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India's Sri Lanka Policy Towards Economic Engagement

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Executive Summary

India's Sri Lanka policy since 1991 is one example of how India's foreign policy imperatives, redefined by the end of the Cold War and the introduction of liberal economic reforms, have impacted relations with an unstable neighbour. Instead of a relationship focused on conflict-intervention, India's policy has pushed economic engagement into the lead role in bilateral relations. The success of this shift in policy suggests that a policy emphasizing economic relations and backing away from the highly contentious political issues of conflict-intervention, helped India push past the mistrust and resentment upon which India-Sri Lanka relations floundered in the late 1980s and early 1990s.

Freed from the compulsion to push Cold War meddling away from its southern border, India's chief security concern in Sri Lanka shifted from the presence of foreign powers to the destabilizing presence of separatist insurgents in and around the island nation. India's diplomatic efforts countering a military solution to Sri Lanka's ethnic conflict and its support for a sustainable political solution through a negotiated settlement have characterized India's policy on Sri Lanka's ethnic conflict. In addition to this politically safe rhetorical position, domestically it has denounced the LTTE as a legitimate political force, backed by law and order measures and effective naval patrolling to clamp down on political, financial, and materiele support for the LTTE from south India. This, in turn, has been a source of support for the Sri Lankan state in its struggle against the Tamil insurgents.

On the economic side, increased trade and investment have been the impetus for improved bilateral relations. India's decision to offer Sri Lanka favorable terms in trade

has yielded not only greater economic engagement but political and strategic benefits as well. For instance, more equitable benefits in trade—represented by a narrowing of the trade balance that had tilted heavily towards India—helped to diminish the perception within Sri Lanka of India as a hegemonic neighborhood bully. Burgeoning trade and investment between India and Sri Lanka, including in the strategic energy sector, have woven economic inter-dependency into the bilateral relationship and provided the forum for increased communication and cooperation on non-economic issues like counter-terrorism.

The progress in bilateral relations, however, has failed to transform India's policy vis-à-vis the ethnic conflict into a coherent and constructive force toward reducing violence. Indeed, Sri Lanka's ethnic conflict continues to destabilize the state, a short distance from India's southern coast, and threaten the security of adjacent waterways. India's close proximity to Sri Lanka, its responsibility and influence as a regional and world power, and its historical ties with the island nation demand a sharper response to the conflict. Yesterday's cautious policy has become today's outdated policy. And this will remain the case if the question of which policy will act as a coherent and constructive political force does not receive a satisfactory answer.

Calls from within Sri Lanka, India, and the international community, for the Indian government to assert its influence on resolving the conflict are met with a cold response from Indian policy makers who are reluctant to re-intervene in a conflict that India had once publicly failed to resolve. Indian policy makers continue to favour a prudent diplomatic approach towards the conflict; preferring to mitigate the effects of

the conflict rather than push for its resolution. But while India has so far managed the externalities of the conflict affecting Indian interests, including a sizeable Sri Lankan refugee population in south India, these externalities continue to threaten Indian interests and frustrate friendlier relations with Sri Lanka.

India's Sri Lanka policy has built upon economic engagement to cooperate on

initiatives of strategic importance. The lesson one can learn from this is the potential of economic linkages to overcome a political fall-out. Can a similar economic-led approach now be applied to affect a positive Indian influence on the Sri Lankan conflict and other conflicts in the South Asian region?

Introduction

There is little doubt that the relationship between India and Sri Lanka has undergone a period of significant recuperation since Indian Peace Keeping Force (IPKF) withdrew from Sri Lanka in 1990. Today, India and Sri Lanka have a friendly diplomatic rapport, mutually benefit from economic cooperation in both trade and investment, and the bilateral relationship appears to be moving towards a strategic partnership. This is a remarkable turnaround from the late 1980s and early 1990s during which the bilateral relationship suffered from bitterness and mistrust on both sides.

How did India's Sri Lanka policy contribute to this marked improvement in bilateral relations? What factors or elements constrain the development of an even stronger bilateral relationship? And how do these constraints inform any changes, necessary in India's Sri Lanka policy to maintain the present momentum?

The evidence and analysis put forth below supports the argument that India's policy found a way to foster a close relationship with an immediate neighbour following a political catastrophe. Instead of a relationship focused on conflict-intervention, India's policy has pushed economic engagement into the lead role in bilateral relations. The success of this shift in policy suggests that a policy emphasizing economic relations and backing away from the highly contentious political issues of conflict-intervention, helped India push past the mistrust and resentment upon which India-Sri Lanka relations floundered in the late 1980s and early 1990s.

However, India has not yet solved its dilemma associated with the Sri Lankan conflict; it has merely put it aside in a successful effort to repair relations with Sri Lanka and also escape the severe domestic political repercussions, exemplified by the bitter experience of the IPKF. The success of the hands-off policy in repairing relations however must not be regarded as a boon for India's strategic interests with regard to the conflict, which have shifted from a geopolitical struggle into alignment with Sri Lanka's chief aim of reducing, if not eliminating, instability within the island nation. This continuation of India's hands-off policy may does not serve India's stronger strategic imperative to mitigate the effects of instability in Sri Lanka. This argument calls for India to prudently and tactfully re-involve itself in the conflict, an action which demands further research on how India's policy could provide coherent and constructive support in managing the conflict.

To provide the necessary contextual basis for analyzing India's Sri Lanka policy, this paper begins with a brief historical account of India's Sri Lanka policy from 1983, when the Tamil insurgency began in earnest, until the IPKF withdrew in 1989 and 1990. The section following this historical account, examines the evolution of India's strategic interests in Sri Lanka. The main body of the paper explores India's current Sri Lanka policy, with subsections on the economic, political, and military dimensions of its policy. The concluding section offers policy considerations for the Indian government, informed by the preceding analysis.

India and Sri Lanka: A Short Note

India's failed "boots on the ground" intervention in Sri Lanka in the late 1980s cemented Indian public opinion against intervention. India's involvement in Sri Lanka's ethnic conflict transformed from one of heavy meddling, with both state and non-state actors, starting in 1983, to the "boots on the ground" intervention in the late 1980s and early 1990s. Two years before the end of the Cold War, in 1989, then Sri Lankan President, Ranasinghe Premadasa, started pushing Indian Peace Keeping Forces out of Sri Lanka, embarrassing India on the world stage and pushing Indo-Sri Lankan relations to a new low. In 1991, after the IPKF withdrawal was complete and the LTTE had assassinated former Indian Prime Minister Rajiv Gandhi, India brought its involvement in Sri Lanka's internal ethnic conflict to a complete halt. After 1991, India reversed its policy of active involvement, distancing itself from an interventionist role that in the past it had felt compelled to play.

In July 1983, an attack by the nascent Tamil militant group, the Liberation Tigers of Tamil Eelam (LTTE), provoked a violent backlash against Sri Lankan Tamils by the Sinhalese-dominated Sri Lankan state. Somberly referred to as Black July, these events marked the beginning of full-scale ethnic conflict that would vitiate the next twenty five years of Sri Lankan history. The conflict would also put a damper on relations with Sri Lanka's closest neighbour and regional power – India.

Two major influences pushed India's policy response to the Sri Lankan conflict: the active engagement of foreign influence by the Sri Lankan government and demands of India's own Tamil population for India to act on behalf of the Sri Lankan Tamils. Sri Lanka pushed for a military solution to the conflict by seeking external support from countries that India was not comfortable

having a presence so close to its southern border. As scholar S.D. Muni points out in his authoritative account of India's peace keeping venture, *Pangs of Proximity*, Sri Lanka "wanted to isolate India in the region by facilitating the strategic presence of the forces inimical to India's perceived security interests."¹ Also of concern to India was the backlash among kin Tamils in Tamil Nadu. India's Tamil population in Tamil Nadu, then some fifty million strong, felt India had a responsibility to control the Sri Lankan state's harsh response against Sri Lankan Tamils. For India, the July 1983 events in Sri Lanka were alarming, and the Government of India, then under Prime Minister Indira Gandhi, asserted its influence on the situation as a regional power, kin state, and close neighbour.

Mrs. Gandhi's policy featured a multi-pronged approach. It facilitated direct talks between the Sri Lankan government and Tamil leadership (TULF, not LTTE), producing the Annexure 'C' proposals for the devolution of power - a basic tenet of the demands of moderate Tamils. Mrs. Gandhi had persuaded Sri Lankan President Jayewardene to open negotiations with Tamil groups.² But even as she beckoned Jayewardene to dialogue with the Tamils, Indian government officials voiced strong concern and sympathy for the sufferings of Sri Lankan Tamils, which, to the Sri Lankan Sinhalese, biased India's support for a negotiated settlement. By focusing attention in Western capitals on the Sri Lankan military's aggression towards the Tamils, India further fortified the Sinhalese perception that India was prejudiced against the Sri Lankan state.³ It was also during this

¹ S.D. Muni, *Pangs of Proximity* (New Delhi: Sage Publications, 1993), p. 52.

