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SRI LANKA: RECHARTING U.S. STRATEGY AFTER THE WAR

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LETTER OF TRANSMITTAL

United States Senate,
Committee on Foreign Relations,
Washington, DC, December 7, 2009.

Dear Colleagues: The administration is currently evaluating U.S. policy toward Sri Lanka in the wake of the military defeat of the Liberation Tigers of Tamil Eelam (LTTE), one of the world's deadliest terrorist groups.

It has been six months since the end of the war, and the Sri Lankan Government is dealing with a humanitarian crisis in the North where hundreds of thousands are still displaced and homes and infrastructure are destroyed. The Government faces many challenges in transitioning to peace, and the international community can help.

Sri Lanka is an important partner and friend to the United States, so we asked two of our Senate Foreign Relations Committee (SFRC) staff members, Fatema Z. Sumar and Nilmini Gunaratne Rubin, to evaluate U.S. policy towards Sri Lanka. Ms. Sumar and Ms. Rubin traveled to Sri Lanka with the extensive support of the American Embassy in Colombo and the Sri Lankan Embassy in Washington, DC, to conduct a week-long fact finding mission November 2-7, 2009, to see firsthand how the country was transitioning after the war. They met dozens of government officials, opposition party leaders, non-governmental organizations, journalists, international donors, foreign diplomats, academics, civil society leaders, business people, internally displaced persons (IDPs), and Sri Lankan citizens in a variety of settings. In addition to Colombo, they traveled throughout the country, including visiting the IDP camps in the North, viewing demining activities in the Northwest, seeing areas rebuilt after the December 2004 tsunami and fighting in the East, and meeting local government officials in the South.

Their report provides significant insight and a number of important recommendations to advance U.S. policy in Sri Lanka. We hope it will help stimulate debate on the nature of the U.S.-Sri Lanka relationship and American interests in South Asia.

Sincerely,

John F. Kerry,
Chairman.
Richard G. Lugar
Ranking Member.

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SRI LANKA: RECHARTING U.S. STRATEGY
AFTER THE WAR

Executive Summary

Sri Lanka stands at a critical juncture in its efforts to secure a lasting peace. After almost three decades of separatist war, on May 17, 2009, the terrorist Liberation Tamil Tigers of Eelam (LTTE or Tamil Tigers) officially conceded defeat. Two days later, Sri Lankan President Mahinda Rajapaksa declared total victory after government soldiers killed the Tamil Tigers' leader, Velupillai Prabhakaran, and took control of the entire country for the first time since 1983. With an estimated 70,000 casualties over the years, it was a bitter and hard-fought victory, one of the few instances in modern history in which a terrorist group had been defeated militarily. President Rajapaksa framed the victory as part of the global fight against terrorism, declaring in a May 19 speech before Parliament, ``Ending terrorism in Sri Lanka means a victory for democracy in the world. Sri Lanka has now given a beginning to the ending of terrorism in the world.''

The war in Sri Lanka may be over, but the underlying conflict still simmers. Contrary to conventional wisdom, Sri Lanka is not a post-conflict environment. While the fighting between the Government and the LTTE may have ended, the reasons for the political and social conflict (that also gave rise to youth militancy and armed clash in the 1970s and 1980s) will take time to address. Those root causes must be tackled soon and with a sense of urgency to prevent the country from backsliding. Thirty years of violence have taken a toll on the majority Sinhalese population, giving rise to a siege mentality toward the ethnic Tamil minority.

For their part, Tamil leaders have not yet made anticipated conciliatory gestures that might ease government concerns and foster a genuine dialogue. Some Tamils are wary about the long-term significance of post-war Sinhalese ``triumphalism'' and fear that they may be marginalized in the unified country of Sri Lanka. The Tamil middle class has been devastated, many having emigrated years ago, leaving behind few mainstream leaders to represent more moderate views. The situation is particularly dire for Tamils in the North, who are trapped between living in government-run camps and returning to homes destroyed in the war.

Real peace will not come overnight to Sri Lanka and cannot be imposed from the outside. The country has endured decades of trauma, and a generation of politicians and laymen know little aside from war and conflict as the norm. It will take time for the country to make the transition to a post-conflict environment amid ongoing political and economic challenges. The country's economy remains fragile, requiring the International Monetary Fund to provide a \$2.6 billion loan to bolster Sri Lanka's reserves. Government officials have been under additional pressure as a result of the European Union's deliberations to suspend special trade preferences with Sri Lanka, known as ``GSP Plus,''' unless progress is made on human rights and political freedoms.

The political environment in Sri Lanka is not as black and white as many outside observers believe. Despite ongoing allegations of war crimes and human rights abuses, the Rajapaksa Government has taken some positive steps to ease the humanitarian crisis in the North, develop the East, and reduce

the number of child soldiers. Its recent announcement to allow increased freedom of movement in the government-run camps for internally displaced persons (IDPs) starting December 1, 2009, and shut down the camps by January 31, 2010, is positive and welcome. The Government still faces many legitimate obstacles in the North--such as removing the extensive mines left by years of warfare--where the international community can be an active partner in promoting faster resettlement.

Serious questions remain about the Sri Lankan Government's ability to address pressing reconstruction and development needs for Tamils and Muslims. The Government's prolonged application of emergency laws, lack of transparency in developing a strategy for reconstruction and resettlement, questionable conduct during the war, and clampdown on press freedom have undermined trust and the prospects for greater partnership with international donors. Though the war is over, a culture of fear and paranoia permeates society, especially for journalists, which further erodes Sri Lanka's standing in the international community and hampers its prospects for genuine peace.

