



SRI LANKA'S POST-WAR
DEFENCE BUDGET:
OVERSPENDING AND
UNDERPROTECTION

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South Asia Scan

South Asia Scan

Sri Lanka's Post-War Defence Budget: Overspending and Underprotection

Daniel Alphonsus

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Executive Summary

Sri Lanka's internal and external security environments have changed considerably in the last decade. Internally, a three-decade long civil war ended. Anti-minority pogroms resumed, and Sri Lanka experienced the first wounds of Islamic terrorism – the Easter bombings. On the external front, as the unipolar world order's zenith passes and the world's centre of gravity shifts towards Asia, Sri Lanka has become one of the foci of great power attention.

Despite this flux, there have been no major changes to the size or composition of Sri Lanka's defence budget. This is surprising. A new strategic environment should herald change rather than continuity.

Motivated by this inertia, this study conducts the first-ever systematic review of Sri Lanka's defence budget. The key findings are that Sri Lanka spends too much on defence and spends its defence budget inefficiently. In fact, Sri Lanka spends more on defence today than it did at the war's peak – a finding that stands even when adjusting for inflation. Its spending profile is also similar to that of conflict-affected states and is significantly higher than its regional, island and population-size peers.

As a result, the diagnostic and scenario-based methods used in this analysis estimate that Sri Lanka could enjoy a paradigm improvement in the level and quality of its security while cutting defence expenditure from 2.1 per cent of the gross domestic product (GDP) to below 1.5 per cent. In the most efficient scenario, Sri Lanka could substantially improve its security while reducing defence spending to 0.7 per cent of its GDP. This amounts to annual savings of US\$1.3 billion (S\$2.03 billion).

The main mechanism for this improvement is transitioning most active-duty troops to reserves and curtailing recruitment. This is supplemented by investing more in diplomacy and intelligence, in addition to shifting the composition of defence procurement towards area-denial technologies, such as surface-to-air and anti-ship missiles and cyber defence.

This South Asia Scan also briefly discusses potential positive externalities arising from more rational defence spending. The two annexes offer an overview of Sri Lanka's national security threats, problems with defence planning and recommendations for their resolution.

Background

Sri Lanka's security environment has changed dramatically in the last decade. The defeat of the Liberation Tigers of Tamil Eelam (LTTE) in 2009 marked the end of a bloody 30-year civil war. This ended all conventional threats to the Sri Lankan state's monopoly of violence. However, Sri Lanka's long history of the state failing to establish its monopoly of violence did not end. On the back of a wave of resurgent Sinhalese-Buddhist extremism, the destruction of Muslim shrines and mosques gradually morphed into attacks on Muslim villages, most notably, the Aluthgama, Digana and Minuwangoda riots. The 2019 Easter bombings were the first case of Islamic terrorism in Sri Lanka. The fact that these bombings succeeded despite reasonably precise intelligence from Indian intelligence agencies points to serious flaws in the institutional structure of the security establishment as well as bureaucratic and political accountability for national security.

Externally, Sri Lanka has been a major recipient of Chinese loans and investments. Closer economic ties have also heralded closer security and political ties, even when they provoke the ire of India, the regional hegemon. For example, in November 2014, a Chinese nuclear submarine docked unannounced at the Colombo Port. Closer political ties are also apparent. The ruling party, the Sri Lanka Podujana Peramuna (SLPP), explicitly stated that it wanted to model itself on the Bharatiya Janata Party and Chinese Communist Party (CCP). Recently, the SLPP and CCP held a high-level seminar on learning from each other's governance and political systems. Sri Lanka has also accepted and continues to accept Chinese loans while rejecting American grants.

With both an internal and external security environment in considerable flux, the continuity in the structure, size and priorities of Sri Lanka's defence is all the more incongruent. This Scan attempts to assess what an optimal defence budget for Sri Lanka would look like. However, in order to do this, we must first have a clear sense of what the end goals are. For it is only if we carefully analyse the threats and opportunities that exist at present, and are likely to exist in the future, that Sri Lanka will be able to optimally allocate expenditure on the capabilities it needs to preserve and develop.

The natural place to seek guidance on this point is a published national security strategy, defence review, white paper or some such document. However, despite a long history of violence consisting of anti-minority riots, Marxist insurgencies, the civil war and now Islamic terrorism, Sri Lanka does not have a substantive national security doctrine. Normally, the reference point for debating national security policy are long, carefully thought-out and consultative documents of the type previously mentioned.¹ In their absence, this section instead attempts to offer a basic review of Sri Lanka's strategic environment.

India

First, Sri Lanka is an island geographically distant from other states. The only existential risk it faces is the prospect of Indian aggression.² However, with the abrogation of the United Kingdom (UK)-Ceylon Defence Agreement in 1958, Sri Lanka has enjoyed little external protection from this risk. Its domestic ability to resist is also negligible. In 2017, Sri Lanka's defence budget was 2.9 per cent that of India's. Sri Lanka has no effective air-defence or anti-ship missiles. The gulf in capabilities is also apparent from the Sri Lankan state's inability to prevent India's kinetic action on Sri Lanka soil, for example, during the *parippu* drop (the Indian Air Force dropped food and medicine into areas held by the LTTE) or the Indian Peace Keeping Force's (IPKF) arrival.³

What kept Sri Lanka from annexation or vassalage over the past seven decades was neither cunning nor might. Sri Lanka's independence is better explained by India's virtues and vices – the moral virtue of its Gandhian-Nehruvian legacy and a weak, largely

¹ Colin S Gray, 'Strategic thoughts for defence planners', *Survival*, Vol. 52, No. 3, June 2010, pp. 159-178.

² No domestic actors have ever threatened the existence of an independent Sri Lankan state. Even if the LTTE succeeded in carving out an Eelam (proposed homeland of the Tamil people of Sri Lanka), the Sri Lankan state would persist – although in an altered form. Had the Marxist Janatha Vimukhti Peramuna uprisings succeeded, Sri Lanka is likely to have changed its political system, but the state would have survived.

