familiar, and in particular their catastrophic tendency to run with the wind straight into the eye of the storm.

— Guardian Weekly

Investment. . .

(*Continued from page 31*)

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Letter. . .

(*Continued from page 1*)

Mr. Seneviratne's article has no relevance whatsoever to my late father's poem, except for the title and to the words 'this is the real Curse of Kuveni'. But I shall be grateful if you would publish this letter as I wish to clarify whether it was by pure coincidence that he titled his article the 'Curse of Kuveni' or whether he happened to have read this poem in print somewhere.

I wish to verify this point as the sad fact is that we have lost the printed version of it and would like to preserve it for the family. I shall therefore be greatly indebted to Mr. Seneviratne if he could help us to trace it.

(Mrs). D. Obeyesekere
Moratuwa.