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CENTRAL INTELLIGENCE AGENCY

OFFICE OF NATIONAL ESTIMATES

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STAFF MEMORANDUM NO. 26-64: (Internal ONE Working Paper --
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SUBJECT: Ceylon: Mrs. Bandaranaike's Time of Troubles

SUMMARY

Worsening economic conditions and continued intra-party feuding have weakened Ceylon's Sri Lanka Freedom Party (SLFP) government. Fearing the loss of her majority, Prime Minister Bandaranaike is seeking to gain new support from other political groups and to keep defections from her own ranks to a minimum. On balance, we believe that Mrs. Bandaranaike is likely to stay in office until late 1964 and may even last until elections are due in mid-1965, either by bringing some members of the Marxist opposition parties into the government or by maintaining a tenuous unity within the SLFP. However, the electoral prospects of the SLFP -- with or without Marxist support -- are poor. While the prospects of the moderately conservative United National Party appear somewhat better, the next elections are unlikely to produce a majority

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for any party. In the long run, Ceylon's democratically elected governments will face increasingly severe challenges as the nation's economic problems can probably be resolved only by the adoption of unpopular austerity measures. Until some solution is achieved, Ceylon will face the danger of continued economic deterioration and political instability.

1. The position of Mrs. Bandaranaike's government has steadily deteriorated during recent months. Continuing inflation, labor unrest, rising unemployment, and shortages of consumer goods have greatly reduced its popular support. Its generally inept Government leaders are at a loss to know how to deal with the nation's basic economic problems.* Indeed, even if they

* Ceylon lives by exporting raw materials and importing consumer's goods (including half its food supply). In the last decade, export earnings have remained constant but import costs have increased nearly 30 percent. Courting popularity with the nation's expanding population, the SLFP government has increased its expenditures on food subsidies, consumers goods and the like, leaving little for capital investment projects. It has paid for them by deficit financing (leading to the present inflation) and by going through the nation's foreign exchange reserves -- which are now nearly exhausted.

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were able to produce a program adequate to deal with these problems, Prime Minister Bandaranaike's Sri Lanka Freedom Party (SLFP) -- which holds only 82 of 157 seats in Parliament -- probably would now be unable to unite in its support. Lacking strong leadership, divided between advocates of moderate and extreme socialism, and burdened with personal feuds, the SLFP is showing signs of splitting into mutually antagonistic groups. Fearing the loss of her majority, the prime minister prorogued Parliament for four months in early March to gain time to improve her political position.

Possible Courses of Action

2. The prime minister -- whose overriding concern has been the retention of power -- had several possible courses of action open to her. She could attempt to establish authoritarian rule; seek a coalition with at least some leaders of the Marxist United * Leftist Front (ULF); try to work with Dudley Senanayake's moderate

* The United Left Front (with 20 members of Parliament) is a loose amalgam of three Marxist parties, including the Communists, (4 seats) the Trotskyite LSSP (13 seats), and the Buddhist Nationalist MEP (3 seats). Formed in 1963, it is more an undisciplined coalition of long established political parties than a unified movement.

conservative United National Party (UNP); or try to reunite her own SLFP. There are some indications that she explored the possibilities of establishing a dictatorship -- possibly with militant Buddhist backing. However, this was at least temporarily dropped when she was unable to gain sufficient support, and when rumors of such plans led the UNP and ULF to mobilize their forces against such a move. If overtures for a political coalition were made to the UNP they were at best half-hearted. While Mrs. Bandaranaike's personal outlook on economic and social matters is not much different than that of the UNP leaders, the bitter Bandaranaike-Senanayake family feud overrides any such considerations.

3. Thus the most promising alternative of SLFP rule would be a coalition with the ULF, or at least with some parts of it. The ULF members of Parliament have supported (as steps in the right direction) those socialist measures Mrs. Bandaranaike has adopted. Elements of the ULF have had no-contest electoral agreements with the SLFP and some ULF officials have actually served in coalition cabinets with the Prime Minister's late husband. Further, some ULF leaders -- led by N. M. Perera, head of the LSSP -- now publicly advocate entering the government with practically no prior conditions. Claiming they can best enhance their own election prospects by demonstrating their efficiency and freedom from corruption, they

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are eager to become Cabinet ministers immediately.

4. However, not all of the Marxist leadership favor a coalition with the SLFP. Many will agree to it only if the Prime Minister adopts their extremist program of socialization and nationalization -- which she is not now likely to do. Others feel that too close an association now with the ever more unpopular SLFP would ruin their prospects in the next elections. The "United" Left Front is so badly divided on this issue that it may itself break up, with some of its members entering the government and others remaining in opposition to their former colleagues. The Communists and the MEP generally oppose a coalition at this time -- unless their most extreme conditions are met -- while important elements of the LSSP favor it.

5. Mrs. Bandaranaike also has serious doubts about the desirability of bringing the Communist Party or the MEP into the government -- the former because of its foreign ties, and the latter because of her personal dislike of its leader. Further, a number of Mrs. Bandaranaike's own followers are against a coalition with the ULF and might bolt their Party were one arranged. There are up to 20 conservative MP's in her Party who might depart were she to

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agree to a radical swing to the left. On the other hand, were she to bring a few of the more moderate Marxists into the government, with only modest concessions to their point of view, the prime minister could keep most of her present following. A tactically astute politician, she is now trying to meet the challenge of getting as much new support as she can, while losing as little of what she already has.

6. If she is unable to get the backing of some or all of the ULF, she has few if any alternate sources of parliamentary support. The UNP will not cooperate, and has too few seats of its own to form a coalition with any right wing SLFP dissenters plus others now in the opposition. The Federal Party,* will not permit its 15 MP's to work with the SLFP unless the government's stringent Sinhalization program is relaxed. There is little chance of this being done.