³ Rohan Gunaratna, *Indian Intervention in Sri Lanka: The role of India's Intelligence Agencies* (Colombo, South Asian Network on Conflict Research, 1993).

incompetent state. The ability of the LTTE, a non-state actor, to bring the Indian army to its knees is a good example of the latter. Of course, the post-World War II international system, remarkably favourable to small states, helped tremendously too.

Despite the Indian economy rousing from its slumbers and leaving the 'Hindu rate of growth' behind, India's ability to project power over Sri Lanka has not improved commensurately. In fact, over the past few decades, China's extraordinary growth means that India may not possess the force ratios necessary to fight a "two-front" war.⁴ Moreover, it must be emphasised that since its independence, India has expressed no desire to expand her territory. In fact, border issues – such as those over the Kachathevu Island – have been resolved amicably to all parties' satisfaction. This means that, for the foreseeable future, India has little ability or appetite to fight a sustained conventional war deep in the South.

Therefore, there is no pressing need for defence against India. As the foundations of military power are ultimately in some form economic,⁵ the best long-run defence strategy is for Sri Lanka's economic growth rate to exceed that of India. On this critical measure, there is much reason to worry. Since the liberation of its economy in the 1990s, India's GDP growth has converged with that of Sri Lanka and often exceeds it.⁶

Due to the effects of compounding in the space of a decade or two, a two per cent growth rate differential can considerably alter the strategic balance.⁷ This is especially worrying as India enjoys a considerably more favourable demographic profile than Sri Lanka.

⁴ 'Two-front war: a debate for more opulent times', *Livemint*, 20 March 2018, <https://www.livemint.com/Opinion/osVGkC2Rwy2y5gNgFQNEil/Two-front-war-a-debate-for-more-opulent-times.html>. Accessed on 18 March 2019.

⁵ Ashley J Tellis, *Measuring national power in the post-industrial age* (Rand Corporation, 2001).

⁶ World Bank Group, 'World development indicators 2014', World Bank Publications, 2017, <https://openknowledge.worldbank.org/handle/10986/18237>. Accessed on 11 March 2019.

⁷ Paul M Romer, 'Compound rates of growth' in *The Concise Encyclopedia of Economics* (Pennsylvania State University, 2008).

India's median age in 2015 was 26.7 years while Sri Lanka's was 32.3 years in the same year.⁸ Moreover, much of the divergence in growth rates occurred during the post-war period, precisely when Sri Lanka's economy was supposed to expand more rapidly. There is also a considerable body of research that suggests that internal conflicts are less likely to turn into security risks when growth is high and steady.

Therefore, Sri Lanka's long-term national security objective ought to be ensuring that it closes or exceeds the gap with the Indian growth rate. The inability to converge with or exceed the Indian growth rate is, therefore, the pre-eminent national security threat in the long term. However, in the short to medium run, it is also prudent to prepare for low-probability, high-cost events. In other words, some ability to defend Sri Lanka or deter India is advisable.

Ethnic Conflict

Although, as noted above, the risk of Indian intervention is an existential matter, it is highly unlikely. Given that most of today's civil wars are recurrences of previous ones, prudence dictates assessing the risk of ethnic violence in some depth.

Post-war, governments failed to remove the root causes of political violence in Sri Lanka. The country's minorities do not feel secure or integrated and their major political grievances remain unaddressed.⁹ Although the Yahapalanaya (Good Governance) government started out with great promise and made some progress, the major concerns of the Tamil community are still outstanding.¹⁰ The Muslim community continues to live in fear, especially after the failure of the state to enforce the law and

⁸ 'United Nations Data', United Nations, 2019, <http://data.un.org/>. Accessed on 7 March 2019.

⁹ 'Sri Lanka: A Bitter Peace', International Crisis Group, 2010, <https://www.crisisgroup.org/asia/south-asia/sri-lanka/sri-lanka-bitter-peace>. Accessed on 19 March 2019.

¹⁰ 'Sri Lanka's Transition to Nowhere', International Crisis Group, 2017, <https://www.crisisgroup.org/asia/south-asia/sri-lanka/286-sri-lanka-s-transition-nowhere>. Accessed 15 March 2019.

assert its monopoly of violence during the Aluthgama, Digana and Minuwangoda riots.¹¹ Additionally, there is the distress of widespread societal prejudice and discrimination. On the flip side, the state has turned a blind eye to the drivers of radicalisation of the Muslim population – the Muslim Marriage and Divorce Act, free foreign financing of *madrassas* and the creation of economic opportunities to de-link from the extremist Gulf. International non-state actors could also strain inter-ethnic relations. Sri Lanka’s geographic location, while an economic boon, also places it in a far from favourable security neighbourhood. An attack by an international non-state actor – which is more likely than not at some point – will powerfully catalyse existing inter-communal tensions.

However, failure to remove the root causes of grievance is highly unlikely to cause large-scale insurgency. First, the political underpinnings of insurgency are absent. Second, the international context is not supportive. Third, the strategic balance of power has strongly shifted in the state’s favour, partly as a result of the way in which the state reasserted its monopoly on violence. Fourth, demographics do not favour a civil war recurrence.

First, while minority grievance is widespread and deep, it is unlikely to manifest as violence. The loss of privileged positions and decades of discrimination mean that expectations are low. There is also little appetite for renewed violence. Economically, unlike in the 1970s and 1980s, when Jaffna’s youth were battered by the triple scourge of standardisation, severe limitations on government employment and nationalisation of private industry, today’s youth have opportunities in the growing private sector, the Middle East and are well-linked to overseas networks of employment. They also have a cushion in the form of remittances. The popular imagination has also altered. Bangladesh’s successful secession from Pakistan is not top-of-mind. Rather, the defeat of the LTTE is.

¹¹ INFORM Human Rights Center, ‘Voices from The Riot Ravaged Digana, Sri Lanka: The Importance of Inter-Ethnic Understanding’, *Sri Lanka Brief*, 2018.

