

# Business for Peace, or Peace for Business? The Role of Corporate Peace Activism in the Rise and Fall of Sri Lanka's Peace Process

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## **Abstract**

*This paper discusses and critically evaluates the role of Sri Lanka's corporate sector in the peace process of 2001-2004. From the late-1990s onwards, some of the most highly visible segments of Sri Lanka's business community actively adopted the peace agenda and promoted it through a vigorous campaign of political lobbying and mass communication. Following the example of similar 'business for peace' initiatives in South Africa and Northern Ireland in the 1990s, the business community launched a variety of initiatives to promote the peace agenda and to bring about its political realisation. The corporate sector's public advocacy played a significant role in bringing about the peace process of 2001-2004, which ultimately came into being under the aegis of the traditionally pro-business United National Party (UNP). This paper juxtaposes the politics of peace activism with the politics of market reform, and studies the economic content of the peace package, which included an ambitious development programme of market reforms and private-sector led economic growth. It goes on to explore how the nature of the domestic social sponsorship of the peace process came to have critical political and economic consequences for the peace process, and how it ultimately contributed to its failure.*

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## 1. Introduction

This paper describes and critically evaluates the role of the Sri Lankan corporate business community in the rise and collapse of Sri Lanka's peace process of 2001-2004. It describes the mechanisms and imperatives that gave rise to corporate peace advocacy in that period; and explores the way that corporate sponsorship impacted the character of the peace process itself, particularly the economic character of this process. It is important to point out at the outset that while this paper looks at a case study of corporate social activism, it does not explicitly frame its evaluation, analysis, and critique through the rubric of 'corporate social responsibility', to the extent that CSR has become a branded item and a bounded discursive category or moral self-legitimation that corporates themselves have conceptually embraced and economically internalised. The focus of this paper is on that element of the Sri Lankan private sector that is generally larger, more professionally organized and more internationally connected. Broadly speaking, this comprises companies that are either large enough to be publicly listed on the stock exchange, or that are privately held, but remain closely connected with formal global capital markets, and that depend on foreign markets for trade, particularly the export of tea, rubber and garments.

From the late-1990s onwards, this highly visible segment of Sri Lanka's business community helped to shape and promote the peace agenda and supported it through a vigorous campaign of political lobbying and mass communication. Following the example of similar 'business for peace' initiatives in South Africa and Northern Ireland in the 1990s, the business community launched a variety of initiatives to promote the peace agenda and to bring about its political realisation. This included the sponsorship of constitutional negotiations, the establishment of pro-peace NGOs, the organisation of high-profile events such as peace rallies, and the promotion of an election-time media advertising campaign for peace.

The corporate sector's growing public advocacy during the 1998-2001 played a significant role in bringing about the peace process of 2001-2004. But the way in which they did so influenced the peace process itself to an extent that made it unsustainable, and that ultimately contributed to its downfall. The corporate sector acted in ways which were ostensibly very public spirited, and indeed, their actions did contribute to (temporarily) halting a gruesome civil war that had killed over 65,000 people. Indeed, the cosmopolitan orientation of this community, their clear lack of invested commitment to the majoritarian Sinhala nationalist project, and the historically multi-ethnic nature of the Sri Lankan business elite predisposed them towards the pursuit of a peace agenda, independent of their commercial or material interests. But at the same time, many of these non-material factors, i.e. of public spiritedness and cosmopolitanism, were animated into being by very definite material interests and the pressure of increasingly desperate economic circumstances. As this paper explores, the peace process itself became embedded – to its fatal detriment – within the material interests of the corporate sector, as one element of their larger economic agenda.