² *Ibid.*, p. 73.

³ *Ibid.*, p. 73.

time that India's external intelligence agency, the Research and Analysis Wing (RAW), began supplying Tamil militant groups with military training, cash, and arms in an attempt to draw them under India's influence and to use that influence as leverage against the Sri Lankan state.

When Rajiv Gandhi succeeded his assassinated mother as Prime Minister, he pressed India's neighbourhood policy into "friendly" mode, what some referred to as "pactomania"— agreement-hungry diplomacy. Rajiv, changing tack from his mother's Sri Lanka policy, drew closer to the Sri Lankan state and toughened India's position on the LTTE. Reversing Mrs. Gandhi's posture on the matter, Rajiv adopted the Sri Lankan government's priorities by supporting political negotiations *after*, rather than *before* (as Mrs. Gandhi's policy held) a cessation of violence. At this time as well, India, in cooperation with the Sri Lankan Navy, started patrolling the Palk Straits in earnest, to counter Tamil militant groups who were transporting supplies and rebels between the southern coast of India and northern Sri Lanka. The policy shift under Rajiv, pushed for a resolution of the conflict at the cost of alienating the Tamil militants.

Rajiv's policy, however, failed to resolve the ethnic issue, and instead, by the end of 1985 the Tamil militants were connecting internationally and despite the Centre's opposition, nationally, and regionally in Tamil Nadu. To make matters worse, Colombo was showing no proclivity toward granting basic regional autonomy and devolution of powers to the Tamil community. After failed peace talks between the Sri Lankan government and Tamil leaders in the Bhutanese capital Thimpu in 1985, the Sri Lankan government resumed its military solution against the Tamil insurgency. By 1987, the Tamils on the Jaffna Peninsula faced a humanitarian crisis caused by the Sri Lankan offensive, pushing India to intervene. After sending relief supplies by boat that Sri Lanka turned away,

India launched Operation Poomalai dropping "bread bombs" (relief packages) on the Peninsula from Indian Air Force planes. Critics complained that India had impinged on Sri Lanka's sovereignty, but India was unapologetic since it held that its intervention had helped limit Tamil suffering at the hands of the Sri Lankan government.

It was this humanitarian intervention that served as the launching pad for deeper and formalized Indian intervention in Sri Lanka. In June 1987, Sri Lanka's Foreign Minister stated that by involving itself using "bread bombs", India now had a "moral obligation" to resolve the ethnic dispute. The Foreign Minister's statement, while beckoning India's further involvement, also indicated India's loss of credibility as a mediator on the ethnic issue, as it made clear India's bias in favor of the Tamil cause.⁴ Its humanitarian intervention did in fact signal India's openness to greater intervention, prompting Sri Lanka, then under President J. R. Jayewardene, to initiate talks with Rajiv Gandhi, resulting in the signing of the Indo-Sri Lankan Accord (ISLA) on 29 July 1987.

The ISLA was signed between India and Sri Lanka with only a dubious "go-ahead" from the LTTE. Under the terms of the ISLA, the Sri Lankan government agreed to make constitutional changes for devolving powers, the essential moderate Tamil demand, in exchange for India enforcing an arms-collection from the rebel groups. India's obligation essentially made it the guarantor of peace. The LTTE however, only briefly laid down their arms only to pick them up again. This time India implicitly agreed to confront them.

The IPKF was welcomed by a grateful Jeyawardene, who was also facing JVP insurrection. But India's military operations suffered failure and substantial casualties (over 1200 fatalities), causing resentment

⁴ *Ibid.*, p. 102.

and mistrust on all sides — India, Sri Lanka, and the LTTE. When power changed hands in Colombo and India, there was a

consensus on withdrawal and it was completed in early 1990 with a great deal of mutual bitterness.

India's Strategic Interests in Sri Lanka

After the Cold War, India's interests in Sri Lanka shifted from geo-strategic power balance to pragmatic security considerations. During the 1980s and early 1990s, India's strategy to avoid the Cold War power struggle eclipsed efforts to support Sri Lanka's peace and stability. In the post-Cold War period however, India's economic and pragmatic security interests led it to emphasize Sri Lanka's peace and security in an effort to control the externalities of the conflict which threatened to undermine India's. Thus, today, Sri Lanka's unity, peace and stability are India's primary concern. Additionally, maritime security in the Indian Ocean and between India and Sri Lanka has developed into a prominent concern for Indian policymakers. Third, the influence of China and Pakistan in Sri Lanka is also worrisome for India's security interests.

During the Cold War, India pursued a policy, intended to guide geo-strategic struggles away from India's borders. While this was not possible along India's northern borders, near its southern border, Indian policymakers saw an opening in Sri Lanka to expel the troubling US encroachment. With the terms of the 1987 ISLA, India sought to gain Sri Lanka's allegiance as a way to eliminate the US's strategic presence in Sri Lanka. Under the ISLA, Sri Lanka had to scrap the American contract for the Trincomalee oil storage facilities, and remove the 'Voice of America' outlet which the US used to broadcast radio messages into Soviet-friendly territory and to transmit intelligence reports. This geo-strategic thinking reflected the Indian policymakers' aim to push away America's Cold War-meddling a safe distance from India's borders.

The onset of the post-Cold War period diminished Sri Lanka's strategic importance in regional politics, as has been noted by

many geo-strategic analysts.⁵ India's major strategic concern shifted to Sri Lanka's instability because of the effect it was having on India's own stability.⁶ Ethnic violence in Sri Lanka has carried on from the 1990s into the present day with only brief periods of respite afforded by unsuccessful peace talks. Negative externalities of the conflict have irked India, and consequently also affected India-Sri Lanka relations. Sri Lanka's ethnic violence has spilled over into India primarily in the form of security concerns in the thin water way separating India from Sri Lanka, refugee inflows to southern India, and insurgency supply chains — all of which threaten security and political stability in the southeastern Indian state, Tamil Nadu.

Instability in Sri Lanka also undermines security in the Indian Ocean, which India has a great economic stake in protecting. Sri Lanka occupies a critical location in the Indian Ocean's strategic environment, as international shipping lanes flow right by Sri Lanka's southern coast [see map]. The port of Colombo is used as an entry and exit point for regional goods, bound for or incoming from the East and the West. The Indian Ocean accommodates half the world's containerized freight, one-third of its bulk cargo, and two-thirds of its oil

⁵ For instance, see P. Sahadevan, "India's Policy of Non-Intervention in Sri Lanka" in Adluri Subramanyam Raju (ed.), *India-Sri Lanka Partnership in the 21st Century* (New Delhi: Kalpaz Publications, 2007).

⁶ Sri Lanka's decline of strategic importance to India reflected much stronger Indo-U.S. relations. In the post-Cold War 1990s, the U.S. accorded India a prominent place in American foreign policy initiatives in South Asia. Subsequently, Indo-U.S. relations became highly-developed and close. Today, India and the U.S. have coordinated their respective policies on Sri Lanka.

shipments⁷. Thus, its security is an essential consideration for all economies with significant sea-based trade and energy demands.

India, especially, has important economic reasons for ensuring a stable security situation in and around the Indian Ocean. Sea trade dominates India's overall transnational trade, and nearly 89 per cent of oil imports to India arrive by sea. Sri Lanka plays a particularly important role in India's maritime trade: over 70 per cent of Indian imports arrive through the port of Colombo for bulk-breaking before they are shipped on local vessels to Indian ports.⁸ In the post-Cold War period, and especially since India passed trade-oriented economic reforms in 1991, India's dependence on the Indian Ocean as a maritime trading zone and transit-way for oil trade has meant that securing the Indian Ocean is crucial to its continued engagement with the international marketplace; and the waters adjacent to Sri Lanka assume special significance in these security arrangements.