Second, the international climate also does not favour a return to violence. In contrast to the early 1980s, there is no rear base for insurgency in the form of India. Perhaps the foremost reason for rag-tag political assassinations turning into full-blown insurgency was India's arming, training and financing of militant groups in the late 1970s and early 1980s. The assassination of Rajiv Gandhi, the decline in the salience of Sri Lankan Tamil issues in Tamil Nadu politics and the South bloc's fear of a separate Tamil state are a few of the reasons why India is unlikely to desire intervention.

The success and failure of India's past intervention mean that compelling practical reasons discourage any future adventures. The Indo-Lanka Accord ensures that Sri Lanka will respect the most core of Indian security concerns. On the failure side, the IPKF's humiliating defeat means that India will think thrice prior to attempting intervention again. More broadly, the international community is considerably less tolerant of non-state actors. The LTTE is banned by the United States (US), Canada and the European Union, making fundraising much more difficult than in the 1980s.

Third, the Sri Lankan military has developed into a formidable force with equipment, training, intelligence and surveillance capabilities far in excess of anything available in the 1980s. In the 1980s, much of the Sri Lankan military's armoury was of World War II vintage. The Tamil militant groups, by contrast, had access to automatic weapons and, in the LTTE's case, significantly superior radio communications technology. The human capital advantage, largely in the Tamil militant groups' favour at the time, was extinguished by the war. Jaffna now has some of the poorest educational outcomes on the island, and its middle class migrated. In the 1980s, those who would have qualified for engineering, if not for standardisation, fought against poorly educated infantrymen. Today, the situation has reversed.

Fourth, in the 1980s, Sri Lanka's demographics were favourable to the occurrence of conflict. There was a youth

bulge, combined with very high unemployment. Now, the conditions are different. Currently, 27 per cent of men in the Northern Province are between 15 and 29 years old, while only 19 per cent are in the critical 14-to-24-year window.¹² Unemployment in the province, at 7.7 per cent, is higher than the Sri Lankan average of 4.2 per cent.¹³ In 1983, the unemployment rate of young Tamil men who passed the 'A' Levels was 41 per cent.¹⁴

Great Power Competition

Sri Lanka is becoming one of many foci in the great game. While Sri Lankans tend to overestimate their importance in global affairs, the risk of being influenced and entangled in the great power competition is not trivial. For example, Indian intervention, partly a response to American engagement on the island, and recent Chinese attempts at influencing elections (although it remains unclear if this was for strategic or economic advantage) cannot be discounted either. In an age of hybrid, informationised warfare, Sri Lanka's democracy is as or possibly more vulnerable than that of the UK and America. And Sri Lanka's weak, moribund institutions inspire little confidence regarding its ability to detect, much less prevent or thwart, such attempts.

¹² Department of Census and Statistics, 'Census Report 2012', Government of Sri Lanka, 2015, http://www.statistics.gov.lk/PopHouSat/CPH2011/Pages/Activities/Reports/CPH_2012_5Per_Rpt.pdf. Accessed on 5 March 2019.

¹³ Department of Census and Statistics. 'Labour Force Survey Report 2017', Government of Sri Lanka, 2018, <http://www.statistics.gov.lk/LabourForce/StatalInformation>. Accessed on 18 March 2019.

¹⁴ Stanley J Thambiah, *Sri Lanka—Ethnic Fratricide and the Dismantling of Democracy* (University of Chicago Press, 1991).

Introduction

The rapidly developing security context described in the previous section, combined with the fiscal pressures brought on Sri Lanka's exchequer by the COVID-19 pandemic and the country's probable default in 2021 or 2022, mean that Sri Lanka's defence budget deserves greater attention than it gets.

Defence is the single largest item of government expenditure of the country, accounting for 11 per cent of government spending in 2017.¹⁵ It is also the budget category that probably receives the least scrutiny. As a result, there is good reason to think that Sri Lanka's spending may be sub-optimal.

There are five *prima facie* reasons for thinking that Sri Lanka's defence may diverge from its optimal level.

1. Despite the end of Sri Lanka's civil war nearly a decade ago, its defence budget did not experience a significant decline or a major change in its composition. This requires explanation, as one would expect the budget to have some relationship to the new strategic environment and risks that Sri Lanka faces.
2. The government does not prepare reviews of national security threats, outline national security objectives or strategies for achieving them. There are no clearly defined *ends*. Therefore, there is reason to doubt that the *means*, that is, defence expenditures, efficiently match the *ends*.
3. The defence budget has not been subject to independent scrutiny outside the cursory *pro forma* review provided by the Treasury and Parliament. The Treasury and Parliament lack the technical skills to question budgetary proposals from the defence ministry. Interviews suggest that, depending on the period, the defence budget has either been residual

¹⁵ 'SIPRI Military Expenditure Database', Stockholm International Peace Research Institute, 2017, <https://www.sipri.org/databases/milex>. Accessed on 15 March 2019.

(what is left over once everything else is allocated) or a certain percentage over last year's expenditure is allocated.¹⁶ Analysis by Transparency International corroborates this view. Its 2015 Defence Anti-Corruption Report observes that Sri Lanka is in the "very high-risk category for corruption in the defence and security sector".¹⁷ Of their three key recommendations for Sri Lanka, two are increasing budget transparency and creating mechanisms for legislative scrutiny.

4. The Sri Lankan military is involved in several activities that are a distraction from its security mandate, such as business ventures and construction contracts.¹⁸ It also seeks to engage in developmental activity, long after the stabilisation period is over and civilian authorities are capable of taking over. As is clear from the experience of Pakistan, Egypt and China, military involvement in business creates a host of perverse incentives.
5. Furthermore, the commanding heights of Sri Lanka's public reasoning institutions – the universities, think-tanks and media – also lack the appetite or ability to scrutinise the defence budget. Therefore, there is an accountability vacuum.¹⁹ This too suggests that expenditure is likely to diverge from the optimal level.

Therefore, this Scan seeks to conduct a first systematic review of Sri Lanka's defence budget by focusing on two questions. First, the allocative question: how much is enough? Second, the efficiency question: how best to spend it?

¹⁶ Email interview with senior government official, Colombo, December 2018.