The Sri Lankan civil war which started in 1983 has gone through a number of different phases, and even different protagonists. The war itself is the product of an underlying political conflict between the island's majority Sinhalese community and the minority Tamils, who had by the mid-1970s developed a demand for self-determination and for the independence of the Tamil-dominated north and east of the island. Prior to the 2001-2004 peace process, there had been four previous failed attempts at cease-fire and negotiation in 1985, 1987, 1990, and 1995. In this context of continuing war and failed negotiations for almost two decades, the cease-fire agreement of February 2002 between the government and the rebel Liberation Tigers of Tamil Eelam (LTTE) gave rise to the most promising possibility for peace to date. Both sides seemed genuinely committed to finding a political solution, and following direct negotiations that started in September 2002, Norwegian mediators announced that both parties had reached a 'conceptual breakthrough', a 'paradigm shift' in their respective positions. For the very first time, in early 2003, it seemed that a realistic political settlement to the conflict was within grasp.<sup>1</sup>

Nevertheless, within three years of the euphoric 'Oslo Declaration', the peace process had unravelled to the point of complete collapse, and both sides were clearly preparing for a renewed phase of war. In April 2004, the peace process received its most serious shock when the UNF government that signed the CFA and initiated the peace process unexpectedly lost power in parliamentary elections, and was replaced by a government far more hostile to negotiations with the LTTE. From then on, the peace process began an inexorable slide downward for the next two years, when war eventually re-started in mid-2006.

The larger question within which the ambit of this paper lies, is that of why this happened? Why did such a monumental peace effort, which enjoyed such widespread support, and that apparently went quite far, finally fall apart. Why did the government that gave rise to it collapse and why was it so resoundingly voted out of power after just 27 months, when the apparent benefits of peace and normality were self-evident?

The explanation developed in this paper is in very summary form, that the peace process failed because it was conceived on the government side as a narrow, economic, instrumental peace. Due to the nature of the political, economic and military crisis that preceded it, and the composition of the peace lobby that gave birth to it, the peace process was effectively tethered to a comprehensive and controversial programme of market reforms – indeed the most sweeping accelerated programme of reforms in two decades. The tying together of peace and reforms was counterproductive in several ways and ultimately contributed to the dissatisfaction and alienation of increasing segments of the population and to the fatal destabilisation of both the reform agenda and the peace process. This line of argument has broad similarities to the emerging critique of the liberal peace – the attempt to stabilise post-conflict societies by imposing liberal

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<sup>1</sup> See Saravanamuttu (2003), Balasingham (2004), Uyangoda and Perera (2002), Uyangoda (2002).

democratic political structures with free market economies,<sup>2</sup> - although its evolution in this paper draws more from a slightly different literature from the politics of market reform.

## **2. The Making of the Peace Agenda**

The intersection of the business community with Sri Lanka's civil war must be seen in the context of the changing patterns of economic growth and its juxtaposition to the changing locus of war. In the aftermath of a sweeping wave of market reforms in the late 1970s, Sri Lanka's economic structure changed considerably from an overwhelming reliance on plantation agriculture to a new economy of garment exports and tourism. Much of this new economy was located in the south and west of the island, particularly around the urban Colombo belt. Located thus at the opposite end of the island from the locus of war in the north-east, Sri Lanka experienced impressive private sector growth even during the war decades of the 1980s and 1990s. At the same time, the economy of the Tamil-dominated north-east, which had always been a remote and economically unimportant region, was rendered even more marginal, remote and desolate due to the prolonged concentration of the war there.

The business community has traditionally avoided any public appearance of political involvement for fear that it could lead to adverse publicity, and even to politically-inspired reprisals against them. For the most part, individual businesses, industry groupings and chambers of commerce restricted their role to public participation in formal consultative channels, typically on a narrow range of economic issues such as tariffs and taxation. This is not to say that business was otherwise uninvolved or uninterested in politics, for there is a dense web of linkage between business leaders and politics. But these are typically private, informal, and often highly individualised links of patronage in a context where companies seek to use political influence to gain a competitive edge against one another, rather than to advance their collective interests.