The final stages of the war captured the attention of governments around the world, particularly the United States. The Obama administration has been focusing on the humanitarian crisis in the North and pressing the Sri Lankan Government to take meaningful steps toward political reconciliation and press freedom. The United States is one of the largest donors of humanitarian aid to Sri Lanka, including food aid and de-mining assistance.

Yet, in Colombo, the Government considers the bilateral relationship with Washington to be on a downward trajectory. Most U.S. criticisms of Sri Lankan actions at the end of the war and treatment of IDPs have fallen on deaf ears, with Sri Lankan authorities dismissing the U.S. posture as ``no carrots and all sticks.'' U.S. assistance to Sri Lanka, although delivered in grants and not loans, has attracted criticism from the Rajapaksa Government for its emphasis on political reform. This growing rift in U.S.-Sri Lanka relations can be seen in Colombo's realignment toward non-Western countries, who offer an alternative model of development that places greater value on security over freedoms.

Indeed, Sri Lanka's geopolitical position has evolved considerably. As Western countries became increasingly critical of the Sri Lankan Government's handling of the war and human rights record, the Rajapaksa leadership cultivated ties with such countries as Burma, China, Iran, and Libya. The Chinese have invested billions of dollars in Sri Lanka through military loans, infrastructure loans, and port development, with none of the strings attached by Western nations. While the United States shares with the Indians and the Chinese a common interest in securing maritime trade routes through the Indian Ocean, the U.S. Government has invested relatively little in the economy or the security sector in Sri Lanka, instead focusing more on IDPs and civil society. As a result, Sri Lanka has grown politically and economically isolated from the West.

This strategic drift will have consequences for U.S. interests in the region. Along with our legitimate humanitarian and political concerns, U.S. policymakers have tended to

underestimate Sri Lanka's geostrategic importance for American interests. Sri Lanka is located at the nexus of crucial maritime trading routes in the Indian Ocean connecting Europe and the Middle East to China and the rest of Asia. The United States, India, and China all share an interest in deterring terrorist activity and curbing piracy that could disrupt maritime trade. Security considerations extend beyond sea-lanes to the stability of India, the world's largest democracy. Communal tensions in Sri Lanka have the potential to undermine stability in India, particularly in the Indian state of Tamil Nadu, home to 60 million Tamils. All of these concerns should be part of our bilateral relationship.

The United States cannot afford to ``lose'' Sri Lanka. This does not mean changing the relationship overnight or ignoring the real concerns about Sri Lanka's political and humanitarian record. It does mean, however, considering a new approach that increases U.S. leverage vis-a-vis Sri Lanka by expanding the number of tools at our disposal. A more multifaceted U.S. strategy would capitalize on the economic, trade, and security aspects of the relationship. This approach in turn could catalyze much-needed political reforms that will ultimately help secure longer term U.S. strategic interests in the Indian Ocean. U.S. strategy should also invest in Sinhalese parts of the country, instead of just focusing aid on the Tamil-dominated North and East.

The Obama administration is currently weighing a new strategy for relations with Sri Lanka. The Senate Foreign Relations Committee has closely followed events on the ground this year, including a hearing in February and a staff trip to Sri Lanka in November. In an effort to stimulate a larger debate on U.S. policy toward Sri Lanka, the committee staff prepared this bipartisan report examining recent developments and proposing recommendations for U.S. policy towards Sri Lanka. The recommendations include a broader and more robust U.S. approach to Sri Lanka that appreciates new political and economic realities in Sri Lanka and U.S. geostrategic interests; continuation of de-mining efforts in the North; and promotion of people-to-people reconciliation programs throughout the country.

Since the War Ended on May 19

Over six months have passed since the Sri Lankan military defeated the LTTE on May 19, 2009. President Mahinda Rajapaksa, a hardliner who came to power in 2005, has enjoyed enormous popularity among Sinhalese since the end of the war because he is seen as the political architect who won what many thought was an unwinnable war. Some, like Minister of Justice Malinda Moragoda, have called this a ``golden moment'' for rebuilding national reconciliation.

Indeed, the end of Sri Lanka's long-running separatist war opens up enormous opportunities to move the country forward on multiple fronts: political reform, economic renewal, and international re-engagement. For the country to make the transition from a post-war to a post-conflict environment, Sri Lankan leaders must be prepared to take difficult steps to bring the country together and resolve underlying political and

socio-economic tensions that led to the conflict. While there have been some success stories such as reducing the number of child soldiers and rebuilding the East, it is not clear that the current leadership understands exactly how to shift from a mindset of conflict and suspicion to a peacetime approach. Moreover, the Government's paranoia about criticism and the way some government officials equate criticism with support for the LTTE complicates efforts to move forward. Strikingly, the whole Rajapaksa Government strategy seems to be still driven by security concerns.

For instance, the Government still fears LTTE sleeper cells, both in Sri Lanka and abroad, and screened all Tamils in government-run camps for potential links to terrorism. 'Guilty until proven innocent' remains the basis for operations, and the recent discovery of massive caches of weapons in the north of the country, the former base of the Tigers, only deepens the Government's suspicions. Still, there are fewer checkpoints in the country and people do feel a greater sense of freedom of movement, even in parts of the North.

It will take time for the country to transition to a post-conflict phase. Sinhalese and Tamils remain politically very far apart with few moderate political leaders emerging to bridge the gap. The country has immediate issues to address, such as the status of internally displaced persons (IDPs) in the North. At the same time, longer term political questions on the nature of the state must be tackled. In the meantime, basic democratic rights and freedoms, such as freedom of the press, continue to deteriorate, raising concerns about the health of Sri Lanka's democracy.