¹⁷ 'Government Defence Anti-Corruption Index 2015: Sri Lanka Country Assessment', Transparency International, 2017, <https://www.tisrilanka.org/sri-lanka-is-in-very-high-risk-category-for-corruption-in-the-defence-sector/>. Accessed on 15 March 2019.

¹⁸ 'Power and Profit: Investigating Sri Lanka's Military Businesses', *Sri Lanka Brief*, April 2018, www.srilankabrief.org/2018/04/power-and-profit-investigating-sri-lankas-military-businesses/. Accessed on 15 March 2019.

¹⁹ 'Sri Lanka's National Security Silence: Threat or De-fence?', *Colombo Telegraph*, 2014.

It does this by using historical and comparative benchmarking as a diagnostic tool to uncover potential allocation problems and inefficiencies. Much of this is possible as a result of the recent publication of a new Jane's series, *Jane's Defence Budgets*. This series, unlike the well-established Stockholm International Peace Research Institute and the International Institute for Strategic Studies datasets, contains detailed defence expenditure breakdowns of 105 countries, including by service and type of expenditure.

Following the benchmarking exercise, the paper proceeds to outline the main threats to Sri Lanka's security, suggests strategies for addressing them, identifies the capabilities required to execute those strategies and finally analyses the costs of those capabilities. In other words, it also presents a first pass at what an optimal budget might look like. It ends with potential pathways for reform and a conclusion.

It is to be noted that this Scan does not seek to assess how much Sri Lanka ought to spend on defence by trying to solve the trade-off between guns and butter (shorthand for all other aspects of government spending such as health, education, etc). The trade-off between the two is not easily subject to technical analysis. It is fundamentally a question of values and is thus the proper province of politics, not policy analysis.

Historical and Comparative Diagnostics

The Allocative Question

Introduction

The defeat of the LTTE in 2009 ended all conventional threats to the Sri Lankan state. The LTTE's demise also significantly reduced the probability of non-conventional threats from materialising. Despite the radically altered strategic environment, defence expenditure did not fall. In fact, measured at 2012 prices, it rose from US\$1.71 billion (S\$2.33 billion) to US\$1.824 billion (S\$2.48 billion).

This is not so surprising. Budgets tend to be sticky. And change is even harder when the budget involves a particularly powerful entity which benefits from a legitimacy 'windfall' – in this case, Sri Lanka's post-war military. The process of rationalising US military spending following the tremendous build-ups during World War II and the early Cold War is instructive. Vested interests in the US' military and defence department strongly resisted Secretary of Defense Robert McNamara's much-needed systematic analysis and rationalisation efforts.²⁰

Returning to Sri Lanka's defence budget; as a share of GDP and government expenditure, defence expenditure fell slightly following the end of the war. The decline was roughly commensurate to dips during previous cessations of hostilities *viz* the period of the Indo-Lanka Accord and the Ceasefire Agreement. Note, however, that during these two periods, grave threats to the Sri Lankan state – in the form of the LTTE – persisted. That is no longer the case.

The conclusions of this historical perspective are supported by comparative bench-marking. States with similar income levels, geographic locations, population size and conflict levels have, on average, lower defence expenditure than Sri Lanka. Note that many states used in the comparison have significantly more challenging

²⁰ A C Enthoven and K Wayne Smith, *How much is enough?: Shaping the Defense Program, 1961-1969* (Rand Corporation, 2005).

external security environments than islanded Sri Lanka. Its only external threat is India, which faces two formidable military foes, Pakistan and China, and possesses limited military effectiveness (especially in air and sealift) and, therefore, has no reason to attack Sri Lanka.

Taken together, these diagnostic tools suggest that Sri Lanka's defence expenditure is likely to be higher than necessary. This is especially likely considering that Sri Lanka has invested heavily in defence over the past 35 years and faces no imminent threats.

Historical Benchmarking

The history of Sri Lanka's defence expenditure can be divided into three periods. In the first period, lasting from independence to the early 1980s, defence spending was steady at around 0.8 per cent of GDP. In the second period, as Sri Lanka's civil war escalated, military spending expanded rapidly. In the third period, since the end of the war in 2009, defence spending plateaued at around 2.4 per cent of GDP.

As Figures 1 and 2 show, following the LTTE's defeat in 2009, Sri Lanka did not return to past peacetime levels of defence spending. In fact, since 2015, inflation-adjusted defence expenditure exceeded previous peaks in defence spending.

This marks a divergence from the past. Past cessations of hostilities resulted in lower spending. Following the signing of the Indo-Lanka Accord, defence expenditure dipped from US\$655 million (S\$891.45 million) in 1987 to US\$349 million (S\$475 million) in 1989. This large drop occurred despite the second Janatha Vimukhti Peramuna insurgency peaking during this period. Similarly, as Table 1 shows, average expenditure during the Ceasefire Agreement (CFA) was US\$290 million (S\$395 million) lower than during Eelam War III.

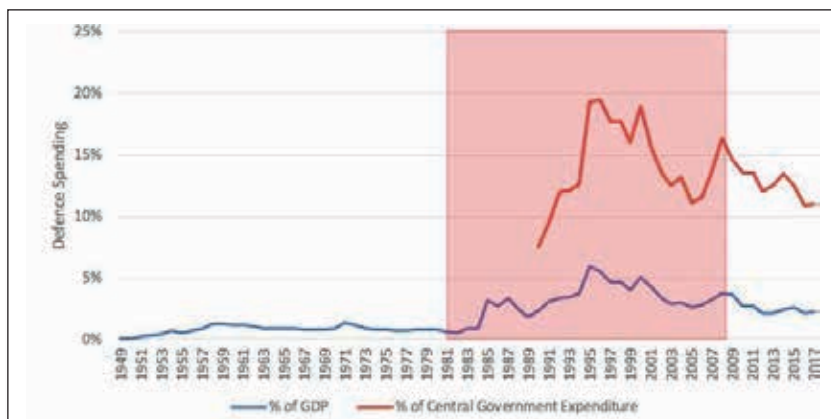
Moving beyond absolute monetary values does not change the analysis. When defence expenditure is evaluated as a percentage of GDP and central government expenditure, the conclusions are similar. Table 1 shows how drops in defence spending arising from the

Indo-Lanka Accord and the CFA are roughly commensurate to reductions following the war's conclusion in 2009.