These practices began to change by the late-1990s when the economic costs of the war began to directly affect the business community for the first time. In the face of an extremely serious threat to their material fortunes, a number of leading corporate representatives and industry groupings undertook a period of energetic and high-profile activism directed primarily at promoting economic growth. It is in this context that the rise of a 'business for peace' agenda came into being, and was brought into political fruition in December 2001 following the election victory of the United National Party (UNP).

The UNP is historically the party most closely associated with the interests of Sri Lanka's business community, and has been so from the time of its founding in 1947. In terms of its social character, the UNP was historically composed of the island's westernised elite, largely dominated by merchants, professionals and planters from low-country Sinhalese origins, but in reality quite broad based in

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<sup>2</sup> Paris (2006).

terms of the caste, religious and ethno-linguistic basis of its supporters, financiers and core constituency. They were in that sense, a party of 'cosmopolitan capitalists'.

Under President J.R. Jayewardene, the UNP had in the late-1970s reversed two decades of state-led development to institute a sweeping series of market reforms. It was a period of rapid uneven growth, and flashy prosperity that brought forth a new breed of energetic entrepreneurship. Prior to that, the UNP had also undergone a significant internal transformation to shed its elite pro-business image and to accommodate itself more to the populist, nativist themes that animated post-colonial electoral politics. But through these various transformations, the UNP never lost its core economic identity, and remained ideologically committed to market reforms, foreign investment, privatization, and private-sector led growth, maintaining an instinctively intimate, hand-in-glove relationship with big business groups, not unlike the British Conservative Party or the U.S. Republican Party.

There were of course tensions in this relationship, and this is not to say that big business was a monolith, or that they were not at times deeply critical of the UNP. But business as a whole remained loyal to the UNP and the UNP in turn remained very loyal to business. The UNP remained in power from 1977-94, in what was probably the most traumatic and violent period in Sri Lankan history. Following the assassination of the UNP President Ranasinghe Premadasa in 1993, and the loss of the elections in 1994, the UNP underwent a period of internal transformation under the leadership of Ranil Wickremasinghe. To a large extent, this make-over was required to tackle the very negative public image that the UNP had gained during their long period in power. But this programmatic change of image rebuilding and breaking with the past had its limits, in the sense that it did not imply a change in the instinctive pro-business orientation of the party. Indeed, a fundamental aspect of the party's transformation in this period was to renew this relationship, and to ideologically re-connect itself to the changing material interests and corporate culture of the world of big business. Much of their internal transformation during the late-1990s was synchronous and occurred in close coordination with a parallel transformation in the attitudes of the business community.

The UNP lost power in 1994 to a left-centre coalition government led by Chandrika Kumaratunga. The business community had initially feared that Kumaratunga's rise to power would signify a reversal of the market reforms and a return to the fiscal profligacy and populist economics of the kind that her mother, Sirimavo Bandaranaike had instituted when she was Prime Minister from 1970-77. Kumaratunga in turn, sought to reassure business leaders that she would abide by the market reform programme, and remained personally committed to private-sector led economic growth, albeit in a more moderate and calibrated manner. She appointed a number of market-friendly technocrats in positions of key economic responsibility such as the head of the Board of Investment (BOI) and

the Public Enterprise Reform Commission (PERC),<sup>3</sup> and had, contrary to earlier fears, persisted with economic reforms and even accelerated the controversial privatization programme.<sup>4</sup>

Nevertheless, business elites quickly came to miss the intimate influence, authoritarian efficiency and the managerial competence that characterised previous UNP governments.<sup>5</sup> As the then chairman of Ceylon Chamber of Commerce (CCC) described, ‘Chandrika was a very chaotic leader ... The private sector held back during the Chandrika period. Things did not happen, or happened slowly’.<sup>6</sup> In addition, the business community was increasingly concerned by the influence of left-wing, labour-friendly ministers in her cabinet. Kumaratunga’s election was followed by a massive wave of strikes in 1995-97, which was at least partly the result of the pent-up frustrations of the unions who had suffered years of authoritarianism and repression by the UNP.<sup>7</sup> Business groups were also increasingly exasperated by the new ‘Workers Charter’ being developed by the union-friendly labour minister Mahinda Rajapakse, which threatened to work in the opposite direction to the labour market reforms and flexibility that business was lobbying for.