Status of IDPs

The conflict between the Sri Lankan military and Tamil Tigers caused an estimated 300,000 Tamils to flee from their homes in the North earlier this year. Many of these Tamils were taken to Army-run government welfare centers where they were screened for potential terrorist links and until recently detained until the Government decided conditions for return had improved. This sparked an outcry within the international community, particularly in the West and India, and led to pressure on the Sri Lankan Government to move faster on rates of return, freedom of movement, access to the camps, and compliance with international standards set forth by the United Nations, which were endorsed by the Government. Sri Lankan officials told committee staff that they are eager to resettle all the IDPs, who are costing about 1 million U.S. dollars a day. But from the Government's perspective, the security challenges of LTTE cadres hiding among IDPs and the risks of allowing people to return freely to war-torn areas filled with mines trumped other short-term considerations.

Due to the onset of the monsoons and ongoing pressure from the international community, on October 15, the Sri Lankan Government accelerated its resettlement program for IDPs. The goal was to release about 4,000 people a day from the camps so that the majority would be resettled before the end of the year. As of December 3, 2009, some 120,740 people remain in the camps, according to Sri Lankan Government figures, and 139,803

people have already been resettled in Ampara, Batticaloa, Jaffna, Mannar, Trincolmaee, Kilinochchi, and Mullaithivu districts, the latter two being former LTTE strongholds. At the end of November 2009, the Government announced plans to close the controversial camps by January 31, 2010, and all IDPs were granted freedom of movement starting on December 1, 2009. This was a significant and welcome step forward by the Government.

According to the Sri Lankan Government figures, the Government provides families selected for resettlement with a basic package: nonfood items, kitchen utensils, agricultural tool kits, 6 months of dry rations, an initial payment of Rs. 5,000 Sri Lankan rupees (about \$44), a shelter grant of Rs. 25,000 rupees (about \$219), roofing sheets, land preparation cost of Rs. 4,000 rupees per acre (about \$35), provision of rice seed (paddy), fertilizer allocation, and transportation. Effective December 15, 2009, the Sri Lankan Government plans to increase the shelter grant to 50,000 rupees (\$450) to each returning family. \$450 is about 25 percent of the average per capita income in Sri Lanka. While this amount is insufficient for fully repairing a damaged home, these funds provide a starting point to make a damaged home livable on a temporary basis until additional aid or funds can be accessed. Some families are directly resettled in their places of origin, either returning home or staying with host families, while others are taken to government-run transition centers where they are free to come and go but which lack robust services.

In early November 2009, committee staff traveled to Manik Farms, the largest of the IDP camps, and Mannar district in the northwest, as part of a trip arranged by Defense Secretary Gotabaya Rajapaksa. During the visit to Zones 2 and 3 at Manik Farms, areas selected by staff without advance notice to the Government, staff met with IDPs and observed living conditions, hygiene facilities, educational facilities, banking centers, food distribution, and the release of IDPs. Basic shelter, food, and hygiene needs were being met, and U.N. agencies had reliable access. The monsoons pose an enormous challenge to operations because of possible flooding and difficulty of moving equipment in the mud. IDPs told staff they were looking forward to returning home, but remain nervous about what they would find in these war-damaged areas.

Army officials running the camps were complimentary about the support they received from U.N. organizations such as the World Food Programme (WFP) and the U.N. High Commissioner for Refugees (UNHCR). But the officers seemed unaware of specific donor support for these programs, such as the \$28.3 million the United States had given WFP for food aid in the camps. They remain broadly suspicious of nongovernmental organizations (NGOs) because of negative experiences in the aftermath of the deadly tsunami in 2004. In the chaos of the devastation, some town and provincial representatives reported that some international NGOs that had not worked in Sri Lanka prior to the tsunami wasted funds, implemented inappropriate projects, and failed to consult with local communities.

Basic problems still exist. Access to the IDP camps generally has been heavily restricted and monitored. Tamil and Muslim political leaders, journalists, and various NGOs, as well as the International Committee of the Red Cross (ICRC),

had been denied entry into the IDP centers and, as a result, there was no free flow of credible information coming from the camps. The Government has begun to ease some of these restrictions. People are still unable to locate their relatives, and some potential host families have been dissuaded by intrusive government screening procedures. There was no legal basis for the Government detention of Tamils in the camps, according to Minister of Justice Malinda Moragoda. The IDPs' relief that the war was over is tempered by disappointment with the continued security checks and government control over their lives.

Conditions in the North remain dire. Heavy fighting during the last phases of the war essentially destroyed much of the North, and it will take time and money to rebuild the shattered infrastructure and remove the many mines. The Government says it has ambitious reconstruction plans to improve Tamils' lives in the North, but since these plans are not yet public, there is no way to verify these claims. In Mannar district, for example, homes, schools, and shops were destroyed by fighting and returnees must rely on UNHCR roofing sheets for basic shelter.

There are reports that the Army and LTTE placed at least 1 1/2 million mines in the Northern Province, an area of 3,340 square miles, and de-mining remains--by its nature--very slow going and manually tedious. Although the Army has augmented its de-mining equipment (flails) to more than twenty, the rate of de-mining is determined by weather, terrain, and the need to follow machines with manual de-miners. The Army is using six newly purchased de-mining machines from Croatia and Slovakia. The Government repeatedly has asked the international community to increase its funding for de-mining by providing support directly to the Army. The United States has provided \$6.6 million of de-mining funding this year to four mine action NGOs. Additionally, a November 2009 assessment of the Army's needs by U.S. experts may result in recommendations to provide additional U.S. training and equipment, totaling up to \$2.7 million, according to the U.S. Embassy in Colombo.