Even if defence expenditure, as a percentage of the GDP, has fallen, it remains three times higher than past peacetime spending levels. This is especially surprising, considering the large investments made on defence since 1983. The growth in military salaries compared to general government salaries shown in Figure 3 highlights this pattern well.²¹

It must be noted that armed forces pensions obligations in Sri Lanka are unfunded.

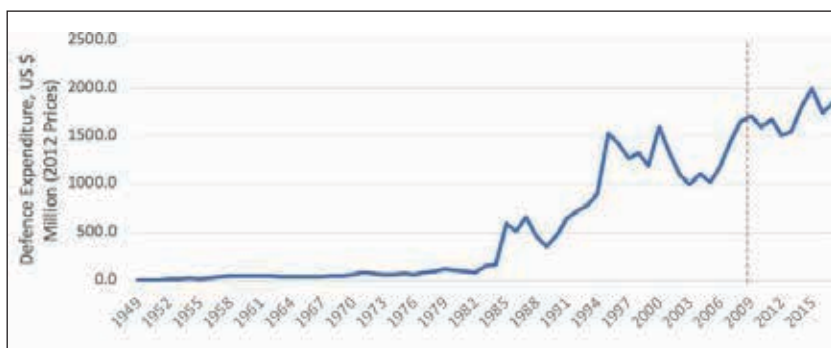
Figure 1: Defence Spending 3x Higher Than Last Peacetime



Sources: World Bank and SIPRI.

²¹ R Venugopal, *Nationalism, development and ethnic conflict in Sri Lanka*, Vol. V (Cambridge University Press, 2018).

Figure 2: Defence Spending Higher Than Wartime Peak



Source: SIPRI.

Table 1: Defence Spending Higher Than Wartime Peak (Cont.)

Average Military Expenditure, US\$ million (2012 prices)	
Eelam War I (1983 – 1987)	421
Eelam War II (1990 – 1995)	766
Eelam War III (1995 – 2002)	1,346
CFA (2002 – 2005)	1,056
Eelam War IV (2006 – 2009)	1,499
Post-War (2009 – 2017)	1,716

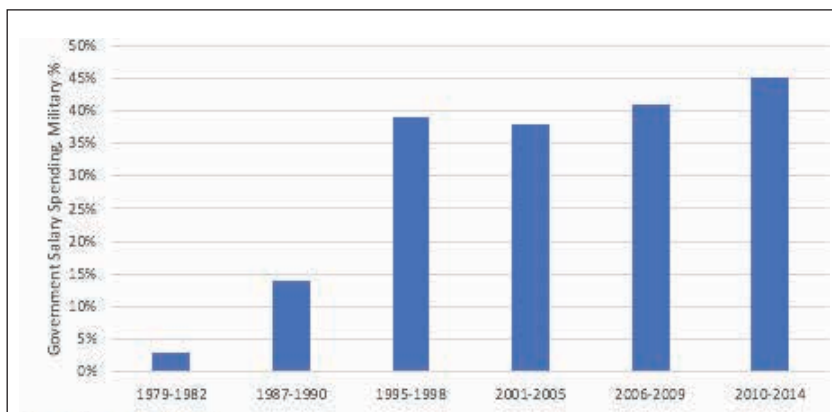
Source: SIPRI.

Table 2: Defence Spending 3x Higher Than Last Peacetime (Cont.)

Defence Expenditure, % of GDP	
Peacetime (1948 – 1982)	0.8%
Wartime (1983 – 2009)	3.3%
Post-War (2009 – 2017)	2.4%

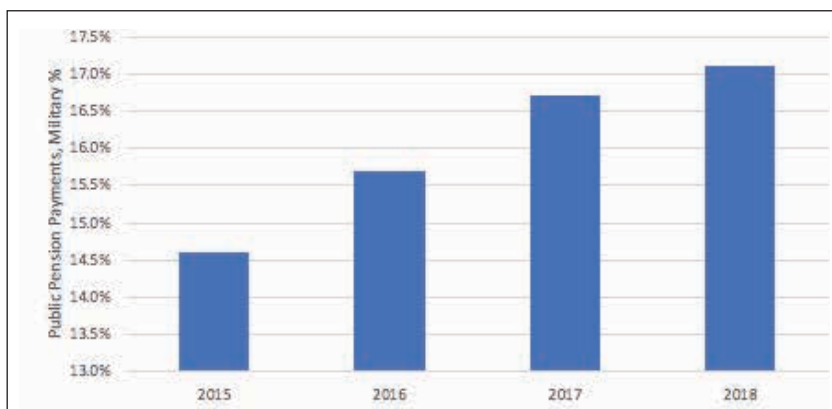
Sources: World Bank and SIPRI.

Figure 3: Military Salaries Nearly Half of Government Salary Spending



Source: R Venugopal, *op. cit.*

Figure 4: Military Pension Spending Rising Rapidly



Source: Department of Pensions, Government of Sri Lanka.

Therefore, pension expenditure is set to rise considerably on the back of rapid military personnel expansion over the course of the war, particularly in the latter period. This is already seen in the data. The share of government pension expenditure accruing to military personnel has risen from 14.5 per cent to over 17 per cent in just three years. This number is likely to continue rising as the peak retirement level has most certainly not been reached yet. For context,

Sri Lanka spent around US\$1 billion (S\$1.36 billion) on pensions,²² so military pensions cost the taxpayer approximately US\$170 million (S\$231.37 million) per year.

Comparative Benchmarking

Comparing Sri Lanka’s defence spending to peer states can also help diagnose whether Sri Lanka is spending too much or too little. Table 3 compares the Sri Lankan government’s expenditure on defence to groups of states with salient commonalities, including population size, income level, geography and conflict level.²³ This diagnosis suggests that Sri Lanka’s defence expenditure is higher than peer countries and resembles that of a country in wartime.