By 1996-97, the frustrations and criticism of the business community with Kumaratunga became increasingly vocal. The government was attacked for its lack of vision and direction, partisan bickering, and in general, the lethargic pace of reform and the routine difficulties that the private sector encountered in ‘getting things done’.<sup>8</sup> A series of crippling power shortages also helped to focus the anger and discontent within the business community, and became emblematic of what they believed to be the incoherence of vision and lack of direction at the top.

More worryingly, the war that they hoped would end quickly was dragging on endlessly, and was posing an increasingly onerous financial burden as it was funded largely from taxing the formal private sector. The government had been on the offensive from 1995-97, gaining territory and restricting the LTTE to an increasingly smaller and more remote area. But by 1998-99, the LTTE began to strike back, targeting not just the armed forces in the north-east, but striking hard at economic targets in Colombo – effectively exposing the business community to the direct horrors of war. In January 1996, the LTTE attacked the Central Bank building in Colombo, killing 91 people, injuring over 1,000, and destroying a large part of the financial district. In July 1996, the government suffered its worst ever military defeat when the LTTE overran an entire army base in Mullaitivu, killing over 1,000 soldiers and capturing a vast stockpile of heavy armaments and ammunition. In October 1997, they launched another powerful bomb blast in the

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<sup>3</sup> Respectively, the agencies in charge of foreign direct investment and privatization.

<sup>4</sup> See Moore (1997), Shastri (2004), Dunham and Kelegama (1997).

<sup>5</sup> See Dunham and Kelegama (1997).

<sup>6</sup> Interview, CJ, Colombo, 7 August 2006.

<sup>7</sup> See for example Teitelbaum (2007).

<sup>8</sup> See for example, Sunday Times 17 March 1996 Business Section, ‘Private sector seeks Economic vision above petty party politics’.

Galadari Hotel that again targeted the financial district in central Colombo. By 1999, the LTTE was clearly gaining the upper hand even in the conventional war in the north, and were quickly regaining large tracts of territory that the army had won at great expense over the prior three years.

Within the business community, the growing dissatisfaction with the government on both military and economic matters was reinforced by the growing realisation that the war could simply not be won. In terms of taxation, diverted expenditures, lost opportunities, and the risk to life and property, the war was becoming an unbearable burden on business. By 1998, the interventions of the business community signified their growing sense that the war was an expensive indulgence fought over a barren and economically irrelevant region for reasons that were now fast diminishing in relevance. As the synergistic overlap of peace and unrealised economic opportunity became compelling and urgent to the business community, it was also being adopted by the reformed UNP in opposition, with whom they continued to maintain very close links at a variety of different levels.

Between 1998-2000, the business lobby's stance on the war subtly changed from one of supporting bipartisan cooperation over devolution proposals, to one of direct talks and meaningful concessions to the LTTE. Not un-coincidentally, UNP leader Ranil Wickremasinghe had by December 1998 also begun to advocate a very similar position of direct talks with the LTTE. In the December 1999 presidential elections, his position on the ethnic conflict was the most generous ever by a mainstream southern leader: an immediate cease-fire with the LTTE, followed by direct negotiations and the establishment of an interim power-sharing institution in the north-east.

During this period, the business community launched a series of unprecedented interventions into the political sphere on issues that were ostensibly beyond their traditional focus on narrow economic issues. Leading businessmen such as Lalith Kotelawala of the Ceylinc Group and the blue-chip Ceylon Chamber of Commerce began articulating an open appeal to the two major parties to join forces to resolve the ethnic conflict and to implement a series of incentives to promote private sector growth. Between 1998-2000, they sponsored and mediated a series of negotiations between the government and the opposition to break the deadlock between them that had thus far paralysed progress on resolving the ethnic conflict.

