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CENTRAL INTELLIGENCE AGENCY
OFFICE OF NATIONAL ESTIMATES

Staff Memo 35-60

28 June 1960

*to S/B, mbra
30 June*

MEMORANDUM FOR THE ACTING DIRECTOR

SUBJECT: Short-Term Outlook in Ceylon*

1. The last NIE on Ceylon (14 July 1959) was focused primarily on the precarious position of the Bandaranaike government, with only minor references to what might follow the fall of that government. The rapid succession of events since Bandaranaike's assassination in September 1959 has, of course, thoroughly altered the outlook. The conflicts inherent in the Ceylonese political scene are again becoming sharp as the 20 July general elections draw near.

2. The prospects for Bandaranaike's Sri Lanka Freedom Party (SLFP) following his death appeared very gloomy. The party--a heterogenous organization elected because of Bandaranaike's original popularity and held together chiefly by a

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*The NIE on Ceylon scheduled for November will deal with the outlook for Ceylon over the next few years (after the July elections). This memorandum focuses on the

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desire for the spoils of office--had declined steadily in appeal since late 1957, chiefly because of interminable political infighting and failure to make progress toward solving pressing social and economic problems. Some of the party's radical elements resigned shortly before Bandaranaike's death when Philip Gunawardena's small Trotskyite party was expelled from the government coalition as a result of right wing pressure. Following Bandaranaike's death, factional disputes and personal rivalries became so acute that Dahanayake--Bandaranaike's successor as prime minister--requested the Governor General to dissolve parliament and hold new elections in March. Dahanayake and many conservatives then left the SLFP to form their own party. In view of the SLFP's poor record and the defection of its radical and conservative wings, most observers thought the party would make a very poor showing in the elections. The relatively conservative United National Party (UNP), which had provided stable government and considerable economic progress from 1948 to 1956, was expected to win at least a strong plurality.


3. Such early forecasts, however, underestimated the power of Mrs. Bandaranaike, who began campaigning vigorously throughout the island. She shed great quantities of tears for her dead

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husband before large audiences, and appealed to the people to support the SLFP in sympathy for the ideals proclaimed by her husband--who regained in death much of the popularity he lost in his last years. Mrs. Bandaranaike's style of campaigning had a powerful emotional impact--particularly on Ceylonese women--and enabled the SLFP to win 46 of the 151 seats at stake compared to the 50 won by the UNP. Although the Governor General gave UNP leader Dudley Senanayake the task of forming the new government, he was unable to do so and new elections are scheduled for 20 July.

4. The outlook for the coming elections is complicated by several diverse trends. The SLFP has arranged an electoral agreement with the Trotskyite LSSP, the largest of Ceylon's three Marxist parties, and with the orthodox Ceylon Communist Party. This agreement poses a real threat to the UNP, for in many constituencies won by the UNP last March the total opposition vote exceeded that of the UNP. In addition, the Soviet ambassador met with top LSSP leaders recently, and while the subjects discussed are not known, it seems likely that the USSR is attempting to improve the prospects for the coalition by offering Soviet assistance to the LSSP despite its Trotskyite nature. While the LSSP has been opposed to

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cooperation with the USSR in the past, it has recently altered some of its long-held policies in order to improve its electoral position, and so may now be willing to accept Soviet assistance.

5. The impact of the electoral agreement may be partially offset, however, by the fact that many independent conservative candidates have withdrawn from the forthcoming elections, which should benefit the UNP. In addition, the UNP appears to be taking the lead in exploiting the potentially explosive communal issue with charges that the coalition will not protect Sinhalese interests as regards the Tamils. The key factor, however, is once again likely to be the response to Mrs. Bandaranaike's campaigning.

6. In view of these diverse trends no prediction about the election outcome can be made with confidence. At the moment, indications are that neither the UNP or the SLFP will gain a clear-cut majority. In such an event, a coalition government--probably unstable--is likely. In any event, the outlook for political stability is not bright.