Table 3: Sri Lanka Spends Like a Country at War

Defence Spending, % of Central Government Expenditure	
Similar Population	5.79
Post-Conflict	7.93
Lower Middle Income	8.50
South Asia	9.80
Sri Lanka	11.00
Fragile and Conflict Affected States	11.20

Sources: SIPRI, World Bank and Uppsala Conflict Data Program.

The Allocative Question: Diagnostic Conclusion

Sri Lanka’s peacetime defence budget exceeds its wartime budget in absolute numbers. However, post-war, the defence budget declined as a share of GDP and government expenditure. Nevertheless, the decline is relatively small, especially when compared to past periods of significantly less secure ‘peace’. It is also three times higher than the previous peacetime level. Furthermore, compared to peer states

²² ‘Annual Report 2017’, Central Bank of Sri Lanka, 2018, <https://www.cbsl.gov.lk/en/publications/economic-and-financial-reports/annual-reports/annual-report-2017>. Accessed on 10 March 2019.

²³ These categories, with the exception of similar population size, are from the World Bank. Similar population size means countries with populations less than 150 per cent of Sri Lanka’s population and more than 50 per cent of Sri Lanka’s population.

in the region, by income level and history of conflict, Sri Lanka spends substantially more on defence. Taken together, the historical and comparative diagnostic suggests that Sri Lanka may be spending too much on defence.

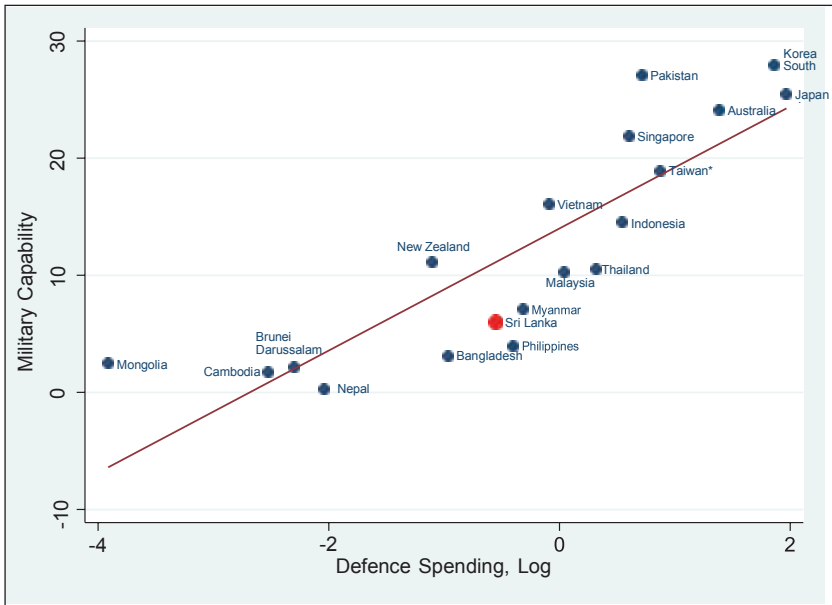
The Efficiency Question

Introduction

Having shed some light on the allocative question of how much to spend, we can train our sights on the efficiency question. What is the optimal way of spending money allocated to defence? There are two main ways to assess the efficiency of defence spending. The first is the level of defence or security obtained per unit of defence spending. Let us call this *security efficiency*. The second is to assess the level of non-defence benefits or costs – for example, reduced rural poverty – arising per unit of defence spending. We can call this *spillover efficiency*. This section will focus on security efficiency. Spillover efficiency will be discussed later.

There is good reason to think that Sri Lanka's military spending may be inefficient in the security inefficiency sense. The Asia Power Index published by the Lowy Institute contains data on defence expenditure and military capability. By creating the scatter plot and line of best fit shown in Figure 5, we observe that Sri Lanka's military capability is below the level predicted for its level of spending. In other words, compared to its Asian peers, Sri Lanka gets less bang for every defence buck it spends.

Figure 5: Sri Lanka's Defence Spending Is Less Efficient Than Asian Peers



Source: Defence spending and military capability data from Asia Power Index, Lowy Institute, 2018. Military capabilities constructed from armed forces, weapons and platforms and signature capabilities sub-indices. Author's analysis. Note that nuclear powers are excluded from analysis.

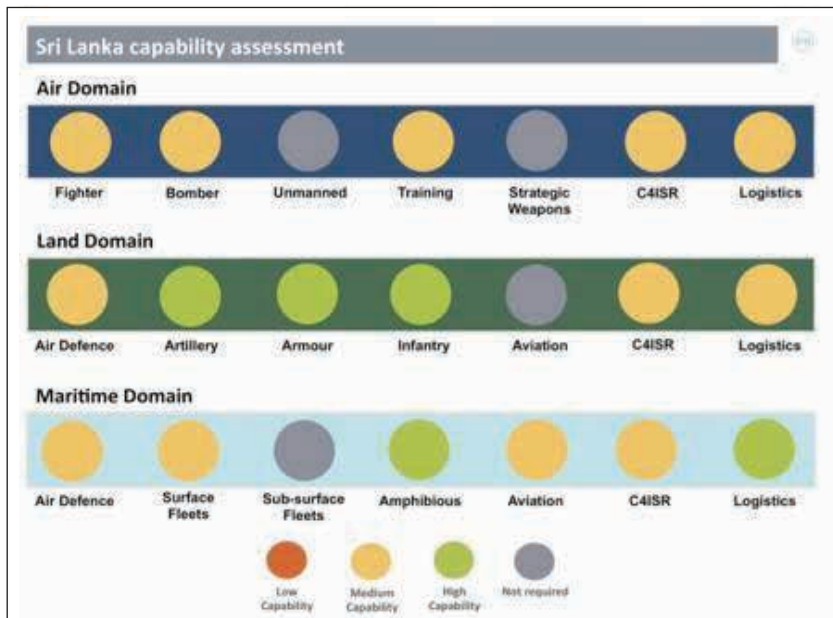
For example, even though Sri Lanka's military spending is in the same ballpark as that of New Zealand and Vietnam, its military capability score is substantially lower.