Additionally, Sri Lanka is also situated at an important location for projecting naval power into the Indian Ocean, and is thus, envied as a military positioning point for major powers with interests in the region. While the struggle over balance of power has diminished in the post-Cold War period, India retains strategic interests in Sri Lanka because of pragmatic security considerations. Sri Lanka's strategic importance as a maritime power base in the Indian Ocean has historical roots, first recognized by the Portuguese, then by the Dutch, and later by the British. Sri Lanka's last colonial masters, the British, occupied the island, then called Ceylon, not only for

strategic maritime purposes (as the Portuguese and Dutch had done), but also for the protection of the neighbouring British India. India, post-independence continued to recognize and treat Sri Lanka as strategically important in the regional environment.⁹

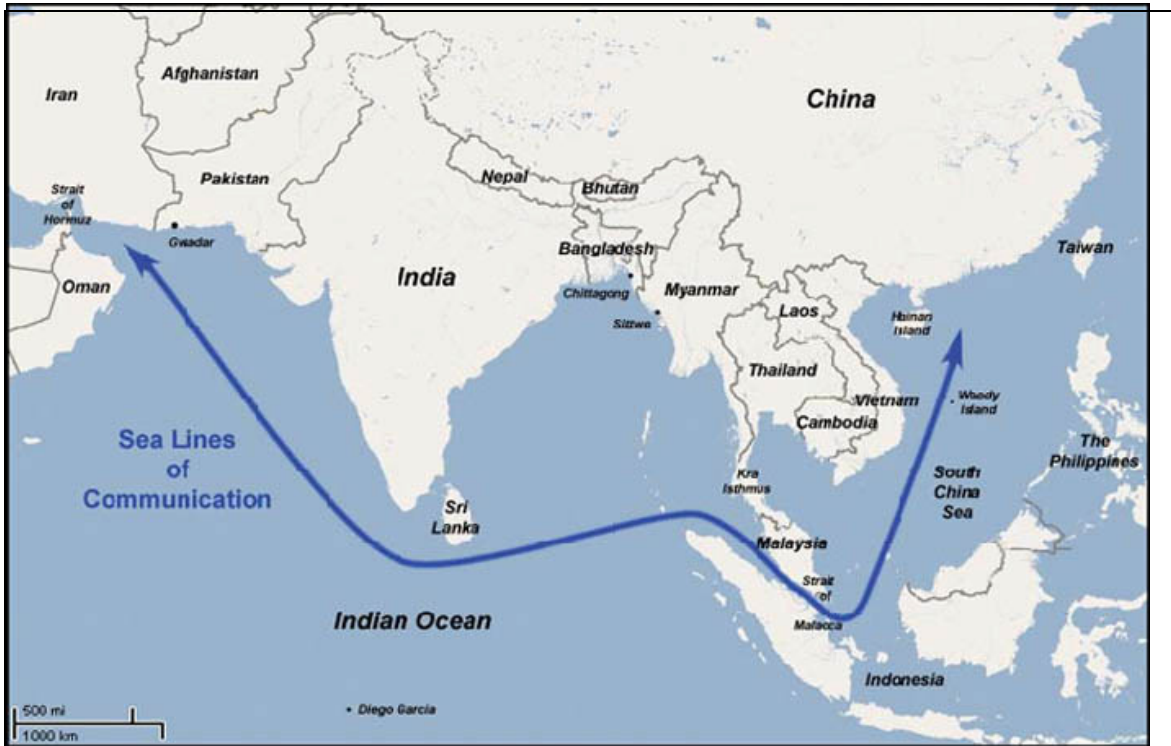
With the designs of major powers for gaining economic and military footholds in the island, Sri Lanka finds itself vulnerable to major power penetration. In the 1980s, the US wriggled its way into the island, causing worry and at the same time irking Indian policymakers. Since then, China and Pakistan's strategically-oriented influence on Sri Lanka's defence and economic activity have also worried Indian policymakers. While the threat of foreign power penetration in Sri Lanka, inimical to Indian interests, is real, as has been discussed below, it should not be overemphasized to the point of paranoia. It is unreasonable for India to expect Sri Lanka not to take advantage of lucrative Chinese contracts in the energy sector, or resist buying ammunition from Pakistan, when India is reluctant to meet all of Sri Lanka's demands for arms and munitions.

This paper will now analyze the policy India has used to pursue its interests and concerns in Sri Lanka outlined above.

⁷ Sudha Ramachandran, "Delhi All Ears in the Indian Ocean," *Asia Times Online*, 3 March 2006.

⁸ Interview General Dipanker Banerjee, at Institute of Peace and Conflict Studies, New Delhi, 5 September 2007.

⁹ Former diplomat turned political commentator K. Godage noted at a symposium on peace in the subcontinent that independent India adopted Britain's strategic aims. See K. Godage, "Historical Continuities" in "Securing South Asia: a Symposium on Advancing Peace in the Sub Continent", September 2002.



India's Sri Lanka Policy: An Assessment

The success of India's Sri Lanka policy is measured by the quality of bilateral relations it has brought about and the extent to which it has furthered India's interests. The assessment of these separate, albeit interwoven indicators, reveals mixed results. India's relationship with Sri Lanka has considerably strengthened, while instability in and surrounding Sri Lanka remains a significant threat to India's strategic interests. First, we will examine the positive effects of India's policy, namely the particular nature of economic engagement that has led to a strengthening of relations. Then we will turn to the more dubious effects surrounding India's role, or lack thereof, in the Sri Lankan conflict vis-à-vis defence relations with Sri Lanka, its posture towards the LTTE, political sentiment in Tamil Nadu, and maritime dilemmas.

Bilateral Economic Relations

Bilateral economic engagement is the hallmark of and impetus for improved India-Sri Lanka relations. The benefits of these prospering economic ties extend beyond economic gains to political and strategic relations. The resultant goodwill and increased interaction within the institutional framework and enthusiasm from enhanced economic engagement has helped repair political wounds and advance overall bilateral relations. The amped-up economic interactions have led to a rejuvenation of relations after the IPKF fall-out, thereby spearheading a renewal of trust and inter-dependence between India and Sri Lanka.

The trigger for this turn-around was a conscious decision of the Indian policy establishment, outlined in the Gujral

Doctrine, to offer its smaller neighbors asymmetrical advantages in trade. This decision foresaw the propitious effects of greater economic engagement on India's strategic relationships with its neighbours. Following the Gujral principles, tariff concessions under the India-Sri Lanka Free Trade Agreement (ISLFTA) signed in 1998, favoring Sri Lanka, significantly reduced the imbalance in Sri Lanka-bound Indian exports to India-bound Sri Lankan exports.

Even before the ISLFTA, India's economic liberalization measures in 1991 facilitated a jump in trade between India and Sri Lanka. Trade doubled from 1993 to 1996, mostly on account of new Indian goods entering Sri Lankan markets. From 1990 to 1996, Indian imports to Sri Lanka increased 556 per cent. The takeover by Indian goods of Sri Lankan markets became apparent in 1995 when India eclipsed Japan as the largest source of imports for Sri Lanka. However, Sri Lankan exports to India lagged behind the rate of increase in Indian exports to Sri Lanka, inviting criticism that India was taking advantage of Sri Lanka for economic gain. The SAARC Preferential Trading Arrangement (SAPTA) failed to significantly reduce tariffs after it was launched in 1996, thereby leading Indian and Sri Lankan policymakers to seek a bilateral trade agreement.

In 1998, India and Sri Lanka signed the ISLFTA and the pact became operational by 2001. Indian economic expert Durgadas Roy points out that of the three major agreements between India and Sri Lanka, the ISLFTA was the first treaty, economic in nature.¹⁰ Whereas India's previous Sri

¹⁰ Durgadas Roy, "Indo-Sri Lanka Trade: Hype and Reality," *Asia Times Online*, 12 March 2004.

Lanka policy focused—and eventually floundered—on controversial political issues; the thrust of the ISLFTA was economic integration, and its positive spill-over effects in political relations. Since the ISLFTA took effect in March 2000, expanded economic engagement has become the backbone of the India-Sri Lanka relationship which has reached new levels of cooperation and trust.

The ISLFTA granted duty-free and duty-preference access to goods produced in the two countries and laid out practical steps for a time-bound creation of a free trade area in the near future. Since the ISLFTA, bilateral trade has soared, accompanied by a surge of Indian investment in Sri Lanka. In 2001, trade doubled. By 2006, trade totaled \$2.6 billion, five times the amount ten years earlier.¹¹ Indian investment in Sri Lanka, a measly \$4 million in the late 1990s, reached \$150 million in 2006.¹² By 2005, Indian investment in Sri Lanka accounted for 50 per cent of total Indian investment in SAARC countries, making India the fourth-highest source of investment in the island, thereby further interweaving the fates of India and Sri Lanka.¹³ The most prominent investments are in the Lanka Indian Oil Corporation, TATAs (Taj Hotels, VSNL, Watawala tea plantations), Apollo Hospitals, LIC, L & T (now Aditya Birla Group), Ambujas, Rediffusion, Ceat, Nicholas Piramal, Jet Airways, Sahara, Indian Airlines, and Ashok Leyland.¹⁴

Sri Lankan exports to India boomed under the improved trade arrangements which heavily favored Sri Lanka. India's "negative list" (goods not subject to tariff reduction or

elimination) included 429 goods compared to Sri Lanka's 1,180, and India had three years to reach zero-tariff level against Sri Lanka's eight.¹⁵ The new arrangements worked to even the trade imbalance. In just two years after the ISLFTA was put into effect, Sri Lankan exports to India increased 342 per cent. The advantage given to Sri Lanka under the Gajral principles had narrowed the trade imbalance to 5:1 by 2002; in 1998 it stood at 16:1. Since 2003, India has been Sri Lanka's third-highest export destination.

