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Approved For Release 2007/02/08 : CIA-RDP85T00875R001100090032-2

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CIA/OCI/IM-0521/70

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DIRECTORATE OF  
INTELLIGENCE

# Intelligence Memorandum

*Ceylon: Outlook for the New Government*

State Dept. review completed

**Secret**

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23 June 1970  
No. 0521/70

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CENTRAL INTELLIGENCE AGENCY  
Directorate of Intelligence  
23 June 1970

## INTELLIGENCE MEMORANDUM

Ceylon: Outlook for the New GovernmentIntroduction

On 27 May, the Ceylonese electorate turned out the moderate, Western-leaning government of Dudley Senanayake and installed in power the United Front coalition presided over by Mrs. Bandaranaike. Her previous government (1960-1965) was characterized by some turmoil and a radical bent, both of which helped to turn the electorate against her. Before the recent election, many political observers pointed to her prior term of office as an unhappy precedent--for Western interests, at least. While it is still too early to tell which direction her new government will take, some indicators are provided by her campaign platform, much of which was reaffirmed in the traditional Throne Speech of the new government, delivered on 14 June. A review of the highlights of her campaign promises suggests that Mrs. Bandaranaike's course may not be as completely injurious to Western interests as had been feared.

*Note: This memorandum was produced solely by CIA. It was prepared by the Office of Current Intelligence and coordinated with the Office of National Estimates and the Office of Economic Research.*

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Domestic Policy

*We seek your mandate to permit the Members of Parliament you elect to function simultaneously as a Constituent Assembly to draft, adopt, and operate a new Constitution. This Constitution will declare Ceylon to be a free, sovereign and independent Republic pledged to realise the objective of a socialist democracy....\**

1. At present, Ceylon, like Canada and Australia, is an independent self-governing nation recognizing Queen Elizabeth II as its sovereign as well as the symbolic head of the Commonwealth of Nations. The proposal to establish a republican form of government, supported also by former prime minister Dudley Senanayake's United National Party (UNP), would probably not have a great effect on government policy, but could change significantly its administrative operation, particularly if there were to be a president on the French model. Mrs. Bandaranaike easily has the two-thirds vote needed to amend the constitution.

*The present administrative set-up...is inherited from the colonial days. It is not only bureaucratic and inefficient but also thoroughly unsuited to ensuring the speedy fulfillment of today's needs. We shall transform the administration thoroughly, make it more democratic and link it closely with the people through*

- (i) Elected Employees' Councils;*
- (ii) Advisory Committees in Government offices;*
- (iii) People's Committees on a territorial basis.*

2. Although Senanayake lashed out at this proposal as totalitarian, it may have appealed to

*\*This and the following excerpts from the United Front Election manifesto are taken from the 21 April 1970 issue of the Ceylon Observer Magazine.*

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the average Ceylonese voter, who, like the "common man" in many other countries, feels he is being cheated by a corrupt, inefficient bureaucracy. Actual implementation of such committees, however, could result in considerable confusion and delay in government programs. It might also lead to amateurish bungling in such fields as economic planning, which was a serious weakness during the last Bandaranaike government. Although many plans were then proposed, some of them apparently sound, ministerial conflicts and feuding resulted in indecisiveness and a failure to implement specific courses of action. The same problem might again arise if a plethora of local plans presents too wide a range of conflicting possibilities.

*We shall implement the Official Language Act and the Tamil Language (Special Provisions) Act fully and fairly. We shall ensure that no citizen will suffer any disability or discrimination in the matter of employment, in his relations with the state, or in access to public institutions and places, on the grounds of race, religious belief, or caste.*

3. Communal relations between Ceylon's majority Sinhalese and minority Tamils were relatively peaceful under the recent Senanayake government. Tensions between the two groups have flared up in the past, however, and have caused considerable violence, most notably during the tenure of Mrs. Bandaranaike's husband (1956-59) and during her own rule. To a certain extent, the Bandaranaiques themselves were responsible, since they exploited communal feeling to achieve their political ends, only to discover they had unleashed forces that could not easily be controlled.