As noted in the previous section, Sri Lanka spends more on defence than peer states. Therefore, it makes sense that there is no domain in which Sri Lanka is 'low capability', as assessed by *Jane's* in Figure 6. However, the *Jane's* assessment suggests that it does not have capabilities needed to fulfill its perceived requirements (see Figure 6). As Sri Lanka's perceived requirements are not particularly onerous, this also suggests that spending is inefficient.

The composition of inefficiencies in Figure 6 is also instructive. Sri Lanka's capabilities in amphibious operations, artillery and armour are more than adequate. But these are among the capabilities Sri Lanka needs the least. In the event of low intensity insurgency or an

Indian invasion, amphibious operations, artillery and armour are unlikely to be very helpful. By contrast, poor command, control, communication, computers, intelligence, surveillance and reconnaissance (C4ISR), air-defence and surface fleets are a cause for concern. Taking a broader lens, observe that Sri Lanka’s capabilities are focussed on the land-domain rather than the maritime domain, which makes little sense for an island nation.

Figure 6: Despite Spending Significantly, Sri Lanka’s Capabilities are Limited; and in the Wrong Places



Note: The assessment of capabilities is against perceived requirements.

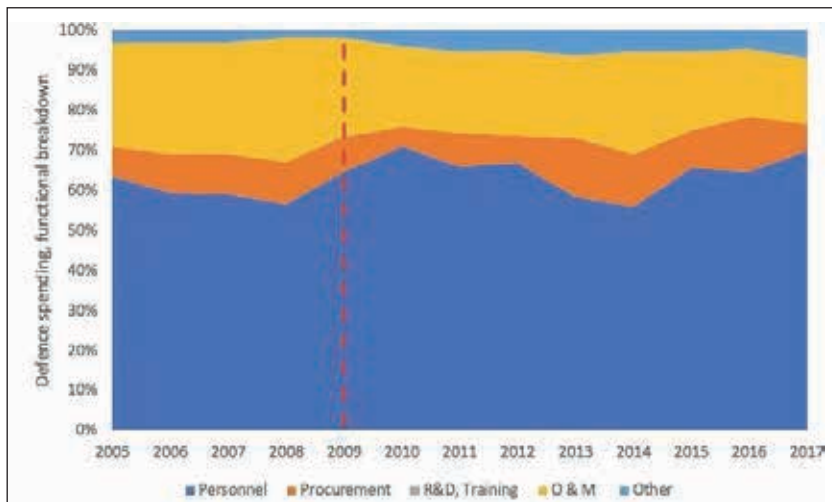
Source: Jane’s Security Sentinel 2018.

Historical Benchmarking

The absence of any major changes to the functional composition of defence spending following the LTTE’s defeat also suggests that the defence budget may not be geared towards current security challenges. Following the complete annihilation of all threats to the state’s monopoly of violence, the strategic environment shifted considerably. Therefore, one would expect lower personnel costs, operations and maintenance costs and higher capital costs, as the wear and tear of active combat ceases and the force structure

morphs to respond to the new environment. But, as Figure 7 illustrates, this is not the case.

Figure 7: Sri Lanka’s Defence Budget Composition has Not Changed Much Since the War’s End



Source: *Jane’s Defence Budgets 2018*.

Comparative Benchmarking

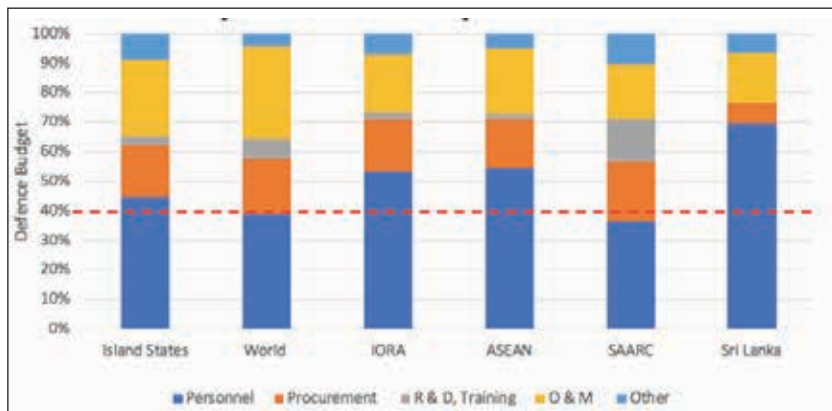
This section focuses on benchmarking Sri Lanka against relevant groups of peers. The choice of comparison groups is fairly obvious. The Indian Ocean Rim Association (IORA, consisting of Indian Ocean littoral states), South Asian Association of Regional Cooperation (South Asia) and the Association of Southeast Asian Nations (Southeast Asia) are all in Sri Lanka’s immediate security neighbourhood. Island states are likely to reflect the unique security context of being surrounded by water.²⁴ The comparative diagnostic suggests that Sri Lanka spends too much on manpower, over-prioritises the army and under-prioritises diplomacy, policing and maritime capabilities.

²⁴ Island states are all states that are islands or collections of islands contained in *Jane’s Defence Budgets*. They are Australia, Bahrain, Indonesia, New Zealand, Philippines, Singapore, Taiwan, the United Kingdom and Japan.

Too much on manpower: On average, states spend 40 per cent of their defence budgets on personnel. This is true of island states too. However, the Indian Ocean, Southeast Asian and South Asian regions spend over half their defence budgets on personnel. Sri Lanka is 10-percentage points higher than that average. In fact, in the entire Asian continent, only Nepal and Tajikistan spend a greater share of their defence spending on personnel.

Too many active-duty troops: Sri Lanka’s active-duty troop numbers are higher than the island, IORA and world averages. But as a percentage of population, and even more so for the labour force, Sri Lanka’s large manpower becomes even starker. (Interestingly, for most of the war, the LTTE’s high military-participation ratio of 1.1 per cent is around the current figure for the Sri Lankan military).²⁵ These numbers become all the more surprising considering that Sri Lanka has a large police-force of 75,478 – a number that excludes the 8,898 man strong Special Task Force.²⁶ The contrast with US demobilisation following World War II is even more striking.