The international community has been pushing hard for open camps and resettlement based on international humanitarian principles. In many ways, however, counting the number of IDPs released from the camps is an incomplete metric because it belies the grim conditions facing returnees. It also discounts the enormous challenges of keeping returnees safe from the minefields, although urgent de-mining needs are not a justification for restricting freedom of movement.

Numerous government officials shared with committee staff their frustrations over international pressure for faster release of IDPs given the challenging conditions for resettlement. They have legitimate fears that if IDPs are allowed to move freely in the North, there will be numerous casualties from active mines for which they will be held accountable. They are also reasonably hesitant to permit IDPs to return to areas where there are no services and where frustrations could breed resentment and security threats against the Government. While these concerns are valid, government officials did not seem to understand the benefit of greater transparency and partnership with international donors to combat these challenges together in a robust and

constructive way.

Finally, although they are forgotten by most, more than 100,000 Muslims are being housed in IDP camps in the Northwest, mostly in Puttalam. The LTTE forcibly removed Sri Lanka's Muslim population in the North from their homes in 1990, and they have been living in the camps ever since. Many now want to return home, and local Muslim leaders have been seeking government assistance in tracing properties back to original owners because many people were unable to take their land documents when they fled. Issues of land registration and ownership between Tamils and Muslims in the North could complicate repatriation efforts unless serious attention is paid to these issues.

Progress on Political Reconciliation

Early Presidential elections are now scheduled for late January 2010, preceding the parliamentary elections scheduled to be held before April 2010. President Rajapaksa enjoyed immense popularity among the Sinhalese electorate at the end of the war. He was seen as the political architect of victory in what many thought was an unwinnable war, and early elections would be a way for him to expand his power base in Parliament. While he initially appeared invincible at the ballot box, mounting economic concerns and the opposition announcement that it would put forward former Army commander Gen. Sarath Fonseka as a candidate leave more uncertainty about the outcome and prospects for political reconciliation.

The big challenge is the unresolved questions around the ethnic tensions that were at the core of the conflict. The hierarchy of the LTTE appears to have been destroyed. While few Tamils in Sri Lanka express any desire to resume violent conflict, some Tamil political leaders still talk about controlling the North and East. Rumors abound of plans for Sinhalese colonization of Tamil towns in the North, such as Kilonochchi, the former administrative center of the LTTE-controlled ``Vanni.'' Further, many Sinhalese feel Tamils do not appreciate the trauma they suffered under the Tamil Tigers, a group the FBI listed as ``among the most dangerous and deadly extremists in the world'' and credited for pioneering the use of suicide bombers.

There are different options available for political reconciliation between ethnic groups. Since 1983, there have been several attempts to find a constitutional accommodation between successive Sri Lankan Governments and the advocates of Tamil nationalism that would lead to greater power-sharing and devolution. For instance, the 13th and 17th amendments to the Constitution established provincial councils and sought to decentralize power to them. These initiatives have not resolved core tensions, and some view them as out of touch with prevailing political and military realities. In addition, Sri Lanka Muslim Congress Member of Parliament M.T. Hasen Ali noted that there is a need for a power-sharing arrangement that includes the Muslim minority. To date, a definitive solution to the ethnic problems remains elusive.

A report was recently completed by the All Parties Representative Committee (APRC), a panel of experts and

political leaders from varied backgrounds appointed by the President to develop a political proposal for power-sharing and reconstructing political institutions. These could include devolution of power from the central government to the provinces, a second house in the Parliament modeled somewhat after the U.S. Senate, and independent oversight bodies meant to serve as a check on powerful state institutions. President Rajapaksa has not shown a preference yet. He has said he will not tackle any political reform until after Presidential and parliamentary elections take place in 2010. A political solution that is broadly acceptable to could also provide the basis for reconciliation between the embittered ethnic communities.

Many are concerned that Sri Lanka's Emergency Regulations, enacted in 1989, are still in place despite the end of the war. Among many things, the regulations allow for a concentration of power by moving the head of state function from the Prime Minister to the President and permit the detention of individuals for up to 1 year without charge.

Discussions about reconciliation have not fully begun in Sri Lanka. While the international community is promoting independent inquiries into what happened in the last moments of the war, there is little such call in Sri Lanka--yet. There still needs to be a debate on what reconciliation model to follow or create and how to link any fact-finding into the reconciliation process.

An Intimidated Media

Though the war is over, press freedom remains troubling in Sri Lanka, raising serious concerns about the vitality of its democratic institutions. According to the 2009 Press Freedom Index of Reporters Without Borders, Sri Lanka was ranked 162nd out of 175 countries, alongside countries like Uzbekistan, Somalia, and Burma. In 2009 alone, two journalists were killed--Lasantha Wickramatunga, editor of The Sunday Leader and freelance writer Puniyamoorthy Sathiyamoorthy--according to the Committee to Protect Journalists. There have been numerous documented attacks on journalists in Sri Lanka, prompting at least thirty journalists to flee the country. A few journalists remain imprisoned, notably J. S. Tissainayagam, who was convicted under Sri Lanka's Prevention of Terrorism Act (PTA) for writing two articles critical of the Sri Lankan Army's conduct against the LTTE in a case the U.S. State Department says ``appeared to be politically motivated.''

