Sri Lankan government opens up captured territory for investors

Sampath Perera
10 September 2009

Since the defeat of the Liberation Tigers of Tamil Eelam (LTTE) in May, the Sri Lankan government has pressed ahead with extensive plans to attract foreign investors and set up Special Economic Zones inside captured rebel territory. The pattern in the “liberated” northern areas follows similar developments in the Eastern Province, which was brought under army control in 2007.

In its final offensives, the military depopulated large swathes of land stretching from Mannar in the northwest to Mullaithivu in the northeast. Thousands of civilians were killed in indiscriminate aerial bombing and artillery barrages. Most of the remaining civilian population—around 280,000 people—were herded into squalid internment camps, where they are being held indefinitely.

Since May, the government has announced the *Uthuru Wasanthaya* (Spring of the North) program, which follows on from the previous *Nagenahira Navodaya* (Reawakening of the East). These plans are not aimed at providing ordinary people with housing, schools, hospitals and services, but at opening up these areas for investors.

According to the US business magazine *Forbes*, the government’s estimate for fixing the devastated economy in the North and East is at least “a $5 billion business”. Investment advisor Jim Rogers, co-founder of Quantum Fund, told the magazine that Sri Lanka was a compelling investment destination. “I have seen that when a long war like this ends, there rise enormous opportunities for investment,” he said.

Chinthaka Ranasinghe, research director for the blue chip Sri Lankan company, John Keels, told Agence France Presse: “These areas [in the North] have been virtually bombed out. This throws up enormous potential for investment. A large number of houses need to be built.” Keels added that with “new roads, schools, telephone and electricity lines ... the investment rebound will be spectacular.”

President Mahinda Rajapakse told *Forbes* that he would open a Singapore-style “one stop shop” to facilitate foreign investment. The magazine revealed that the government plans to offer a 15-year tax holiday to investors in the country’s Special Economic Zones (SEZs). The Board of Investment (BOI) is seeking $4 billion in direct investment by 2012, quadrupling the current level.

In the East, a SEZ in Trincomalee is already receiving investment and the government is planning two more SEZs in Batticaloa and Amparai. The BOI has also given approval for investment in the LTTE’s former northern headquarters of Kilinochchi and is establishing a new office in Jaffna to coordinate its activities in the North.

Under conditions of global economic recession, very cheap labour and lucrative government incentives in the island’s former war zones have become attractive.

Kumar Dewapura, chairman of Tristar Apparel Exports, has opened a factory in Trincomalee employing 1,000 workers, with the assistance of a 50 million rupee ($US425,000) BOI loan and a five-year tax holiday. He told the media last week: “There are orders if you can make it at the right cost. You only need to control cost and be competitive.”

Another garment manufacturer, the multinational Brandix, has invested 250 million rupees in the eastern district of Batticaloa and received similar government benefits.

The acquisition of land for various projects, including power plants, agriculture and SEZ construction, has become a major activity in the Eastern Province. The investment company Touchwood, which plants trees for commercial harvesting, has announced a request for 20,000 acres from the government, emphasising that foreign investors are looking for a minimum of 1,000 acres.

As part of the promotion of Trincomalee as a tourism area, the Tourism Ministry has unveiled plans to allocate 500 acres of land for hotel projects. It is also proposing to set aside another 4,000 acres of land and coastline for resort development.

President Rajapakse signalled his economic plans to exploit LTTE-held territory even before breaking the 2002 ceasefire and relaunching the civil war in July 2006. His government announced an SEZ of 675 square kilometres in the Sampur and Muttur districts in February 2006, even though the area was under LTTE control at the time.

In May 2006, the government took the unprecedented step of declaring that whole SEZ area to be part of a High Security Zone, covering the land, 14 mainly Tamil villages, and all adjacent waters. Two months later, Sampur and Muttur were among the first targets of the army's renewed offensives. Under the regulations covering High Security Zones, no person, boat or vessel can enter the area without written permission from the authorities.

A study published in April this year by the Centre on Housing Rights and Evictions found that 4,249 families, totalling 15,648 people, were affected by the declaration of the Muttur/Sampur High Security Zone. In August and September 2006, the army cleared the area, not only of LTTE fighters, but much of the civilian population. In October 2006, the government licensed the SEZ to open for investment.

The war in the East drove nearly 300,000 civilians from their homes. The Sri Lankan web site *Groundviews* reported in August that the government, military and police were forcibly resettling families in newly cleared jungle areas in the Eastern Province, rather than their original villages and towns.

A similar process is being initiated in the North, which is being prepared for permanent military occupation. New military camps, high security zones and police stations are being established throughout the depopulated areas formerly held by the LTTE. Far from planning to demobilise soldiers following the end of the war, the army has announced a further expansion.

The Rajapakse government initially announced its intention of holding Tamil civilians in detention camps for three years. Amid international criticism, it promised to resettle 80 percent of the 280,000 detainees within 180 days, but the pledge was quickly shelved. The government's priority is to establish infrastructure for investors.

The first international company to announce plans in the North is Dialog Telekom, the Sri Lankan unit of Malaysia's Axiata Group Berhad. The corporation will spend $20 million this year to set up 60 mobile phone towers, Agence France Presse reported.

India has completed a feasibility study for a 400KV undersea power cable costing 20 billion Indian rupees (approximately $400 million) and is finalising an agreement with the Sri Lankan government. The cable will extend via the Jaffna Peninsula to other areas of the country.

The speed with which the government is opening areas captured from the LTTE to investors makes clear that the war was never about "liberating the country from the clutches of LTTE terrorism" as the government claimed. Rajapakse rejected peace talks and relaunched the war in 2006 in order to establish the economic and political dominance of the Sinhala elites over their Tamil counterparts.

Since the end of the war, Rajapakse has declared an "economic war" for "nation building". The government's economic plans in the North and the East underline the purpose of this new "war": to suppress the working class and transform the island into a premier cheap labour platform for local and foreign investors.