4. The present election manifesto, however, is more conciliatory to the Tamils than was the Common Program of the United Front coalition in 1968. The earlier document was more severe in tone in its treatment of the language question, a key

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element in the communal problem. It also called for the repeal of regulations adopted in 1966 that provided for the administrative use of their native tongue in areas inhabited predominantly by Tamils. No such threat is contained in the election manifesto, which also calls for the establishment of two universities in Tamil areas and appears to promise much-needed improvement in the Tamil schools situated in the up-country tea estate region.

5. The more moderate note struck in the manifesto probably stemmed partly from a desire to win Tamil votes in what had been expected to be a close election. Mrs. Bandaranaike did not make significant use of communal issues in her campaign. It appears that the United Front did not obtain substantial support from the Tamils, nor did such support prove necessary. Mrs. Bandaranaike has included a Tamil in her cabinet, however, and it is possible that the relatively balanced manifesto indicates a genuine desire on her part to avoid domestic strife the second time around. Moreover, one of the parties in her coalition has a relatively favorable image among Tamils because of its past promotion of communal harmony, and Tamils might regard the naming of a leader of this party to the Plantation Industry portfolio as a good thing (Tamils furnish the bulk of tea plantation laborers). Furthermore, when some Tamil stores were burned following the announcement of the United Front victory, Mrs. Bandaranaike acted firmly to keep the scattered disorders from spreading or intensifying.

*The Indo-Ceylon Agreement of 1964...will  
be implemented fully both in letter and  
spirit.*

6. The 1964 Tamil Repatriation Agreement between Ceylon and India aimed at settling the problem of the million or so stateless Tamils in Ceylon. Unlike "Ceylon Tamils," whose ancestors have lived on the island for generations and who have full voting rights, the forebears of the "Indian Tamils"

-4-

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were brought over from southern India in the second half of the 19th century to work on the plantations. In 1948, approximately 90 percent of these people lost their franchise through discriminatory legislation and they have remained stateless since. The 1964 agreement, signed by the Bandaranaike government, provided that India would accept 525,000 of these Tamils over 15 years; that Ceylon would grant citizenship to 300,000 over the same period; and that the future of the approximately 150,000 others would be resolved subsequently. The latest available figures on implementation of the agreement date from mid-1969, by which time India had granted citizenship to only 44,000 Tamils, almost 10,000 of whom had reportedly left Ceylon. About 2,000 stateless Tamils had obtained Ceylonese citizenship. It is likely that Mrs. Bandaranaike will step up the repatriation process and might even forcefully expel some reluctant Indian Tamils.

*The freedom of the press will be ensured.  
Independent newspapers will be encouraged  
as a means to end the present domination  
of the daily press by capitalist monopolies.*

7. The "capitalist monopolies" referred to are primarily, but not exclusively, the Associated Newspapers of Ceylon, Ltd., often referred to as the Lake House papers. These newspapers were generally very critical of Mrs. Bandaranaike's previous administration, which was committed to some form of press control.

8. In 1964, members of Mrs. Bandaranaike's government, apparently prodded by their more leftist coalition colleagues, obtained permission from the prime minister to introduce a bill providing for the takeover of Lake House. This bill touched off a vigorous reaction from the press and contributed to Mrs. Bandaranaike's fall at the end of the year when several moderate coalition members of parliament deserted her over the press bill in particular and in general over the increasing leftist influence on her government.

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9. Shortly after Mrs. Bandaranaike's recent electoral victory, a mob of her supporters, possibly led by some union leaders from the more radical element of her coalition, stormed the offices of Lake House and were allowed to ransack them before the police took action. Mrs. Bandaranaike subsequently issued a firm radio appeal for order and took steps to halt further violence. The board of directors of Lake House submitted letters of resignation and offered the corporation to the government. She refused the offer, however, claiming that her government favored freedom of the press and suggesting that Lake House resume publishing.