Committee staff members noted a palpable fear among journalists and civil society during their recent trip to Sri Lanka. While some journalists cancelled scheduled meetings with staff for fear of persecution from the Government, committee staff did meet with select newspaper, magazine, and television journalists, including bloggers. Although most of the journalists said they are able to function as independent media, the consensus was that the press is not truly free. Media representatives noted that the Government did not exercise its control of the press through direct censorship or a dominant state-run propaganda machine. Since acts of violence against journalists and cases brought against them varied

greatly and the perpetrators remain at large, reporters and editors could not predict future actions against them. To avoid violence, many journalists engage in self-censorship, and many sources were unwilling to be quoted. For example, journalists pointed to a recent Ministry of Defense press release that discouraged reporting on the political ambitions of active duty military, forcing nearly all media outlets to drop coverage of military members, including former Army Chief General Fonseka, who is now a Presidential candidate. Some media representatives insisted the situation was ``not that bad'' and most accepted that certain restrictions on the press were necessary for the Government to win the war against the LTTE. In addition, nearly all of them criticized some aspect of U.S. policy as interference in domestic issues.

Journalists and political and civil society actors continue to face difficulties accessing parts of the country, such as the IDP camps in the North, because of government fears that negative publicity will fuel the ``LTTE propaganda machine.'' These fears have blinded the Sri Lankan authorities to the benefits of having a free media that could report favorably on the constructive steps the Government has taken since the war's end. Basil Rajapaksa, President Rajapaksa's brother and lead advisor on resettlement in the North, told committee staff that such restrictions are designed to protect the privacy of the IDPs. He observed, ``IDPs don't like media and the cameras, because they don't want to be portrayed in those conditions'' and that free access would only be granted to those ``genuinely interested'' and only those ``that could be truly trusted.'' Mr. Rajapaksa also argued that journalists were not singled out--high ranking police and army officials and members of the business community have also been imprisoned on terrorism charges.

Child Soldiers

The Government of Sri Lanka has made good progress toward eliminating the problem of child soldiers, with expectation that the cases of the 15 children remaining in the ranks of the Government will be resolved by the end of this year. Many heralded the Government's effort to address the child soldier issue during staff's visit and noted the police investigations on child recruitment. The Government is a state party to the Optional Protocol to the Convention on the Rights of the Child, which requires it to take all feasible measures to prevent recruitment and use of those under 18 by armed groups that are distinct from armed forces of a state, including the adoption of legal measures necessary to prohibit and criminalize such practices.

As noted in the State Department's Incident Report, the LTTE allegedly forcibly recruited thousands of male and female children, some as young as 12, into its cadres. Reportedly, in some cases, parents or children who resisted were beaten or killed. The LTTE trained the children to use weapons and sent them to the front lines, according to reports. In close collaboration with UNICEF, the Government has established centers where roughly 500 former LTTE child soldiers are receiving vocational and other training opportunities. The

expectation is that the children will be reunified with their families (if they can be found) or released to host families and then reintegrated into society.

Economic Challenges

The Government's budget suffered from the high cost of fighting the war. Expensive purchases of war-related equipment and ammunition, often on longer term contracts and using up valuable foreign reserves, coupled with a drop in exports due to the global economic downturn, pushed Sri Lanka to request a \$2.6 billion stand-by arrangement from the IMF in early 2009 which was approved in July. Sri Lankans are optimistic that the economy will improve, but it has been harder to lure foreign investment into the private sector. The overall defense budget has yet to see any sort of 'peace dividend.' Longer term contracts with foreign suppliers of military equipment, particularly China, continue to weigh heavily on the budget, and the military has pushed for an expansion of bases and personnel in the North. Some contend that a continued high level of troops is required in the formerly LTTE-held areas to hunt down remaining LTTE forces, seize hidden caches of weapons, and prevent any resurgence of violence. At the same time, military and civilian officials stressed to staff that the bulk of the requested increase of about 15 percent in the defense budget is due primarily to the Government's need to pay down military debts incurred during the final stages of the war.

Sri Lanka's economy grew relatively well throughout the war years, and Sri Lankans hope the end of the war will trigger an economic boom. Sri Lanka averaged 5 percent annual growth in gross domestic product (GDP) over the last 20 years, and it has a per capita income of \$2,000, the highest in South Asia after the Maldives. Sri Lanka has developed a strong garment industry, which constitutes 43 percent of total exports, and still has significant tea exports. But economic opportunities are distributed unevenly. The Western Province, where Colombo is located, contributes almost 50 percent of Sri Lanka's GDP, while there are fewer opportunities in other areas, especially the former conflict regions. The war between the Government of Sri Lanka and LTTE, which claimed over 70,000 lives since 1983, had an economic component as many LTTE leaders were from poorer communities. For instance, leaders in the two brutal Marxist uprisings in the southern part of Sri Lanka, known as the Janatha Vimukthi Perumuna (JVP) insurrections, which killed 15,000 in 1971 and 50,000 people in 1988-89, were driven by economic discontent. Clearly, long-term stability in Sri Lanka will be dependent on solid and distributed economic growth.

Defense Secretary Gotabhaya Rajapaksa, brother of President Mahinda Rajapaksa, repeatedly used the Eastern Province as an example of the Government's demonstrated performance record and as a model for plans in the North in discussion with the committee staff. He said he regretted that Sri Lanka was 'poor at propaganda' and had failed to explain its actions and intentions to the international community, especially to the U.S. and the West. Rajapaksa said the military victory would lead to lasting peace only if accompanied by economic

development in the areas formerly occupied by the LTTE.

Donors have responded to the war's end by shifting their portfolios to the North and East of Sri Lanka. However, there is a chance that this could breed resentment in the South where there is still much poverty. While some international donors seemed to be artfully calibrating their operations in Sri Lanka so as not to exacerbate underlying tensions, others chose to ignore the conflict outright. U.S. Government assistance has focused on conflict sensitivity and economic equity among all ethnic groups--Sinhalese, Tamil, and Muslim--and on addressing the regional economic imbalances in conflict-affected areas that have been amplified by the conflict.