These initiatives gained in relevance and pace in the following two years as the island entered a grave economic crisis, which was in turn caused and aggravated by simultaneous crises on the political and military front. There were three general elections held between December 1999-December 2001 amidst a devastating military defeat to the LTTE in the Jaffna peninsula, and a mounting balance of payments deficit that necessitated an IMF bailout in early 2001. In July 2001, the LTTE launched an attack on the country's only international airport, caused a dramatic worsening of the economic crisis. The airport attack had a devastating economic impact, particularly to industries that were internationally

connected such as tourism and garment exports that suffered from a sudden increase in international insurance surcharges on air and sea freight. In the weeks that followed, Sri Lanka also suffered the suspension of the payment of the next tranche of its IMF standby facility due to failed performance targets. Overall, between early 1997-late 2001, the Colombo stock exchange had steadily lost over half its total value, and the business community became increasingly despondent and desperate for change, and for an immediate end to the war.

Within weeks of the airport attack, two high profile 'business for peace' public relations campaigns were launched by the business community that advocated an immediate end to the war. On 2 September 2001, the head of the Ceylinco group, Lalith Kotelawala launched an organisation called the 'Society for Love and Understanding' (SOLO-U), dedicated to 'bringing peace and economic prosperity to Sri Lanka'. He called for an end to the war and a negotiated end to the conflict, but at the same time, did not neglect to use this new platform to ask the government to provide relief to Sri Lanka's struggling industries, which he noted, were badly hit by rising costs and cheaper imports.<sup>9</sup>

Around the same time, a group of industrialists led by the Ceylon Chamber of Commerce organised a more systematic and formalised business lobby effort called 'Sri Lanka First' as a non-governmental organization. Sri Lanka First was explicitly an organisation of business leaders, and although it claims no direct inspiration, it has clear resonance with putatively non-partisan civic activism of the business community elsewhere, such as 'London First' and 'Bombay First'.<sup>10</sup> It also came in the wake of two very successful 'Business for Peace' initiatives in the prior decade, of the Consultative Business Movement (CBM) in South Africa and the Confederation of British Industry (CBI) in Northern Ireland. The SLF campaign's leading activists and promoters came from tourism, apparel, tea, and freight: industries that were most seriously affected by the international insurance surcharges.

In the following weeks, SLF took out a series of newspaper, television and radio advertisements calling for peace and national reconciliation. On 19 September 2001, some eight weeks after the Katunayake attack, SLF, together with SOLO-U and others organised a landmark public hand-holding exercise called 'A Million Hands for Peace'. Office workers around Colombo's central business district and elsewhere assembled on the streets at midday in a massive public demonstration for peace.

Leading the Sri Lanka First effort were John Keels and Hemas Holdings, large diversified conglomerates with substantial holdings in the tourism sector. Other prominent participants were MAS Holdings and Brandix, the two largest apparel exporters in the island. One of the leading personalities in the SLF explained: 'we lost heavily, and had to lay off some people'.<sup>11</sup> SLF launched a massive campaign

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<sup>9</sup> Sunday Times, 2 September 2001, 'SOLO-U Aims to Find Peace and Economic Prosperity in Sri Lanka'.

<sup>10</sup> I am grateful to Sumeet Mhaskar for pointing this out.

<sup>11</sup> Interview, NM, Colombo, 2 August 2006.

amidst the December 2001 elections asking people to ‘vote for political parties and candidates who are sincere towards peace’. Kotelawala’s SOLO-U similarly took out a number of huge half page advertisements in the leading newspapers with some stunning visual images similarly calling for peace.