10. Her conduct indicates a desire to avoid the accusation of suppressing a free press, but she has other means to attack her journalistic bete noire. Towards the end of 1969, allegations were made that the Lake House directors were guilty of income tax evasion and circumvention of governmental foreign exchange regulations. The charges, which were under investigation by the Senanayake government, may be true. In any case, Mrs. Bandaranaike has declared that she will set up a new commission of inquiry, and this could provide her with relatively unassailable legal grounds for controlling the most important segment of Ceylon's independent newspapers. Perhaps realizing its precarious position, at least one of the Lake House papers has been noticeably warm in reporting Mrs. Bandaranaike's victory and the initial operations of her administration.

#### Economic Policy

11. The coalition's economic pronouncements in the election manifesto foreshadow a continuation of the socialization pursued during Mrs. Bandaranaike's earlier tenure, during which she nationalized domestic banks and the life insurance business. This program, however, discouraged private investment, which declined from nine percent of gross domestic product in 1961 to six percent in 1965 (in absolute

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terms, private investment declined about 20 percent). By the end of Mrs. Bandaranaike's last term, Marxist leaders from the Trotskyite Lanka Sama Samaja Party (LSSP) had gained a considerable influence in cabinet deliberations, and LSSP leader N. M. Perera--appointed finance minister in June 1964--called for additional restraints on private businesses and continued nationalization of key enterprises.

12. In general, the pledges concerning state control could be viewed as a compromise between the moderate and the more extreme wings of the coalition. Some of the statements are phrased in broad terms that could refer only to extension of control in an area where the state already has a role. In such cases, the question of degree becomes important, and at present it is impossible to foresee how much of a given sector or industry will be placed under state management. Apparently, however, Mrs. Bandaranaike has allowed herself some leeway.

*The banking system will be nationalized.*

13. Because of the nationalization of Ceylonese banks under the previous Bandaranaike government, only eight foreign commercial banks remain: five British, two Indian, and one Pakistani. In a press conference on 4 July, however, the new finance minister, N. M. Perera, said there were no immediate prospects for nationalizing these banks since other matters required prior attention.

*The import trade in all essential commodities will be handled by the state.  
The share of the state in the export trade will be progressively expanded...*

14. The reference to control of imports probably means that more commodities, primarily industrial and consumer goods, will come under the purview of the state. The statement about export trade

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is vague and could mean anything from increased state regulation to ultimate nationalization of the important trade in tea and rubber, Ceylon's largest earners of foreign exchange.

*State Agencies will be established to guide and direct the plantation industries in the interest of the nation....The Agency Houses, which are a major vehicle through which imperialism dominates plantation economy, will be controlled in order to thwart the malpractices that now take place...*

15. These pronouncements about State Agencies and Agency Houses are of considerable importance, because they indicate that Mrs. Bandaranaike's government is planning to intervene in the plantation industries, the backbone of Ceylon's economy. The Agency Houses, which are primarily British-owned and managed banking and marketing centers acting as intermediate export agents, are an important factor in the plantation industry. Extensive meddling with them could add greatly to Ceylon's already serious economic problems.

*The heavy and capital goods industries and other suitable basic industries will be state-owned.*

*The policy of Ceylonisation of ownership in the private sector will be actively pursued.*

16. Most large-scale industry is already state-owned. A policy of "Ceylonisation" probably means that pressure will be applied on foreigners, who own 40 percent or more of the tea and rubber estates, to sell part or all of their holdings to Ceylonese nationals.

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17. On balance, therefore, the economic portion of the United Front manifesto is leftist in nature but allows for a measure of moderation in implementation. Crucial points could be the role of the state in controlling the tea and rubber plantations and the Agency Houses. An LSSP leader has been appointed to the new cabinet post of Plantation Industries, but it is not yet clear how much of a free hand Mrs. Bandaranaike will permit him. The trade minister, from the more extreme wing of the coalition, was a driving force behind the nationalization of US- and British-owned oil distribution facilities during Mrs. Bandaranaike's previous reign. His degree of influence in the present government cannot yet be determined, however.