Bolstered economic engagement between India and Sri Lanka, particularly since the ISLFTA came into effect, produced propitious political effects favoring better Indo-Sri Lankan relations. Most importantly, greater equality in terms of benefits from the economic relationship helped overcome Sri Lankan perceptions of subservience to Indian interests. Whereas, the attitude toward Indian presence in Sri Lanka turned hostile in the late 1980s, benefits from economic engagement with India have made Sri Lankans, even those among the nationalist ranks, eager for India to play a greater economic role in Sri Lanka. Sri Lankans have been much more receptive to India's economic involvement than they were to its military intervention. The Sri Lankan government and Sri Lankan business leaders are now pushing for greater Indian investment; the current Sri Lankan interest is in the Information Technology services sector. Notably, Sri Lankan receptiveness to India's involvement has carried over into political and strategic areas as well.

The India-Sri Lanka Joint Commission, reformulated and expanded in 1991 from an earlier joint committee, has institutionalized a framework for economic integration from which the ISLFTA and Comprehensive Economic Partnership Agreement (CEPA)

¹¹ "India-Sri Lanka Forum to Discuss Economic Pact," *The Hindu*, 2 November 2006.

¹² "Sri Lanka Urges India to Remove Non-tariff Barriers," *The Sunday Times*, 6 May 2007.

¹³ Suman Kelegama, "India, Sri Lanka Agreement is an Example to Follow," *The Financial Express*, 5 October 2005.

¹⁴ "Indian Investment in Sri Lanka," High Commission of India, Colombo.

¹⁵ Muchkund Dubey, "India-Bangladesh Trade Prospects," *The Hindu*, 7 May 2003.

emerged.¹⁶ Formed primarily to address economic issues like trade and investment, the Joint Commission also addresses other areas of cooperation from joint educational and cultural programs to mutual security concerns like terrorism. Thus, while economic engagement served as the impetus for and continues to drive this institutionalized bilateral framework; the framework also serves as a forum for a wider scope of issues.

India and Sri Lanka's economic interactions include the strategic energy sector. Indian companies are serving Sri Lanka's energy market and exploring the Island's off-shore oil resources. Lanka Indian Oil Corporation (Lanka IOC) has a 30 per cent market share in Sri Lanka's retail petrol market, operating 151 retail outlets on the island. Lanka IOC is building and operating storage facilities at the Trincomalee Tank farm, which as stated earlier, is of critical importance in the maritime strategic environment. India also has a significant stake in exploration of oil resources off Sri Lanka's coast. India's Oil and Natural Gas Corporation (ONGC) has been promised one of the five drilling blocks in the Mannar basin.¹⁷ The Mannar basin, thought to contain the equivalent of one billion barrels of oil, has three remaining blocks up for auction (besides the one promised to India, the second of the five has been granted to China).

The success of India's economic-led foreign policy in Sri Lanka suggests that the best approach for Indian policymakers towards unstable neighbours is to let political issues

take a backseat to economic engagement.¹⁸ Journalist Charu Lata Hogg writes, "Even those who firmly believe there has been no significant departure in New Delhi's regional policies admit that there has been an attempt to allow economics to trump politics and allow greater integration in the region."¹⁹ In Sri Lanka, India's "attempt" to let economic integration dominate bilateral relations has been highly successful, though in Pakistan and Bangladesh, as Hogg points, the approach has not worked as well.

Policy on the Conflict

The ongoing instability in Sri Lanka – India's primary strategic concern today, threatens India's domestic stability and external security. And India's policy of non-involvement in the conflict, is pushing the situation rather slowly and maybe too gently towards a peaceful resolution, thereby allowing instability to linger and its interests to remain in jeopardy.

India's policy of simultaneously supporting a political solution to the conflict and tacitly condoning Sri Lanka's clampdown on LTTE terrorists, allows India to pragmatically respond to the LTTE terrorist threat and maintain a safe, albeit removed position from the conflict vis-à-vis support for the peace process. India's tacit support for Sri Lanka's defence measures against the LTTE, though far from whole-hearted, encourages Sri Lankan military cooperation on threats to Indian security and ensures that the LTTE does not overpower Sri Lanka's state defences. As for support to the peace process, Indian leaders are apprised of developments by reports of Sri Lankan government officials and other governments involved, particularly Norway, Great Britain, and the US. Its limited responses to the

¹⁶ The India-Sri Lanka Joint Commission was setup based on an agreement signed on June 29, 1991 by Sri Lankan Foreign Minister Harold Herath and Indian Foreign Minister Madhav Singh Solanki. The decision to setup the Commission was an outcome of India's Foreign Minister V. C. Shukla's important visit to Sri Lanka in late January 1991.

¹⁷ Gamini Warushamana, "Oil Exploration in Mannar Basin Will Take Time," *Sunday Observer*, 11 November 2007.

¹⁸ This point was made clear to me in a discussion with Dr. Amita Batra of the Indian Council for Research on International Economic Relations.

¹⁹ Charu Lata Hogg, "India and Its Neighbours: Do Economic Interests Have the Potential to Build Peace?," Chatham House, 1 November 2006, p. 6.

developments however, have enabled it to keep a safe distance from the controversial political issues involved. Political commentator N. N. Jha has termed India's policy as a "do-nothing stance", arguing, alongside other observers, that India should move to a "more active role" in facilitating discussions between the two sides.²⁰

India's position on the Sri Lankan conflict is ambiguous, allowing policy makers flexibility in crafting responses to developments in the conflict. The policy simultaneously supports Sri Lanka's "unity and integrity" and a "negotiated settlement" to the ethnic conflict, which raises questions about where India stands. For instance, will the Centre resist pressures from India's Tamil Nadu constituency to intervene if Sri Lanka's Tamil populations face mass suffering? For the Indian government, the two positions articulated as one — valuing Sri Lanka's "unity and integrity" and pressing for a "negotiated settlement" — allow for a flexible policy under which it can tailor responses to developments in Sri Lankan politics and the ethnic conflict. India's incoherent policy is at times a frustrating balancing act between domestic political pressures from Tamil Nadu and pragmatic security concerns.

The GOI officially maintains that the ethnic conflict is a Sri Lankan problem that only Sri Lankans and their government *can* solve on their own. This Indian response was a knee-jerk reaction to the embittering IPKF experience, suggesting a parallel with America's "Vietnam syndrome"; that is, since intervention did not work and came at a great cost, to prevent any chance of its re-occurrence, one would go to the other extreme — "hands-off". India's "hands-off" policy, though formulated through a political response to failed military intervention, has been sustained on account of its success in repairing relations with Sri

²⁰ P. Jayaram, "India May Rethink Its Stand on Sri Lanka; New Delhi Fears a Flood of Tamil Refugees if Violence Worsens in its Southern Neighbour," *The Straits Times*, 3 June 2006.

Lanka and avoiding contentious loyalty issues surrounding the conflict. However, Sri Lanka's ethnic conflict continues to irritate relations where its spill-over effects affect India's interests.

Banning the LTTE

Following Rajiv Gandhi's assassination in which the LTTE was the chief suspect and later formally convicted of the offence, India's reaction to the LTTE was closely watched — particularly by Sri Lanka. A May 1992 editorial in the Sri Lankan newspaper *The Island* highlighted India's reservations about a harsh reactionary response against the LTTE:

Obviously the Indian foreign policy establishment, presided over by mercurial J.N. Dixit [India's ambassador to Sri Lanka during IPKF], is feeling pangs of indecision and self-doubt about letting go of LTTE. The problem for India is how to balance the outcry against the LTTE with whatever tactical advantage over Sri Lanka that might still be left in the LTTE card. Mr. Dixit knows that the presence of the LTTE affords India a considerable lever in Sri Lanka's affairs.²¹

But on 14 May 1992, India banned the LTTE, labeling it an "unlawful association". The LTTE never suspected India would go this far. Anton Balasingham, the LTTE's longtime chief negotiator, said in March 1992 that "the idea of banning LTTE will lead to a total alienation of India from the Tamil Eelam people". As for India's influence on Sri Lanka vis-à-vis its relationship with the LTTE, the leverage India could use to press the LTTE to influence Sri Lanka's response to India was completely abandoned. India reversed its policy of covert support for Tamil militants in the 1980s, committing to a sharp clampdown in the 1990s on organizations and political movements that supported the

²¹ *The Island*, 10 May 1992.