World Bank staff in Sri Lanka, including Country Director Naoko Ishii and Senior Country Economist Claus Pram Astrup, should be commended on their development of a ``conflict filter to enhance effectiveness and reduce reputational risks'' at the concept design and implementation stages of projects. As laid out in the World Bank Sri Lanka Country Assistance Strategy Paper 2009-2012, the filter asks:

- Have sufficiently broad stakeholder consultations been conducted?
- Have adequate impartial grievance mechanisms been established?
- Are project management and administration adequately sensitive to inter-ethnic issues?
- Are conflict-generated needs adequately identified?
- Have opportunities to strengthen reconciliation and inter-ethnic trust been adequately identified?

World Bank staff noted that the filter had been a useful engagement tool. The Asian Development Bank as well as other international donors factor in conflict though in less formal ways.

However, the IMF does not officially consider conflict sensitivity at all and almost prides itself on its tunnel focus on financial indicators, although the IMF's mandate is macroeconomic stability--and a key factor to economic stability is resolution of war and conflict. On July 24, 2009, the IMF approved a \$2.6 billion loan to support the Government of Sri Lanka's ``ambitious program . . . to restore fiscal and external viability and address the significant reconstruction needs of the conflict-affected areas, thereby laying the basis for future higher economic growth.'' The IMF did not examine the possible impact of its program on the conflict in Sri Lanka. The IMF reportedly did not provide its Executive Board with a copy of the Government's reconstruction program, a program which had not been shared publicly in Sri Lanka and received no input from civil society. Though the World Bank consults IMF assessment letters when it does significant budget support, the IMF did not reciprocate the consultation and incorporate the results of the World Bank's conflict filter.

IMF Resident Representative Koshy Mathai argued that although the Government had used the IMF Letter of Intent as a vehicle to clarify its own reconstruction plans and humanitarian assistance and despite IMF staff interest in those issues, it was outside the IMF's mandate to have conditionality

in political and military areas. He suggested that other international fora were more appropriate for addressing those concerns. The first of eight tranches (roughly \$330 million each) of the loan was in the reserves at Central Bank as prescribed and the second tranche was also approved.

One of the biggest threats facing Sri Lanka's economy is the loss of the European Union's ``GSP Plus'' trade concessions. Some argue this would cost the country \$150 million a year in trade and thousands of jobs, although the Sri Lankan Central Bank issued a statement asserting it would have little impact. The GSP Plus program, established in 2005, allows Sri Lankan goods a reduction in EU tariffs which are particularly important in the highly internationally competitive garment sector which employs thousands of Sri Lankan women. Last year, EU imports from Sri Lanka under the program neared \$2 billion. The GSP Plus benefit is predicated on Sri Lanka's compliance with internationally recognized labor and human rights standards, including treatment of the IDPs. Some assert that the EU's threat of suspension has led to the Government's recent accelerated release of IDPs and granting of freedom of movement.

Strategic Interests in Sri Lanka

Sri Lanka has been a friend and democratic partner of the United States since gaining independence in 1948 and has supported U.S. military operations overseas such as during the first Gulf War. Commercial contacts go back to 1787, when New England sailors first anchored in Sri Lanka's harbors to engage in trade. Sri Lanka is strategically located at the nexus of maritime trading routes connecting Europe and the Middle East to China and the rest of Asia. It is directly in the middle of the ``Old World,'' where an estimated half of the world's container ships transit the Indian Ocean.

American interests in the region include securing energy resources from the Persian Gulf and maintaining the free flow of trade in the Indian Ocean. These interests are also important to one of America's strategic partners, Japan, who is almost totally dependent on energy supplies transiting the Indian Ocean. The three major threats in the Indian Ocean come from terrorism, interstate conflict, and piracy. There have been some reports of pirate activity in the atoll islands near Sri Lanka.

Sri Lanka's geopolitical position has changed in recent years. The United States has developed closer ties with India while Sri Lanka moved towards China. India has been very concerned with instability in Sri Lanka and has worked quietly behind the scenes to push for faster resettlement for Tamils. India directly suffered from the spillover from the Sri Lankan conflict in 1991 when a LTTE female suicide bomber assassinated Prime Minister Rajiv Gandhi, reportedly in response to Gandhi's decision to send an Indian Peace Keeping force to Sri Lanka in 1987. Communal tensions in Sri Lanka have the ability to undermine stability in India, particularly in the southern Indian state of Tamil Nadu, home to 60 million Hindu Tamils. India's large Tamil population just across the Palk Strait fuels fears among Sri Lanka's Sinhalese community, who

represent 80 percent of the Sri Lankan population and are concentrated in the lower two-thirds of the country, that they could become a minority under siege. While India has no apparent interest in stoking conflict in Sri Lanka, Indian officials are reportedly increasingly concerned about their strategic role in the Indian Ocean and China's growing presence in Sri Lanka.

Chinese activities in Sri Lanka are largely economic, focusing billions of dollars on military loans, infrastructure loans, and port development. While these are loans that will need to be repaid and do not contribute much towards the local economy, they come without any political strings, a fact which makes them attractive to the Sri Lankan Government. According to the Congressional Research Service, ``Chinese activity in the region appears to be seeking friends like Sri Lanka to secure its sea lines of communication from the Straits of Hormuz and the western reaches of the Indian Ocean region to the Strait of Malacca to facilitate trade and secure China's energy imports.''

For instance, in 2007, China reached a billion dollar deal with Sri Lanka to develop a deepwater port in the south at the sleepy fishing village of Hambantota. In 2008, China gave Sri Lanka nearly \$1 billion in economic assistance according to the Congressional Research Service. In 2009, China was granted an exclusive investment zone in Mirigama, 34 miles from Colombo's port. Even for those that dismiss China's ``string of pearls'' strategy as overblown, there is concern about growing Chinese influence on the Sri Lankan Government. During the closing stages of the separatist war, for example, China blocked Western-led efforts to impose a truce through the United Nations Security Council and continued supplying arms to the Sri Lankan Government.