### **3. Policy Formulation and Donor Processes**

The corporate-led public relations campaign to end the war in late-2001 helped bring about the realisation of their long-held agenda in the form of the re-election of the UNP to power. Within three months of taking power, the new UNP-led government had negotiated a detailed cease-fire agreement (CFA) with the LTTE, bringing an immediate end to the war, and opening the door for further normalisation and direct negotiations. It gave rise to the longest ever period of absence of hostilities in two decades. But as a result of its parentage within the business community, and within the pro-business UNP, the peace agenda that came into being after December 2001 was effectively buried within a broader range of economic and development issues that the business community had long sought for. In essence, the peace agenda was just one component of a corporate wish-list, and entered the political realm through the UNP lumped together with all these other components, such as privatization, welfare reform, labour legislation, and land legislation that were all part of a group of items that were casually rationalised as complementary and synergistic – but that in reality turned out to be mutually contradictory and counterproductive.

The key players in the peace process that kicked off in December 2001 were not just the UNP and big business, but included a substantial external component. The peace process also enjoyed the strong support of the foreign donor agencies such as the World Bank, ADB, Japan, USAID, and the European bilateral donors. Through policy documents, speeches, and the myriad lobbying mechanisms available to them, the aid donors had by this time independently arrived at the conclusion that the development agenda in Sri Lanka consisted of two main planks: peace and market reform. Indeed, one World Bank document suggested that the fragile situation in the immediate aftermath of Sri Lanka’s February 2002 cease-fire provided an ideal ‘window of opportunity’ to implement ‘difficult market reforms’ which had proved politically problematic in the past.<sup>12</sup>

The government’s two-track policy agenda of peace with reforms thus enjoyed the support of a considerable body of domestic and international allies. The government’s actual policy measures over the course of its first year in power were shaped by the urgent reform measures needed to revive funding from the IMF, and by the to establish a track record of policy reforms that would secure access to further funding from the IMF’s concessional Poverty Reduction and Growth Facility (PRGF). They began energetically implementing a series of far-reaching cutbacks in government expenditures and drafted a comprehensive medium term economic growth strategy that came to include the most sweeping set of market reforms in over two decades. In July 2002 the government decided that it would

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<sup>12</sup> World Bank (2003a: 16).

fast-track 36 items of legislation through parliament in the month of August.<sup>13</sup> As the subsequent IMF review noted with satisfaction:

*VAT was introduced on August 1, the privatization and banking reform benchmarks were completed by mid August, the Welfare Benefit Law was submitted to parliament and approved on August 26; Cabinet approved the draft Electricity Reform Act which was gazetted on August 16, Cabinet approved amendments and special provisions bills on the Industrial Disputes and the Termination of Employment of Workmens Acts on August 28. Although the electricity and labour market bills have not been presented to parliament, the PM has instructed that they be tabled in Parliament by September 6.*<sup>14</sup>

One of the most critical and consequential of the IMF-required fiscal measures taken in late 2002 was a hiring freeze in the public sector, as a result of which all existing vacancies in the public service, provincial public service, local authorities, public corporations, and statutory bodies were cancelled.<sup>15</sup> It immediately affected not only the thousands of aspirants for whom government employment was the traditional route out of rural poverty, but the government's own patronage distribution system. Ministers protested vigorously (but to no avail) that were no longer able to reward loyalists and constituents. During the UNP government's brief period in power, the public sector workforce shrank by 10.5% - partly because of the vigorous implementation of the hiring freeze, but also because of a voluntary retirement scheme, and the removal of thousands of temporary workers hired in the public sector as a pre-election giveaway by the previous government.<sup>16</sup>

#### **4. Regaining Sri Lanka**

By the time negotiations with the LTTE began in September 2002, the government was holding parallel negotiations with the IMF for the PRGF. Following further progress on the peace negotiations with the LTTE in December 2002, the IMF approved a \$567 million PRGF/EFF credit in April 2003, and the World Bank simultaneously approved a \$125 million Poverty Reduction Strategy Credit (PRSC).<sup>17</sup> Both were based on financing a programme of accelerated reforms of which the key highlights were reforms to labour market regulation, strengthening property rights in land markets, privatizing the power and banking sector, and rationalising the civil service. Approval of concessional finance from the IMF/World Bank then opened the gates for the monumental \$4.5 billion in further donor aid pledged at the Tokyo donor conference of June 2003.