LTTE, and, in effect, denying the LTTE local support in Tamil Nadu.

In the 1990s, in support of the Sri Lankan government's diplomatic efforts, India helped to reshape the LTTE's international image from a liberation movement to a terrorist organization. India's proscription of the LTTE in 1992 led to a trend that led to a proscription of the LTTE in the United States in 1997 and the European Union in 2006. Without a doubt, India has underscored and helped legitimize Sri Lanka's international diplomatic efforts to frame the LTTE as a terrorist organization.

On a less promising note, India's position on the LTTE, from a practical and legal standpoint, is troublesome for the prospects for a "negotiated settlement". Practically, India's ban on the LTTE denies the ground reality that the LTTE has a near monopoly over Sri Lankan Tamil political power. India's position either precludes Indian involvement in a process involving the LTTE or precludes LTTE involvement in a process involving India, denying the lesson India has already painfully learned in Sri Lanka: LTTE buying in to any peace agreement is a must. India's insistence that other Tamil groups may speak for the Sri Lankan Tamil population is unrealistic since the LTTE controls, albeit through authoritarian tactics, the Sri Lankan Tamil population. India, nevertheless has tried to support the Sri Lankan Tamil population without going through the LTTE, severely limiting India's support to Sri Lankan Tamils.

Furthermore, a peace process devoid of India's involvement — like the recently failed Norwegian-brokered peace process — seems unlikely to succeed. After Rajiv Gandhi's assassination, legal proceedings in India proscribed the LTTE in 1992 and delayed submitting a formal request to Sri Lanka until 1995 for Prabhakaran's extradition, though it has not diplomatically pushed Sri Lanka to carry out this request. Sylashri Shankar of the Centre for Policy Research in New Delhi, recently reminded

observers that the LTTE's proscription makes it "legally impossible" for India to be a party in the peace talks.²² The Sri Lankan government "de-proscribed" the LTTE as a precondition to the most recent peace talks, but India has not reversed its LTTE policy to follow suit.

Managing Tamil Nadu Sentiment

Tamil Nadu's support for the LTTE, which had previously misguided India to sympathize with the Tamil militants, dissipated (though not entirely) after 1991. However, Tamil Nadu's sympathies for the Tamil population in Sri Lanka remain a prominent aspect of India's Sri Lanka policy. In the 1980s, organizations and political parties in Tamil Nadu sourced, trained and harboured Tamil militants fighting against the Sri Lankan state. After the IPKF experience and Rajiv Gandhi's assassination, public opinion of the LTTE throughout India dropped precipitously, including in Tamil Nadu. Ganguly writes, "The little public sympathy which the LTTE enjoyed in Tamil Nadu was also eroded when it became clear that the LTTE was responsible for the assassination of Rajiv Gandhi by a suicide bomber while he was on a pre-election campaign tour in Tamil Nadu in 1991."²³ Still, Tamils in Tamil Nadu retain sympathy for their kin ethnic group in Sri Lanka.

Tamil Nadu's political parties, to a significant degree, have the power to translate Tamil Nadu's sympathies for its kin population into Indian government policy. Over 60 million Tamils in Tamil Nadu have kin, community, and cultural ties with the Tamil community in Sri Lanka. Tamil Nadu's political representation in coalitions at the Centre, as is the case in the present UPA coalition, gives it formidable influence

²² "Sri Lanka Conflict Beckons India to Help," *The Christian Science Monitor*, 6 July 2006

²³ Rajat Ganguly, *Kin State Intervention in Ethnic Conflicts: Lessons From South Asia*, (New Delhi: Sage Publications, 1998), p. 218.

on the Centre's policy. The Tamil kin connection entrusts Tamil Nadu politicians with the obligation and moral authority to prevent Indian support to the suffering of Sri Lankan Tamils. This means that India's policy decisions on matters involving Sri Lanka have to take into consideration Tamil Nadu's likely reactions to the effects such decisions may have on the Sri Lankan Tamil population.

The parties in Tamil Nadu take different positions on the LTTE and the Tamil cause. Jayalitha's AIDMK has been unequivocally against the LTTE in sharp contrast to the DMK's historical support for the organization. However, the DMK, under Chief Minister Karuninidhi, has grown colder in its support for the LTTE during its current phase of leadership in the state. Karuninidhi's previously supportive position especially came under challenge when the LTTE's relationship with south Indian fishermen soured following a rise in LTTE violence against the fishermen. The MDMK and the PMK continue to run on platforms of support for the LTTE, championing the case of the Tamil Eelam - a separate homeland for Tamils in northeast Sri Lanka.

In an argument largely intended for its Tamil Nadu constituency, the Centre tries to distinguish between the cause of the Sri Lankan Tamils and the LTTE's agenda²⁴, which are often conflated by the LTTE and its supporters. India, to prove its commitment to the Sri Lankan Tamils' "just aspirations", has always lobbied for a devolution of powers to benefit the Tamil community. For instance, Indian Foreign Secretary, Shyam Saran, in 2006, countered the LTTE's claim that it was the "sole champion" of Sri Lankan Tamil aspirations.²⁵ But the Indian position is largely mistaken in this regard. The LTTE ruthlessly eliminated political parties also championing the Tamil cause, through

political killings and other forms of intimidation. The only Tamil groups left are either powerless or connected to the LTTE.

There are a few recurring issues in the Sri Lankan conflict that spark controversy and protests in Tamil Nadu. Chief among these issues is the refugee inflow from Sri Lanka into southern India. Today, over 100,000 refugees who have escaped the violent ethnic conflict live in over 100 government-run camps in southern India, for the most part in Tamil Nadu. During peaks in violence, refugee flows to southern India rise dramatically, crowding camps and unofficial refugee communities. Often, the inflow unsettles an already fragile political environment and frail economic situation in the south Indian state.

Tamil Nadu's sympathies are also sensitive to any support given by India to the Sri Lankan military. Until recent months, overt arms transfers from India to Sri Lanka appeared impractical, based on objections by Tamil Nadu politicians. Similarly, the proposed Defence Cooperation Agreement, discussed below, has reportedly been held-up by political parties from Tamil Nadu.

Maritime Dilemmas: Fishermen and Kachativu

The Liberation Tigers of Eelam, Sri Lankan fishermen, and, perhaps most disturbingly, the Sri Lankan Navy pose violent threats to Indian fishermen illegally poaching in bountiful Sri Lankan fisheries. Though the International Boundary Line is well-known to these Indian fishermen, dwindling fish stocks directly off India's southern coast pit territorial boundaries against livelihoods. The violent threats they face in fishing Sri Lankan waters, also well-known to the fishermen, underscore their desperation to sustain their livelihoods.

²⁴ V. Jayanth, "Alarm Bells," *Frontline*.

²⁵ "India Committed to Sri Lanka's 'Sovereignty, Territorial Integrity'," PTI, 28 August 2006.

For a period leading up to the 2002 Ceasefire Agreement, Sri Lanka denied its fishermen access to fertile Sri Lankan fishing grounds as a safety measure. Indian fishermen, frustrated with dwindling catches in waters immediately off India's southern coast, happily fished in Sri Lanka's territory. Since 2001, the Sri Lankan fishermen have been allowed to re-stake their country's fishing grounds. In the subsequent six years, Indian fishermen have repeatedly been fired upon and abducted in attacks against them. In many of the violent incidents, it is unclear whether the LTTE or the Sri Lankan Navy are responsible for the attacks.

Seeking justice for and respite from Indian poaching, Sri Lankan fishermen have petitioned the government and the *de facto* authority, the LTTE, to enforce their sole right to fish in Sri Lankan waters. To the detriment of Indian fishermen, both naval forces have attempted violent remedies to quell the Sri Lankan fishermen's frustrations. And Sri Lankan fishermen have even taken justice into their own hands, "setting off" in fleets composed of fishing boats and fiery tempers to round-up Indian transgressors.

Despite these threats to their security, Indian fishermen remain reluctant to stay out of Sri Lankan waters - they continue to disregard territorial boundaries last changed in 1974. Violence has ensued, presenting a challenge to improved, at times, close, bilateral relations between India and Sri Lanka.