Sri Lanka's strategic importance to the United States, China, and India is viewed by some as a key piece in a larger geopolitical dynamic, what has been referred to as a new ``Great Game.''

While all three countries share an interest in securing maritime trade routes, the United States has invested relatively few economic and security resources in Sri Lanka, preferring to focus instead on the political environment. Sri Lanka's geostrategic importance to American interests has been neglected as a result.

The Sri Lankan Government says American attitudes and military restrictions led it to build relationships with China, Burma, Iran, and Libya. The Minister of Science and Technology and All-Party Representative Committee Chairman Tissa Vitarana Minister told committee staff, ``We have the United States to thank for pushing us closer to China.''

According to Vitarana, President Rajapaksa was forced to reach out to other countries because the West refused to help Sri Lanka finish the war against the LTTE. These calculations--if left unchecked--threaten long-term U.S. strategic interests in the Indian Ocean.

U.S. Engagement with Sri Lanka

The United States and Sri Lanka have a long history of cordial relations based in large part on shared democratic

traditions. U.S. assistance programs with Sri Lanka have covered a broad range, including civil society, economic development, international visitor exchanges, and humanitarian assistance training for the military.

Since 1956, USAID has invested more than \$1.9 billion in Sri Lanka according to the USAID Mission in Colombo. In 2008, the United States successfully completed its \$134.5 million tsunami reconstruction program, and the rehabilitation infrastructure was handed over to the Sri Lankan Government. Current programs focus on the Eastern Province and adjoining areas, and USAID plans to extend assistance to the North by helping war-torn communities return to normalcy as soon as possible. In 2009, the United States was the leading donor of food and humanitarian assistance to Sri Lanka, with a total USAID budget of \$43.12 million. More than 280,000 IDPs have been assisted by food rations, water and sanitation facilities, temporary shelters, emergency medical treatment, and mobility aids for the disabled.

The congressionally funded Asia Foundation has been in Sri Lanka since 1954 and has played a quiet but important role in supporting Sri Lankan Government and civil society initiatives to strengthen democratic institutions, the rule of law and human rights.

On the economic front, the United States is by far Sri Lanka's most important trade partner, accounting for more than one-quarter of the country's total exports according to the Congressional Research Service. During Prime Minister Wickremasinghe's 2002 visit to Washington, the United States and Sri Lanka signed a new Trade and Investment Framework Agreement (TIFA) to examine ways to expand bilateral trade and investment. While the war precluded most major U.S.-Sri Lanka economic initiatives since 2006, TIFA talks were held in Colombo this fall to explore new opportunities.

On the security front, the United States and Sri Lanka have enjoyed friendly military-to-military relations and defense relations, although the U.S. scaled back security assistance in recent years. Sri Lanka continues to grant blanket over-flight and landing clearance to U.S. military aircraft and routinely grants access to ports by U.S. vessels. U.S. military training and defense assistance programs have provided basic infantry supplies, maritime surveillance, and interdiction equipment for the navy and communications and mobility equipment to improve the Army's humanitarian effort and U.N. peacekeeping missions, according to the Congressional Research Service. In 2007, the United States and Sri Lanka signed an Acquisition and Cross-Services Agreement, which created a framework for increased military interoperability.

U.S. engagement with Sri Lanka has continued in the Obama administration. Just days before the war ended, President Obama delivered a statement from the Rose Garden urging Sri Lanka to ``seek a peace that is secure and lasting, and grounded in respect for all of its citizens.''' While economic and security relations continue on a limited basis, the U.S. approach has heavily focused on humanitarian issues and political reforms.

The administration has consistently called for an end to human rights abuses, protection and rapid resettlement of IDPs, and genuine efforts towards reconciliation in part through

statements from President Obama, Secretary of State Hillary Clinton and the Assistant Secretary of State for South and Central Asian Affairs Robert Blake. The State Department, under the leadership of its new U.S. Ambassador to Sri Lanka, Patricia Butenis, has demanded progress from the Government on eight benchmarks including improved conditions in the camps, return of IDPs, political progress, and de-mining. The Treasury Department abstained on the \$2.6 billion IMF loan to Sri Lanka this summer because of humanitarian concerns. At Congress's behest, the U.S. Government continues to suspend military aid to Sri Lanka and issued a report on incidents during the war that may have constituted violations of international humanitarian law.

In Colombo, the U.S. approach is viewed by many senior government officials as heavy-handed and ``shrill.'' They no longer sense a strong partnership with the United States and view the relationship to be on a downward trajectory. The President's senior advisor and brother, Basil Rajapaksa, advised committee staff that the United States should approach Sri Lanka as ``friends'' and ``give suggestions rather than make critical remarks.'' The President's other brother and Defense Secretary, Gotabhaya Rajapaksa, expressed similar frustration that the United States and international community had not recognized the Government's progressive transition to democracy, ethnic reconciliation, disarmament and demobilization of paramilitary groups, rehabilitation of child soldiers, and economic development. He said he believed strongly in the value of repairing Sri Lanka's relations with the United States and recommended that Washington focus its attention on the future and not the past, judging the Government on its record of performance in the Eastern Province, and not on the agendas of its critics. He said he did ``not deny there have been cases of government abuse,'' but that defeating the LTTE had been the top priority and trumped other considerations.