<sup>13</sup> Daily News, 19 July 2002. '36 Laws to be Passed in August, September'.

<sup>14</sup> IMF. 2002. *Statement of the IMF staff representative*, issued 3 September 2002.

<sup>15</sup> Ministry of Finance and Planning, Management Service Circular no. 16, 1st October 2002.

<sup>16</sup> CBSL Annual Report (2005), statistical appendix, table 60.

<sup>17</sup> World Bank Report (2003b).

One of the preconditions for the approval of the PRGF is the preparation of a comprehensive Poverty Reduction Strategy Paper (PRSP). The new PRSP approach required a much more comprehensive and technically rigorous approach to poverty analysis. It also required that the strategy to address poverty be ‘country-driven, promoting broad based participation of civil society’.<sup>18</sup> With these stated aims in mind, the reality of the PRSP formulation process in Sri Lanka is instructive, not just to understand how it contributed to destabilising the peace agenda, but also as a case-study of how its key design features on process and content were so transparently circumvented by the government.

Between March – December 2002, the UNP-led government commissioned the drafting of a comprehensive economic master-plan called *Regaining Sri Lanka* (RSL). This document, with modifications, was ultimately submitted to the IMF and World Bank in December 2002 as the PRSP. When the PRSP document was eventually released in the domestic realm, which occurred only after it was sent to the World Bank and IMF, it quickly became very controversial. Through the rest of the life of the government, and even after that, opposition politicians, trade unionists and civil society activists singled out the RSL as a doctrinaire manual of market reformist excess. It was viewed as emblematic of the secretive and non-inclusive nature of the government’s policy formulation process, and its complete subservience to the agenda of the private sector and the donors.

One of the most problematic issues with the RSL document was its utter lack of public ownership. The process of drafting the RSL involved a substantial degree of transparent, formally organised participation from 18 sectoral committees, which apart from a few academics and technical experts, were comprised almost entirely of business executives. As the then chairman of the Ceylon Chamber of Commerce described,

*There was heavy private sector involvement and input in RSL. There were a number of committees bringing in numerous industry stakeholders. There was a significant degree of input. ... You just asked for something and it was given. ... When we saw RSL, we thought our dreams are coming true.*<sup>19</sup>

The joint Bank-Fund review of the PRGF and PRSC described the RSL as:

*a strong and aggressive proposal to remove the existing policy induced and structural constraints that inhibit private sector activity in the way of changing the role of the state.*<sup>20</sup>

The RSL laid out a comprehensive medium term framework of infrastructure construction, privatization, land and labour market reforms, and a private sector led growth strategy. Jeyaratne claimed that ‘Large parts of the RSL document were plucked straight out of our recommendations’ and indeed, the extent of

<sup>18</sup> IMF. 2005. *Poverty Reduction Strategy Papers – A Factsheet*. Factsheet. September 2005.

<sup>19</sup> CJ. 2006. [Personal Communication]. 7 August.

<sup>20</sup> IMF (2003).

unmoderated private sector input reads clear through the document. As a result, the final document that was actually submitted to the donors in December 2002 involved a considerable amount of ‘cut and paste’ artistry on the part of the RSL staff to transform what was an exclusively private-sector influenced growth and reform strategy into something that could reasonably be represented as a poverty reduction strategy based on widespread consultation.

In reality, the RSL did not undergo any consultation whatsoever outside of the aid donors, the business executives who helped frame it, and the economic sub-committee of cabinet. By drafting such a putatively technocratic document, insulated from populist pressures, or even from contact and feedback from ruling party members and government ministers, the document came to reflect a very narrowly held economic vision. By seeking to depoliticise economic policy, it effectively lacked the political buy-in or ownership of any domestic political constituency except the corporate sector. As the general secretary of one of the largest trade union federations described:

*There were no consultations with the trade unions. The UNP was more disciplined, but it was not transparent. There was no dialogue with stakeholders, so everyone was suspicious.*<sup>21</sup>

Over the course of the second year of the peace process, which is around the time that it started to go into arrest and decline, an increasingly vigorous opposition to the government’s market reforms emerged from trade unions, farmers’ groups, and welfare recipients. Many of these groups were not intrinsically opposed to the peace process at all. But the relentless pace of the agenda, and the fears that large numbers of people would lose their jobs through privatization, led to increasing hostility and suspicion of the government.