#### Foreign Policy

*We shall pursue an independent foreign policy guided by Ceylon's national interests and based on: (a) nonalignment with any military or power bloc;... (c) opposition to imperialism and colonialism, both old and new, and racism;... (e) solidarity with and support for all national liberation struggles against imperialism and colonialism....*

18. In all probability, Ceylon's nonaligned foreign policy will take on anti-Western overtones, and criticism of US foreign policy in the Middle East, Southeast Asia, and the Indian Ocean area can be expected. The old nuclear capability declaration for foreign naval visits, largely disregarded while Senanayake was prime minister, might be enforced again. Under this policy, introduced by the previous Bandaranaike government, Ceylon would deny access to ships and aircraft carrying nuclear armaments or equipped for nuclear warfare.

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19. Mrs. Bandaranaike will probably be receptive to Soviet influence, should the USSR decide to court the new government. The Soviets enthusiastically welcomed her victory and might, in exchange for increased aid and trade, be tempted to seek the use of Ceylonese port facilities in connection with their naval program or their space tracking exercises in the Indian Ocean. Should such a request be made however, it is unlikely that the Ceylonese Government will alter its long-standing policy, upheld previously by Mrs. Bandaranaike, against any foreign bases in the Indian Ocean.

*We shall extend full diplomatic recognition to the German Democratic Republic, the Democratic Republic of Vietnam, the Democratic People's Republic of Korea, and the Provisional Revolutionary Government of the Republic of South Vietnam. Diplomatic and other relations with Israel will be suspended until such time as the Government of Israel either conforms to the Resolutions of the United Nations Security Council of 22nd November, 1967...and withdraws its armed forces from the territory of the UAR, Syria, and Jordan...or arrives at any solution acceptable to the Arab States concerned.*

20. These pronouncements, which were not specifically contained in the earlier Common Program, are largely self-explanatory. East German newspaper coverage of the Bandaranaike victory was jubilant. Both a congratulatory telegram from the East German Government and an interview with a leader of Mrs. Bandaranaike's party expressed "certainty" about further development of relations between the two countries. At present, East Germany and North Korea have consulates general in Ceylon, while North Vietnam is represented through its consulate general in New Delhi.

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*All subversive imperialist agencies which operate in Ceylon will be wound up.*

21. This pledge could serve as a catch-all to force several US agencies out of Ceylon. The Peace Corps, the Asia Foundation, and the Smithsonian Institution's programs might be construed by Mrs. Bandaranaike's government as "subversive" activities. At present, there are about 20 Peace Corps volunteers in Ceylon. Although some newspapers have speculated that the new government is studying the Peace Corps closely, there has been no indication yet that the volunteers will be expelled.

*In return for a loan from the World Bank and the IDA of 29 million US dollars... the Government has agreed to allow these financial agencies of the USA the right for 30 years to interfere in and determine the economic destinies of nearly 2/3rds of Ceylon. It has agreed to the World Bank having veto powers over all appointments and dismissals to major posts in the Mahaweli scheme....*

*The agreements that the UNP Government has entered into with the World Bank and the IDA to finance Stage 1 of the Mahaweli Ganga (River) Diversion Scheme as well as the continuation and power of the Board appointed to administer the scheme will be reconsidered.*

22. The Mahaweli River project is designed to irrigate about 900,000 acres (enough to double Ceylon's cultivatable acreage) and to generate 900 megawatts of hydroelectric power. It became a campaign issue in the recent election when Mrs. Bandaranaike's coalition charged that the World Bank agreement represented a "tremendous sellout" of national sovereignty because of the conditions that had been attached. Obtaining this assistance, however, has taken years of effort on the part of Ceylon, and it

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is doubtful that the new prime minister would terminate the project. After the election, she told a foreign diplomat that the main emphasis on her government's development program would be on agriculture, especially new irrigation projects, which was probably an oblique reference to the Mahaweli scheme. Presumably, however, in line with the specific statements on this subject in the manifesto, Mrs. Bandaranaike will at least insist on a full re-examination of the terms of the loan.