Many Sri Lankan Government officials seemed surprised by the barrage of international criticism and intense public scrutiny they received following the war. They had expected instead praise for defeating a notorious terrorist group--which pioneered suicide bombing techniques and assassinated Indian Prime Minister Rajiv Gandhi in 1991 and Sri Lankan President Ranasinghe Premadasa in 1993--and space to make the transition to a post-conflict environment.

Opposition leaders take a different view. United National Party and opposition leader Ranil Wikremesinghe said the United States was on the right track in publishing the ``Incidents Report'' and should ``keep the pressure on the government.'' Wikremesinghe said Sri Lankans did not want to lose their relationship with the United States, and the Government's criticism of recent U.S. remarks was ``complete nonsense.''

Among both government and opposition leaders and within civil society, there is growing consensus on the importance of the U.S.-Sri Lanka bilateral relationship and the need for it to be strengthened. There is a common view that American influence is waning, in part because of the tone of its messages. As one Western aid official told committee staff: ``Sticks don't work with the Sri Lankan Government. They need

to hear coordinated, constructive messages that give them time to implement change without losing face.' There is also concern that Western donors do not invest in projects that are government priorities such as big infrastructure projects and roads, allowing non-traditional donors like the Chinese to fill the vacuum.

With the end of the war, the United States needs to re-evaluate its relationship with Sri Lanka to reflect new political and economic realities. While humanitarian concerns remain important, U.S. policy toward Sri Lanka cannot be dominated by a single agenda. It is not effective at delivering real reform, and it shortchanges U.S. geostrategic interests in the region.

The challenge for the United States will be to encourage Sri Lanka to embrace political reform and respect for human rights without pushing the country towards Burma-like isolation, while still building a multifaceted bilateral relationship that reflects geostrategic interests. Engagement is key, for as Minister of Justice Moragoda said, the United States 'cannot afford to marginalize the Sri Lankan Government.' Serious engagement will require an expansion of the number of tools in the U.S. toolbox.

The United States does have influence in Sri Lanka. The challenge today is how to creatively leverage political and humanitarian reform with economic, trade, and security incentives so as to link an expanded partnership with better governance and a strengthened democracy. To be effective, the United States should better understand what is important to the Sri Lankan Government and people and retool its strategy accordingly.

Recommendations on Sri Lanka

The Obama administration should:

1. Take a broader and more robust approach to Sri Lanka that appreciates new political and economic realities in Sri Lanka and U.S. geostrategic interests. Such an approach should be multidimensional so that U.S. policy is not driven solely by short-term humanitarian concerns but rather an integrated strategy that leverages political, economic, and security tools for more effective long-term reforms.

2. Continue support de-mining efforts in the North. De-mining will be a major factor in successful resettlement of the North.

3. Engage the United Nations (World Food Programme and other agencies) and the Sri Lankan Government in developing a realistic resettlement strategy for 2010 that reassesses food and nonfood needs to support returnees' efforts at reestablishing their livelihoods.

4. Promote people-to-people reconciliation programs to build bridges between the Sinhalese, Tamil, and Muslim communities. A people-to-people approach should be linked to political reforms and processes that support transitional justice. Funding for such programs is available on a competitive basis under section 7065 ('Reconciliation Programs') of Public Law 111-8, and additional funding will be included for such purposes in the Department of State, Foreign

Operations, and Related Programs Appropriations Act, 2010.

5. Expand U.S. assistance to include all areas of the country, particularly in the south and central areas so that Sinhalese and other groups also benefit from U.S. assistance programs and reap some 'peace dividend.'

6. Tighten visa restrictions and revoke U.S. citizenship for any persons who are shown to have committed war crimes in Sri Lanka, whether they acted on behalf of the LTTE or the Government of Sri Lanka.

7. Expand the USAID/Department of Justice police program and provide judicial advisors to the Sri Lankan Ministry of Justice in order to support critical police reforms and implementation of current law.

8. Publicly commit to reinstating Peace Corps operations in Sri Lanka as soon as the emergency regulations are removed. Peace Corps volunteers could focus on teaching English and information technology training.

The U.S. Congress should:

1. Authorize the U.S. military to resume training of Sri Lankan military officials to help ensure that human rights concerns are integrated into future operations and to help build critical relationships.

The international financial institutions should:

1. Encourage all international financial institutions to systematically factor in the role of conflict, as the World Bank does through its conflict filter for Sri Lanka, to ensure that IMF and development bank financing does not inadvertently exacerbate conflict. Specifically, World Bank staff should be commended on its development of a conflict filter for Sri Lanka, and the World Bank should expand its use in other countries.

2. Proactively review military spending as a component of its financial programs with conflict countries.

The Sri Lankan Government should:

1. Treat all internally displaced persons in accordance with Sri Lankan and international standards, including by guaranteeing their freedom of movement, providing access to war-torn areas and populations by humanitarian organizations and journalists, and accounting for persons detained in the conflict.

2. Recognize the importance of a free and fair press, for both its own democratic traditions and for sharing accurate information with the international community. In showing its commitment to freedom of the press, the Government should welcome back journalists that have fled the country; pardon those such as J.S. Tissainayagam who were indicted under emergency laws; cease prosecuting cases against journalists based on emergency law; and actively investigate threats, abuses and killings of journalists.

3. Take steps to repeal emergency laws that are no longer applicable now that the war is over. This will send a strong message that Sri Lanka is ready to transition to a post-conflict environment.

4. Share its plans for resettlement and reconstruction in the North with Sri Lankan civil society and international donors, who are well-positioned to support such efforts if there is greater transparency and accountability.

5. Commence a program of reconciliation between the diverse communities in Sri Lanka.

6. Engage in a dialogue on land tenure issues, since they affect resettlement in the North and East.