Furthermore, the secrecy behind its formulation left the document exposed to criticism from a wide number of social and political constituencies, with very few people left capable or inclined to defend it. A more inclusive process of public consultation could potentially have informed the government of the unsuitability of their strategy, or served to moderate some of their proposals. But they appear to have been contemptuous of the consultation requirement and wilfully subverted it.

A few members of the government and ruling party grudgingly admitted during interviews that they should perhaps have ‘done something for the poor’ for instrumental reasons – i.e., in order to preserve the sustainability of the reforms. But most were unwilling to concede that the peace process and economic reforms were mutually incompatible agendas. The two processes were seen as synergistic, and mutually dependent on each other for success. This unusual and unjustified optimism that difficult market reforms would succeed in the midst of an equally difficult peace process was eventually tempered only by the considerably different reality that transpired - of an election defeat for the UNP, and a failed reform

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<sup>21</sup> LD. 2007. [Personal Communication] 9 April.

agenda that dragged down the peace process with it. The election campaign of March-April 2004 focussed considerably on the issue of peace, and it is frequently interpreted as a resounding verdict by the Sinhala-Buddhist majority against the peace process. But the sparse evidence that is available suggests otherwise. Sinhala Buddhist rural voters were well aware of the fact that a defeat for the UNP would inevitably be a setback for the peace process, a situation that they were not indifferent to – particularly because armed forces personnel are overwhelmingly recruited from the rural Sinhala Buddhist poor.

But the UNP's own agenda of linking peace with reforms forced many who were supportive of peace to vote against it. This is not to deny the existence of a considerable protest vote against the UNP's handling of the peace process, and the presence of a radical Sinhala nationalist constituency which opposed the peace process on principle and voted against it from the very beginning. But this constituency is actually quite small, and has only sustained political momentum and electoral strength when fortified by and conjoined to a populist economic protest agenda.

In the April 2004 elections, the UNP provided exactly such an agenda. Having fused peace to market reform, the relatively small opposition to the peace process was magnified and made electorally viable by a new and growing opposition to the market reform agenda.

## **8. Conclusions**

In this paper, I have argued that the frustrations of the business community with the previous government, their historical association and links with the UNP, and the articulation of a set of a 'business for peace' demands, beginning in the 1998-99 period are critical to understanding the nature of the peace process that later emerged in Sri Lanka. Effectively, the peace agenda emerged as part of the articulation and realisation of the material interests of Sri Lanka's corporate sector - as just one component of a an ambitious programme of market reforms in pursuit of an accelerated private-sector led development strategy. When the peace process entered the political realm through the UNP and came to fruition upon its election in December 2001, it remained subject to the same economic rationale, and came tethered to the same group of issues.

The embeddedness of the peace process within such an economic rationale and the social constituency of its inspiration and sponsorship had important consequences for its sustainability. The government's heavily market-reform laden economic agenda enjoyed a very narrow social constituency of support; and indeed, generated considerable opposition and hostility. In addition, the government's simultaneous pursuit of fiscal austerity to secure desperately needed concessionary financing from the IMF meant that not only was there very little in the way of a peace dividend to distribute, but there were instead cutbacks on subsidies and employment opportunities that disproportionately affected the rural Sinhalese poor. The inherent unpopularity of this economic agenda was

compounded by the complete absence of consultation, much less participation in its formulation beyond foreign donor agency functionaries and local corporate executives. Not surprisingly, the government was faced with an increasingly vigorous opposition to the reforms from a variety of different social constituencies.

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