In a spate of attacks in February, right through the beginning of March 2007, Sri Lankan Naval vessels opened fire on Indian fishermen. The Sri Lankan border patrols had good reason to be suspicious of Indian fishermen. Since 1983, the LTTE have hired Indian fishermen to smuggle supplies, including military equipment, into northern Sri Lanka's Jaffna peninsula. LTTE operative also are known to disguise themselves as fishermen for supply runs and attack missions, and the LTTE rarely "goes in" without ample weaponry or without a

fight. Even though provoked by deserved suspicion, such a series of attacks against regular Indian fishermen by any legitimate naval force, is an inexcusable response to territorial incursion.

As reported by the Indian periodical *Frontline* in its late March 2007 issue, the Sri Lankan Navy had carried out at least seven separate attacks on Indian fishermen from February 11 to March 9 2007. In an interview with a *Frontline* correspondent, the Indian fisherman Soosai recounted the March 9 attack: "We raised our hands above our heads to signal that we were unarmed fishermen, but the Sri Lanka Navy personnel shot at us like they would shoot sparrows. After they finished with the firing, they left as if nothing had happened."²⁶ At the official level, Indian Defence Minister A.K. Antony recently accused the Sri Lankan Navy attacking Tamil Nadu fishermen on numerous occasions between 1991 and mid-April 2007, resulting in 77 civilian deaths.²⁷

The Sri Lankan Ministry of Defence denies that its navy was involved in these attacks, though substantiated reports of Sri Lankan naval involvement make this argument untenable. More importantly, the Sri Lankan government appears to have accepted New Delhi's message that these attacks must cease. There have been no reported Sri Lankan naval attacks on Indian fishermen in recent months, though this threat might not stay dead. Also, Indian fishermen continue to face arrest, imprisonment, and, many claim, physical harassment for crossing into Sri Lankan waters.

And, sadly, a quieter Sri Lankan Navy does not mean that the threat of violence against Indian fishermen has disappeared. The LTTE, statistically the largest violent threat

²⁶ T.S. Subramanian, "Straits of Tension," *Frontline*. Vol. 24, Iss. 06, 24 Mar 2007-6 Apr 2007.

²⁷ "Sri Lanka Agitated Over Antony's Statement," *The Hindu*, 12 May 2007.

to Indian fishermen, still cruise through Sri Lankan-fished *and* Indian-fished waters as a third naval force in the maritime vicinity. While this threat has little regard for territorial boundaries, it does have implications on the debate over territorial control.

Kachativu, which is at the center of this debate, is a small island in the Palk Bay (see map), where Indian fishermen prey on Sri Lankan prawns and other fish. In 1974, then Indian Prime Minister Indira Gandhi ceded control of Kachativu to Sri Lanka, presumably in an effort to foster good relations with its neighbor. Mrs. Gandhi brushed Kachativu off as having no strategic importance. But now there are calls from within India to take Kachativu back, and the protection of Indian fishermen is the primary justification for such arguments.

Advocates of Indian control over Kachativu who are also sensitive to diplomatic constraints suggest that India lease the island in perpetuity, thereby skirting sovereignty issues while still addressing pragmatic security considerations. Thus, one of the solutions proposes that India offer Sri Lanka territorial or economic incentives in return for a permanent lease on Kachativu.

If however, New Delhi reneges on Mrs. Gandhi's gift, even if softened by a diplomatic technicality, it will rekindle familiar cries, particularly from the Sri Lankan political opposition and Islamabad, labeling India's pragmatic move "hegemonic". Coming in the wake of Indian National Security Advisory, M.K. Narayanan's highly controversial remarks, which many, including the Sri Lankan government, perceived as disrespectful towards Sri Lanka's sovereignty, New Delhi must be skittish about confirming Sri Lanka's long-held suspicions of its paternalistic instincts. It would do well for New Delhi to let the desire to control Kachativu rest for awhile.

Sri Lankan Tamil Refugee Inflows into Southern India

Today, over 100,000 Sri Lankan refugees live in India. Since the onset of hostilities between the Sri Lankan state and Tamil insurgents in 1983, Sri Lankan Tamils, both of Indian and Sri Lankan origin, have fled violence to the southern shores of India. Between 1983 and 1987, over 100,000 Sri Lankan refugees settled in India. By the early 1990s, however, many of these refugees started returning to their homes in the expectation of sustainable peace. In 1991, India patched-up relations with Sri Lanka, and again began thinking of a coordinated approach to the conflict. India's desire to create a conducive environment in Sri Lanka for the refugees' return seemed to be the major incentive in India lobbying for a solution on the basis of realizing Tamil aspirations. Renewed fighting since however, stopped refugees from returning and also sent many more refugees to the Indian shores. Between 2001 and 2005, there was again a reverse flow of refugees returning to Sri Lanka, but the ceasefire's breakdown shut this off and caused another mass influx of refugees that has continued into the present day. Now, according to the UNHCR, 128,000 refugees live in 122 government-run camps in south India. Another 20,000 or so live outside the camps.

One of the Government of India's primary concerns with regard to refugees from Sri Lanka is the support they may provide to LTTE activities in south India. When Sri Lankan refugees first started fleeing violence, the LTTE actually made use of the space the GOI provided, as a base for its activities in Tamil Nadu.²⁸ Since Indian public opinion turned against the LTTE in 1991, Indian government authorities, both in Tamil Nadu and the Centre, have

²⁸ Adluri Subramanyam Raju, and S.I. Keethaponcalan, "Maritime Cooperation between India and Sri Lanka," in *RCSS Policy Studies 36* (Delhi: Lordson Publishers, 2006).

clamped down on the misuse of facilities provided to the refugees.

Many Sri Lankan refugees to India, bound for one of the government-run camps, pass through the Mandapam transit camp (see Mandapam on map) where they are questioned to establish if they are linked to the LTTE in any way. Indian authorities, for instance, check for battle wounds on refugees to see if they might have fought for the LTTE at one time. Refugees arousing enough suspicion of having fought or colluded with the LTTE are housed in a couple of special camps where they are closely watched by Indian officials. As another measure to prevent LTTE activity among refugees, in 1991, the camps were moved away from the coastal areas and distanced from one another in an effort to prevent contact among refugees of different camps.

With Sri Lankan and Indian fisherman able to earn a month's wages in one smuggling run and resumed violence in Sri Lanka's northeast, the problem will persist in the absence of any proactive Indian intervention. India cannot deny the refugees entrance into India, so it must concentrate its efforts on improving the environment in Sri Lanka. The Sri Lankan refugee problem in India, provides a tangible reason for India to push for and risk pursuing a resolution to the conflict or, at the very least, a sustained cessation of hostilities.

Defence Relations

India's defence relationship with Sri Lanka was minimal throughout the 1990s, and it continues to remain limited relative to Sri Lanka's proximity to India and their mutual security concerns. However, there are crucial areas of assistance and coordination between the two militaries, particularly concerning maritime and, recently, aerial security threats posed by the LTTE. These areas include training of Sri Lankan officers at Indian Defence universities, which has taken place uninterrupted for decades, and the sharing of intelligence on the LTTE's

maritime movements to aid in the Sri Lankan Navy intercepting rogue vessels.

Each year, officers in the Sri Lankan military study at Indian Defence universities on the invitation of the Indian government. India's invitation has been extended for decades, and its importance to the quality of the SLAF is duly-noted by Sri Lankan leaders. Through such education, India contributes to the development of responsibility and state-of-the-art military knowledge in the SLAF, and it is a modest way in which India can support its neighbour's military strength without risking domestic and international political repercussions.

The Indian Navy's intelligence-sharing with the Sri Lankan Navy has bolstered the latter's ability to track LTTE supplies and attack its vessels, operating around the island. Cooperation between the Indian Coast Guard and Navy and the Sri Lankan Navy involves a frequent exchange of information, expedited by coordinating the procedures of operation and ensuring open channels of communication.²⁹ Every six months, the officers of the Indian Coast Guard and Navy meet with their counterparts in the Sri Lankan Navy at the International Boundary Line to discuss logistical issues of coordination and communication.³⁰ Such cooperation reflects India and Sri Lanka's shared strategic interests in maintaining maritime security throughout their bordering waterways.

India's military equipment assistance to the SLAF is limited to "defensive and non-lethal" equipment, precluding any chance of Indian weaponry contributing to Sri Lankan Tamil casualties in the Sri Lankan government's military operations. As the official policy stands, India will not supply offensive or lethal weaponry to Sri Lanka, at least not overtly (there is heavy speculation though, regarding covert arms transfer),

²⁹ Interview with R.S. Vasan, at Observer Research Foundation, Chennai, 7 December 2007.