7. Continued failure to achieve stability under the parliamentary system might cause rightist groups to resume their efforts to organize a coup, possibly with the cooperation

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of the Governor General. A successful coup would require the support of Ceylon's 17,500 man defense and police forces, which have been non-political in the past. However, there have been indications that some leading officers have become discontented with the lack of effective government and leftward trend of the country during recent years, but little is known about the attitude of the forces as a whole. While the defense and police forces probably could seize control of the government, their small size and relatively limited capabilities would make it difficult, if not impossible, for them to maintain their control for long. In view of this, it is unlikely that they would act unless assured of the cooperation of at least some conservative political leaders.

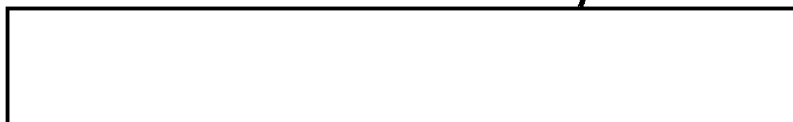
8. Any new government will be faced with serious economic problems. The economy grew rapidly in the first post-war decade, but has made little progress since 1955, and in some respects has retrogressed. There has been increasing resort to deficit financing over the past several years and a growing level of imports with no corresponding increase in exports. Ceylon's foreign exchange reserves have declined from \$247 million at the end of 1956 to \$146 million in March 1960, with most of the decline taking place during 1959. Even if a new government

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is able to bring Ceylon's immediate financial problems under control, political and communal bickering will still impede economic development.

FOR THE BOARD OF NATIONAL ESTIMATES:



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SHERMAN KENT
Chairman

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APPENDIX TO MEMORANDUM FOR THE ACTING DIRECTOR

Major Parties

1. The United National Party (UNP); relatively conservative, ruling party from 1947 to 1956, previously led by Sir John Katelawala, winner of a plurality (33 percent of seats) in March.
2. The Sri Lanka Freedom Party (SLFP); founded by Bandaranaike moderate socialist, major component of the coalition which ruled b from 1956 to 1959, won second place in March.
3. The Lanka Sama Samaj Party (LSSP); Trotskyite, leading opposition party from 1956 to 1959.
4. The Mahajana Eksath Peramuna, or "People's United Front" (MEP); ostensibly Buddhist-nationalist, basically Marxist.
5. The Ceylon Communist Party (CCP); orthodox Communist.
6. The Federal Party (FP); major representative of the Tamil-speaking minority.

Outstanding personalities

1. Dudley Senanayake, leader of the UNP and son of Ceylon's first and most respected prime minister, has been caretaker prime

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minister since Parliament's defeat of his minority government in April. While his father's reputation and his own integrity have earned Senanayake respect, he lacks the personal magnetism needed to attract widespread support.

2. Mrs. Sirima Bandaranaike, leader of the SLFP and widow of the late prime minister, revived public support for the party during the March campaign by evoking the memory of her assassinated husband. Although not contesting a seat, she is the SLFP's candidate for the prime ministership.

3. N.M. Perera, the head of the LSSP, has been, because of his intelligence and his adherence to political principles, one of Ceylon's few generally respected political leaders. However recent opportunistic moves by his party may have damaged Perera's personal prestige somewhat.

4. Philip Gunawardena, leftist MEP leader, was the most capable member of the Bandaranaike cabinet until his defection in mid-1959. Dynamic and highly ambitious, Gunawardena is not particularly popular.

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MEMORANDUM FOR: Mr. Amory

Our last NIE on Ceylon (14 July 1959) has become outdated by the rapidly changing situation since Bandaranaike's death. We thought you would be interested in this memorandum which describes the outlook for the next few months, and which should be adequate until the NIE is completed in November. We would like permission to circulate this memorandum for information among the agencies and discuss it at USIB.

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Sherman Kent

28 June 60

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(Also to Acting DCI)

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