23. In general, economic considerations could temper Mrs. Bandaranaike's treatment of the West. Ceylon's serious economic problems will not disappear overnight, and the need for Western foreign aid will continue. Although the new prime minister might hope to increase Ceylon's assistance from the Soviet Union, she would also want to keep her options open and will probably try to avoid over-antagonizing actual or potential Western donors.

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The new government might terminate some loans granted by Western nations and could make it more difficult for Western aid projects to operate in Ceylon, but it is most unlikely that it would deliberately try to end all Western aid.

24. Besides her expressed hope for continued Western assistance, there are other tentative indications that Mrs. Bandaranaike may have decided to improve her image in Washington. Early in 1970, some of the more moderate leaders of her party made serious efforts to improve their communication with the US Embassy in Colombo. During the campaign, the US was not treated as a scapegoat by the United Front and the Cambodian issue was avoided.

#### Outlook

25. The United Front election manifesto, as well as the new government's Throne Speech, contains both moderate and extreme policy statements. Domestic proposals seem to lean generally to the moderate

-12-

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side, although some parts of the economic platform could lead the country into serious trouble, depending on the degree and manner in which they are exercised. The foreign policy segment contains some proposals that are more extreme, but implementation of these might be tempered by pragmatic considerations.

26. There is certainly no assurance that Mrs. Bandaranaike will fulfill all her campaign promises. It is important to note, moreover, that with her own party holding a majority of seats in parliament, the new prime minister does not need to rely on the support of her leftist allies. She has no absolute need, therefore, to implement all of the more extreme campaign promises, some of which were probably included in the manifesto to placate her Marxist allies when their support seemed essential.

27. The composition of her cabinet is mixed. It includes three Trotskyite members and one Communist leader, as well as some extremist members of her own party, but moderates appear to comprise about half of the total. Control of the police is under the jurisdiction of the Ministry of Home Affairs, headed by Felix Dias Bandaranaike, an anti-Communist and a relative of the prime minister. This important ministry supervises all government personnel as well as the country's administrative structure. Control by a moderate should make it difficult for Marxists to organize within the government.

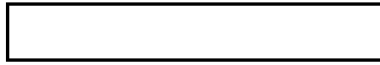
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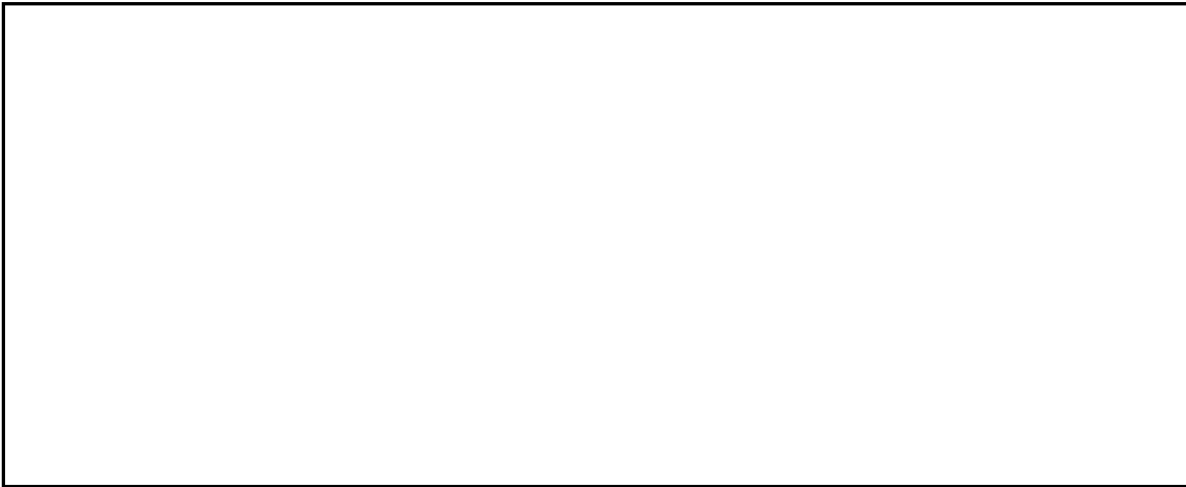
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