³⁰ *Ibid.*

until Sri Lanka concedes basic devolution of powers to the Tamil population. However, up until 2003, India had banned any transfer of military supplies to Sri Lanka for the preceding six years. India's current policy therefore, some suggest, is a warm-up to greater military cooperation.

Even though the proposed defence agreement between India and Sri Lanka has yet to be signed, it has generated much attention on either side, for it holds the possibility of the bilateral relationship developing into a strategic partnership. After India had dropped Sri Lanka from its 'negative list' for defence supplies (done in the midst of the Ceasefire Agreement signed in 2002 between Sri Lanka and the LTTE) and the conflict had relatively stabilized, Sri Lanka immediately pushed for a Defence Cooperation Agreement (DCA) with India. Interestingly, Sri Lanka's desire for military support from India has followed Sri Lanka's eagerness for India's economic involvement in the island; reflecting a sharp turn-around from Sri Lanka's position under President Premadasa in the late 1980s and early 1990s, which held that India was a hegemonic power using military might to bully its smaller neighbour. While Sri Lanka's request for Indian assistance did not mean acquiescing to India's outright involvement, it nonetheless demonstrated that the Sri Lankan government has transitioned from perceiving India as a threat, to approaching it as a friendly source of support.

Weaponry requests form a large part of Sri Lanka's bid for defence support from India, but India has held firm in not arming the Sri Lankan military. Under President Mahinda Rajapakse's tenure, the urgency of Sri Lanka's requests fell on unresponsive ears in New Delhi,³¹ and the latter's refusal to arm Sri Lanka's military led critics to accuse India of an inconsistent and uncommitted stand on the LTTE. Analyst Ajai Sahni

³¹ For instance, Sri Lanka's Defence Secretary stated on May 29, 2007 that India needed to provide "urgent weapons supplies."

comments, "it is not clear how such a position can be reconciled with a desire to restrain Sri Lankan 'offensive operations' against this terrorist group."³² But India, for now and into the foreseeable future, places greater emphasis on controlling the risk of domestic political repercussions in its Tamil constituency than maintaining a consistent stance on the LTTE.

Even with India's reluctance to supply Sri Lanka with weaponry, in late October 2003, Sri Lankan Prime Minister, Ranil Wickremesinghe and Indian Prime Minister, A B Vajpayee issued a joint statement indicating mutual interest in working towards a DCA. After power in both Delhi and Colombo changed hands, Prime Minister, Mahinda Rajapakse's state visit to Delhi in June 2004, garnered rhetorical support from both sides for expediting the DCA proposed by the previous administrations.³³ For Sri Lanka, a DCA with India brings into play the Indian defence establishment's resource support to the Sri Lankan military and a possible involvement of the Indian military in fighting the LTTE. At the very least, it would bolster Sri Lanka's international legitimacy in pursuing a military solution to the ethnic conflict.

As for what India stands to gain from such an agreement, President Chandrika Kumaratunga's visit in late 2004 confirmed speculation that the DCA would involve strategic concessions to India. Kumaratunga and Indian Prime Minister Manmohan Singh announced that they agreed to sign not only the DCA, but also a Memorandum of Understanding (MoU) on joint rehabilitation of the Palaly Airforce Base. The Palaly Airforce Base and Trincomalee Harbour appeal to India's military coordinators, since these concessions would offer strategic advantages such as allowing

³² Ajai Sahni, "Reluctant Hegemon," *South Asia Intelligence Review*, 11 June 2007.

³³ Saji Cherian, "Tilting the Balance," *South Asia Intelligence Review*, Vol. 3, No. 18, 15 Nov 2004.

Indian military movement in the Bay of Bengal and Indian Ocean regions.

But it is important to ask whether the Indian Armed Forces (most acutely affected by the fall-out from the IPKF experience) are ready to re-engage with the Sri Lankan military as allies. On 1 November 2004, just three days prior to the start of Kumaratunga's visit to New Delhi, India's Chief of Army Staff, N C Vij, had visited the frontlines in Sri Lanka's counter-insurgency operations. It was the first time since IPKF's withdrawal that an Indian Army Chief made an official visit to Sri Lanka, and Vij declared the proposed DCA of "immense importance" to Sri Lanka's armed forces.³⁴ The Indian Armed Forces had condoned the national consensus for non-involvement in Sri Lanka, but Vij's implicit support for the DCA showed that the IAF has shed much of its resentment after the IPKF venture, and that it is once again prepared to work with the Sri Lankan military should the DCA be signed. But, according to a news report at the time, India remained "wary about being drawn into any military involvement" in Sri Lanka, demonstrating that not all bitter memories of the IPKF experience have dissipated within the Indian government and that full-blown military cooperation is still a long way off.³⁵

Defence analyst Iqbal Athas called the proposed defence cooperation agreement "a new landmark in Indo-Sri Lanka relations."³⁶ Athas writes in a November 2003 newspaper article, "The Defence Secretaries of the two countries will meet soon to work out modalities for an agreement that will formalize the ongoing supply of equipment to the security forces, training of troops, exchange of intelligence, and joint patrolling

³⁴ *Ibid.*

³⁵ Ranjit Devraj, "India Defensive Over Sri Lanka," Institute of Policy Studies, Sri Lanka, 16 Nov 2004.

³⁶ Iqbal Athas, "The Unfolding Indian Role in Sri Lanka," *The Hindu*, 1 Nov 2003.

of the seas around the two countries. It is possible that, among other matters, the agreement will establish a hot line between Colombo and New Delhi for immediate contact in a contingency."³⁷ But the enthusiasm of Athas and others, both inside and outside the government, was, in retrospect, overly optimistic. Political hurdles in India's coalition government, particularly those posed by Tamil Nadu's political parties, have prevented India from signing the DCA with Sri Lanka.

Even so, the ground realities of IAF and SLAF coordination and support may lessen the disappointment over the DCA not being signed. Analysts suggest that the DCA, presumably still on the table, would only formalise already existing defence ties. Indeed, India has gifted Sri Lanka radar equipment and, as reported recently, anti-aircraft guns — both intended to bolster SLAF protection against the LTTE's new aerial capabilities. India's role in keeping the LTTE's military capabilities in check may be stymied by political considerations, but the Indian government is moving forward in this regard through other, less public, means.

Sri Lanka's Relationships with China and Pakistan

Another worry for Indian policy makers, and often a point made by those advocating stronger Indian intervention in Sri Lanka, is Sri Lanka's strategic relationships with both China and Pakistan. The supply of defence equipment to a Sri Lankan military at war provides one of the major in-roads for China and Pakistan to gain strategic influence within Sri Lanka. China and Pakistan are willing to provide Sri Lanka with the defence support it needs to pursue a military solution against the LTTE. India must be aware of the nature and

³⁷ *Ibid.*

development of these relationships, though it can do little to stop them from evolving.

India's domestic political compulsions prevent it from challenging the roles played by China and Pakistan—the restraints of coalition politics allow for lesser defence “carrots” than Sri Lanka needs, and the bitter memory of the failed IPKF experience lingers. Sentiments in the south Indian state of Tamil Nadu on the issue, prevent India from transferring any offensive weaponry. So, in this case, India’s political compulsions work against strategic realities. Sahni reminds, “...any realistic assessment of the international arms bazaar would fairly quickly demonstrate that a withholding of particular supplies by India will have little impact on Sri Lanka, as other suppliers will immediately step into the breach—as Pakistan and China have presently done.”³⁸

India, therefore, has ceded a strategically influential role to China and Pakistan without impacting Tamil suffering.