* The Federal Party is the spokesman of the large Tamil speaking, Hindu minority who occupy the northern part of the island. Advocating regional autonomy and linguistic equality, it is opposed by all the other political groups, who get most of their support from the Sinhalese speaking, Buddhist majority in the country.

7. On balance, we believe that Mrs. Bandaranaike will stay in office until late 1964, and may even last until her parliamentary term expires in July 1965. She hopes to do so by bringing N. M. Perera and some of his LSSP followers into the government without making any major changes in the government's present programs. She clearly hopes a coalition with leftist elements will reduce the danger of damaging strikes -- a hope which may be unrealistic since most unions are controlled by those leftists opposed to a coalition. While the LSSP has not yet agreed to enter the government, Perera strongly desires to become a cabinet minister, and probably will be able to get the backing of most of the 12 other LSSP members of Parliament. In this event, the Prime Minister would probably be able to keep defections from her own Party to a minimum. Most if not all of the more conservative SLFP members, mollified by the exclusion of the more extreme Marxists, and apprehensive about their making further inroads, would probably stay on in the hope of preventing a more drastic swing to the left. Even if a few SLFP refuse their support, their numbers would probably not be enough to bring down the government.

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8. Even if the LSSP's backing cannot be obtained, Mrs. Bandaranaike may be able to continue in office for a time. At the present time, her rivals (particularly the UNP) feel that their election prospects get better each month that her ever-more unpopular government stays in office. Not yet confident of winning an electoral majority, they could refuse to bring down the government until the scheduled elections become due. The SLFP, on the other hand, fearing a poor showing at the polls, could reunite and hang on as long as possible, hoping all the while that conditions will improve. Exploiting the normal politician's desire to stay in office as long as possible, Mrs. Bandaranaike may be able to force a tenuous unity on the SLFP for the next six months or year.

9. Whether backed by a coalition or not the government's policies are likely to be about the same as in recent years. Basically, they will be a continuation of the present ineptly administered one of neutralism in foreign policy and some degree of socialism at home. Ceylon's immediate and critical problem -- the near exhaustion of her foreign exchange reserves -- will likely be met by requests for more foreign aid coupled with further austerity measures at home. These measures will probably be at best palliatives rather than remedies for the very serious economic problems which the country faces.

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The Possibility of the Government's Fall

10. It is possible that these problems have so badly hurt the present government that it will be unable to get -- or to keep for very long -- a working majority. Should this happen, the Prime Minister will probably dissolve Parliament, and call for elections to be held four months later -- ruling by decree in the interim. In any case, elections must be held by July 1965, and Mrs. Bandaranaike cannot look forward to them with optimism.

11. Their outcome -- whenever they will be held -- is by no means certain, but some trends have become apparent. The UNP is stronger than was four years ago.* It has greatly expanded its organization throughout the country, has set up a program of cultivation of the nation's youth, has inaugurated an effective propaganda campaign. It has wooed, with some success, the powerful Buddhist groups which formerly opposed it. Further, it is now able to exploit the manifest public dissatisfaction with worsening economic conditions in the country. However, parts of the ULF

* In July 1960 it got 38 percent of the popular votes, but only 30 Parliamentary seats, while the SLFP won 75 seats with only 34 percent of the popular vote -- due largely to its no contest agreement with the LSSP and the CCP. As the winning party, the SLFP was able to name the six appointed members of parliament.

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(in particular the LSSP) and the SLFP may well again have no-contest agreements against the UNP, which will be considered the front runner.

12. Recent municipal and by-elections indicate that the ULF-SLFP electoral combination has lost some of its magic, and that the UNP will put up a better showing than before.* However, the latter party is not assured of winning a majority of the seats in parliament. Its opposition, while weaker than before, may still be just strong enough to prevent it from getting a majority, and no party will then be able to form a government. The task of finding a stable, strong regime in such a case will be an extremely difficult one, and further elections may have to be called. On the other hand, if the SLFP suffers a serious schism, or if it cannot join hands again with all the ULF parties, the UNP stands a good chance of winning a majority. Were it to come to power, its programs would be little different -- albeit somewhat more conservative -- from those of the present government.

* There were two by-elections in 1963 and in one, the UNP took a seat away from the SLFP; in the other, the ULF, supported by the SLFP defeated the UNP, but by a narrower margin than in 1960.

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Some Longer Run Implications

13. In the long term, any freely elected government will face serious problems and will have only limited means of attacking them. Ceylon's expensive and economically harmful food subsidy programs -- which consume over 30 percent of the national budget, and other similar social welfare measures have been a major factor in bringing on the present crisis. However, their abolition would mean political suicide to the Party that tried it. The result is that any government will be hampered by domestic and international factors from initiating a rational program of long-term economic development. The latter would entail expanded public and private capital investment to bring about that economic growth which Ceylon has not had for a decade. A UNP government probably would attempt to move in this direction, but unless a significant improvement in Ceylon's terms of trade occurred it probably would have only limited room for maneuver in such matters.

14. Thus there is little prospect for improvement in economic conditions. At best, things will continue as they are now; more likely will be a slow, continuing decline in living standards. The public, already dissatisfied, will become more so. The possibility of more and more extremist measures being taken to overcome these

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difficulties cannot be discounted. At present, Mr. Bandaranaike is opposed to the nationalization of Ceylon's tea, rubber and cocoanut plantations (which provide the nation with most of its foreign exchange), but she, or a succeeding government may take this step eventually. Similarly, despite the many rumors of the prime minister planning to seize power and become Ceylon's first dictator, there is little likelihood of her now doing so. However, the prospects for a dictatorial regime will improve if the present democracy proves itself unable to meet the challenges which the country faces.



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