Sri Lanka and China have multiple defence agreements centering on arms transfers. Included in these latest deals is a \$37.6 million contract between Sri Lanka and China’s Poly Technologies, signed in April 2007.³⁹ This marks a change in Sri Lanka’s relationship with China’s North Industries Corporation (Norinco), which had been Sri Lanka’s exclusive supplier of Chinese defence equipment in the past. Some speculate that Sri Lanka’s debt to Norinco which stands at \$200 million, has caused the shift to Poly Technologies. The significance is that Poly Technologies is reportedly a front company for China’s military-industrial complex, reporting directly to the armament department of the People’s Liberation Army General Staff Department.⁴⁰ Sri Lanka reportedly procures from these deals, as many as 70,000 rounds

of 120 mm mortar shells, 68,000 152 mm artillery shells, and 50,000 81 mm high-explosive mortar bombs for the Army, in addition to a JY 11 3D radar. The JY 11 3D radar, first ordered two years ago, was blocked by India on the grounds that the radar would overlap into its air space, motivating India to gift Sri Lanka two Indra IN-PC-2d radars.⁴¹ China is also likely to source the Sri Lanka Navy’s “shopping list” - 100,000 14.5 cartridges, 2,000 RPG-7 rockets and 500 81 mm airburst mortar shells, 50 type 82 14.5 mm twin-barrel naval guns, 200 Type 85 12.7 mm heavy machine guns and 1,000 type 56 7.62 mm submachine guns.⁴²

As far as Sri Lanka’s relationship with China is concerned, India should be most concerned about any naval presence China may gain on the island, which would be detrimental to India’s maritime considerations with respect to the Indian Ocean’s security. If Sri Lanka were to grant naval access on the island to China, Chinese encirclement of India in the Indian Ocean Region could become a reality.⁴³ China has gained in-roads into Myanmar and Bangladesh and secured a naval base in the Maldives.

Chinese participation in the construction of facilities at Hambantota port in Sri Lanka is a development of concern for India. Chinese engineers are building a one billion dollar port on Sri Lanka's southern coast adjacent to the vital international shipping lane.⁴⁴ While the port is promoted by Chinese authorities as a purely commercial venture, it can also be used for projecting Chinese naval power in India's backyard.

³⁸ Sahni, n. 32.

³⁹ Rahul Bedi, “Sri Lanka Turns to Pakistan, China for Military Needs.” *IANS*. 6 February 2007.

⁴⁰ *Ibid.*

⁴¹ *Ibid.*

⁴² Sahni, n. 24.

⁴³ Dipanjan Roy Chaudhury, “Boosting Maritime Capabilities in the Indian Ocean,” 23 August 2007.

⁴⁴ “Sino-Indian oil play in shipping lanes of Indian Ocean,” *The Times of India (AP)*, 8 June 2008.

From Pakistan, Sri Lanka has acquired Soviet era tanks, MIG planes, cartridges and augmentation charges for 81 mm mortars, along with other 'security equipment'.⁴⁵ Back in 2001, Pakistan equipped the Sri Lankan military with Heckler and Koch G3 rifles, 120 mm heavy mortars, and substantial ammunition caches.⁴⁶ As of 2008, Sri Lanka is reported to be spending upwards of \$80 million a year on arms procurement from Pakistan.⁴⁷ Sri Lanka is currently negotiating a \$2 million deal for 300 more MK 82 and MK 83 aerial bombs from Pakistan's Air Weapons Complex, replenishing the weapon responsible for killing the head of LTTE's political wing Tamil Selvam.⁴⁸ An ammunition package worth \$9 million for the Sri Lankan Army is in the works, and the Sri Lankan Navy is set to receive 100 122-mm high explosive multi-barrel rocket launches.⁴⁹ Sri Lanka's military procurement requests of Pakistan will continue as Sri Lanka pursues a military victory against LTTE.

Sri Lanka's defence deals with China and Pakistan come with high price tags, sucking out Sri Lanka's economic gains through its sky-high defence budgets rather than re-investing them into greater economic growth. For India, this compounds its concern, since the benefits of economic integration with Sri Lanka depend on the overall health of the Sri Lankan economy.

And, in view of these defence contracts, India's strategic relationship with Sri Lanka, however close it may become, will never eliminate Sri Lanka's relationships with other regional and global powers. Sri Lanka proved this when it granted a Chinese firm access to oil reserves, besides the reserve

allotted to India. It is important to remember that historically, Sri Lanka's bilateral relations with Pakistan and China are better than Indo-Sri Lankan relations. Economically however, Sri Lanka's relations with India are more valuable to Sri Lanka than its relations with China or Pakistan. So, while India's relationship with Sri Lanka will not preclude relationships Sri Lanka has with other external powers, India hopes that as economic interaction between the two countries expands Sri Lankan foreign policy attunes to Indian sensitivities to meddling by foreign powers.

⁴⁵ *Ibid.*

⁴⁶ *Ibid.*

⁴⁷ Pranab Dhal Samanta, "Surge in Pak arms sale to Sri Lanka worries India." *The Indian Express*. 11 May 2008.

⁴⁸ *Ibid.*

⁴⁹ *Ibid.*



The Road Ahead

Today, India is the most stable country in one of the most unstable regions in the world. Insurgency, terrorism and state failure plague South Asia with recurring streams of violence, perpetrated by state and non-state actors. This instability threatens India's own stability and economic interests in the region. Also, as India's status in the world has grown, so has the expectation that it play a role in reducing the instability in its region, particularly in its immediate neighbourhood. India's response to this expectation has been one of reluctance.

In the post-Cold War shift, away from geo-strategic struggles, India's liberalised economic policies dictated a new type of foreign diplomacy, characterized by economic agreements and the pursuit of energy resources. Accompanying this emphasis on economic integration, India's neighbourhood policy has desisted from any active Indian role in resolving neighbourhood instability. Why has India shied away from a proactive stabilizing role? India's prudence in trying to resolve its neighbours' internal instability is, in part, a reaction to its Sri Lankan experience of the late 1980s, in which its political and military intervention in the ethnic conflict failed. But in a new strategic environment, is this extreme prudence still relevant?

The progress in bilateral relations has failed to transform India's policy vis-à-vis the ethnic conflict into a coherent and constructive force toward reducing violence. Yesterday's cautious policy has become today's outdated policy. And this will remain the case if the question of which policy will act as a coherent and constructive political force, does not receive a satisfactory answer.

India's policy has built upon economic engagement to cooperate on initiatives of strategic importance, reintroducing trust and communication into the relationship. The lesson one can learn from this is the potential of economic linkages to overcome

a political fall-out. India's relations with Sri Lanka were repaired on the basis of economic engagement. Can this approach now be applied to affect a positive Indian influence on the Sri Lankan conflict and other conflicts in the South Asian region?

Indian policy makers should consider how economic-based problem-solving could help reduce violence both in the Palk Bay area and in Sri Lanka itself. Charu Lata Hogg writes, "Indian policy-makers seem reluctant to explore ways in which the levers of the current economic relationship with Sri Lanka could be used to impact on the ethnic conflict."⁵⁰ Hogg's interesting piece explores the possibility of the Indian private sector as a "potential force for change" in unstable neighbouring countries. In the case of Sri Lanka, Hogg points out, there is a hesitancy to sour a strong economic relationship by integrating it with a precarious political one. India should think about managing that risk. It follows from the positive economic experience that the Indian government should use economic programs to address the irritants in the relationship.

Indian development efforts in Sri Lanka's north and east could be undertaken; in which India has already expressed its interest. As Hogg somewhat sarcastically points out: "Indian officials appear to genuinely believe that if India starts developmental projects in northeast Sri Lanka that contribute to livelihoods there, it would in some way reduce the likelihood of conflict."⁵¹ Hogg must recognize though that India's hands are very tightly tied when it comes to initiatives on reducing the likelihood of conflict in Sri Lanka. Development work is one area where India can contribute without much risk of upsetting its policy's delicate balance. And India should do this in a way that positions

⁵⁰ Hogg, n. 19, p. 12.

⁵¹ *Ibid.*, p. 12.

itself as a long-term partner in the Tamil region.

Using the same economic approach, India can do more domestically to reduce its susceptibility to Sri Lanka's instability. One example is an economic-based solution that could reduce violence against Indian fishermen in the Palk Bay area. Indian fishermen poach in Sri Lankan waters, exposing themselves to the LTTE and Sri Lanka Navy because there are not enough fish closer home. Unsustainable harvesting has left fisheries off India's southern coast depleted and unprofitable. How long will it take today's unsustainably fished waters to reach a similar state? The depleted Indian fisheries may be too "fished out" to reassert their commercial productivity within a reasonable length of time. If livelihoods are to be saved — that is, fishermen remaining fishermen — the Indian government must quickly develop and implement appropriate fishery management projects.

An alternative fishery model fitting environmental, technical and market conditions in south India must be sought. Current aquaculture projects, meant to stimulate coastal economic development, do not provide struggling fishermen jobs as fishermen, if any jobs at all. With mechanized trawlers continuing to disrupt the seascape, a resurgent fish population in the traditional fishing grounds, even with tighter fishing restrictions, is unlikely.

With well-funded projects that New Delhi and the fishing communities decide on, India will demonstrate to Colombo how to solve political grievances with sustainable economic solutions. That is, India will model behavior that Colombo could replicate, hopefully with India's financial support. In ways like this, India must be creative and thoughtful in developing a positive and cooperative relationship with Sri Lanka.

About the Author

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