Figure 8: Spending Too Much on Manpower



Note: IORA does not include Mozambique, Madagascar, Mauritius, Comoros, Seychelles and Somalia due to lack of data.

Source: Jane’s Defence Budgets.

²⁵ D Sivaram, ‘The Cat, a Bell and a Few Strategists’, *Sunday Times*, 1997, www.sundaytimes.lk/970413/news5.html. Accessed on 12 March 2019.

²⁶ ‘Performance Report Sri Lanka Police 2017’, Sri Lanka Police, 2017, <https://www.parliament.lk/uploads/documents/paperspresented/performance-report-srilanka-police-2017.pdf>. Accessed on 17 March 2019.

A second reason for thinking that Sri Lanka has too many active-duty troops is the absence of reserves. The world average for reserve contribution to total manpower is over 60 per cent. In Sri Lanka's case, reserves are less than four per cent of manpower strength.

This may explain why Sri Lanka – the 58th largest country in the world by population – has the 24th largest army in the world. In fact, Sri Lanka's Navy has 38,000 sailors, while the Indian Navy, a country whose population is 64 times greater, has a naval strength of 67,228. The result of spending so much on manpower has led to unusually low spending on procurement, research and development as well as testing and evaluation. Sri Lanka spends significantly less than other states in these areas.

Third, as noted earlier, expenditure on pensions is set to rise considerably over the coming years. Therefore, limiting personnel numbers can help ensure that the military has enough resources for procurement and training.

Too much on the army: With the exception of Bahrain, no other island state spends as large a share of its defence budget on the army.²⁷ Sri Lanka has just come out of a civil war where the army was allocated the lion's share of resources. As an island, the sea is the vital locus of external and internal defence. As such, one would expect higher investment in the navy and less on the army. Moreover, Sri Lanka no longer faces a risk of war requiring large numbers of infantry troops (Annex 1).

Too little on diplomacy, law and order: Sri Lanka's security budget over-emphasises defence at the expense of law and order and foreign affairs. As documented elsewhere, Sri Lanka's foreign ministry is chronically understaffed. Only 190 diplomats serve 67 missions and the headquarters in Colombo.²⁸ By contrast, Singapore's 867 diplomats cover 50 missions and their headquarters.²⁹

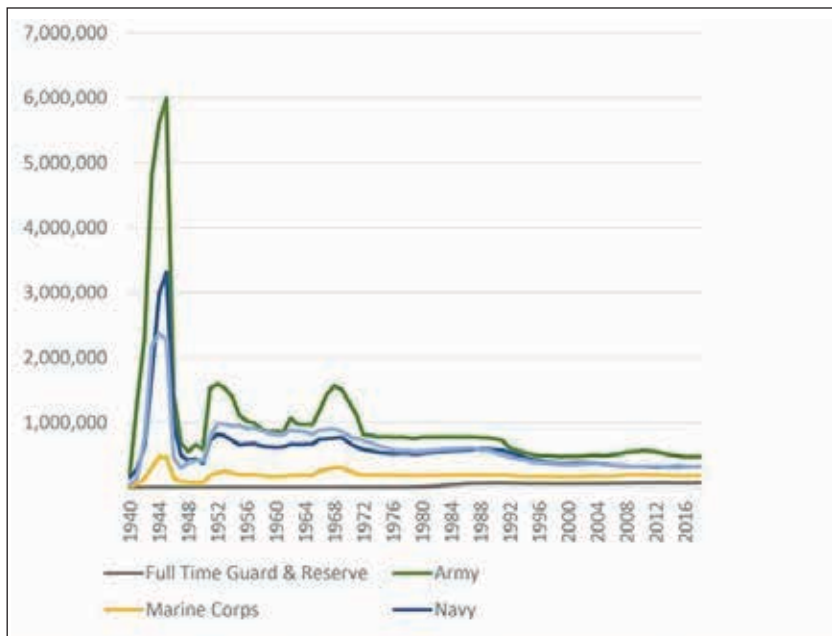
²⁷ Bahrain being the US Fifth Fleet's headquarters is unlikely to be a coincidence.

²⁸ D Alphonsus, 'Towards a Self-Reforming Foreign Ministry', Lakshman Kadirgamar Institute, forthcoming.

²⁹ Shashi Tharoor, 'In the Ministry of External Affairs', *The Caravan*, 2012.

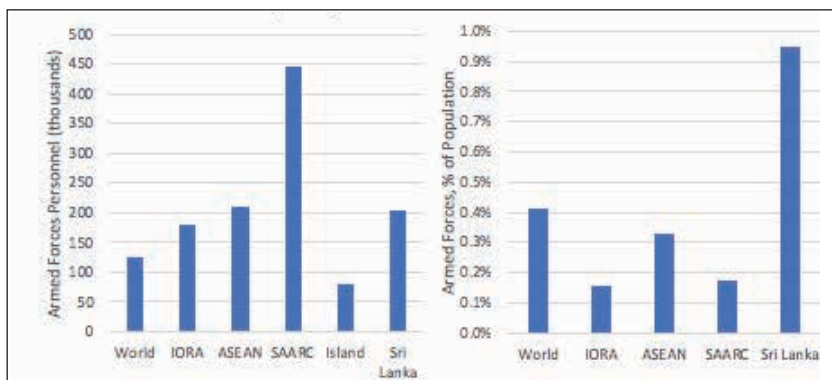
This has very real security costs. Sri Lanka’s ability to understand, much less shape, Indian policy is very limited. The Sri Lankan High Commission in Delhi only has four foreign service officers. Sri Lanka does not have diplomatic representation in key Indian states, including neighbouring Kerala and nearby Karnataka. The situation in Washington, New York, Beijing and other key stations is similar. In addition, the quality of diplomats is also poor. Real wages have fallen by 92 per cent since Sri Lanka’s independence. Ergo, there are clearly significant efficiencies to be gained by re-allocating resources away from defence to diplomacy.

Figure 9: Despite the Cold War, US Military Demobilised Rapidly When WWII Ended (Courtesy: Center for Budget and Strategic Analysis)



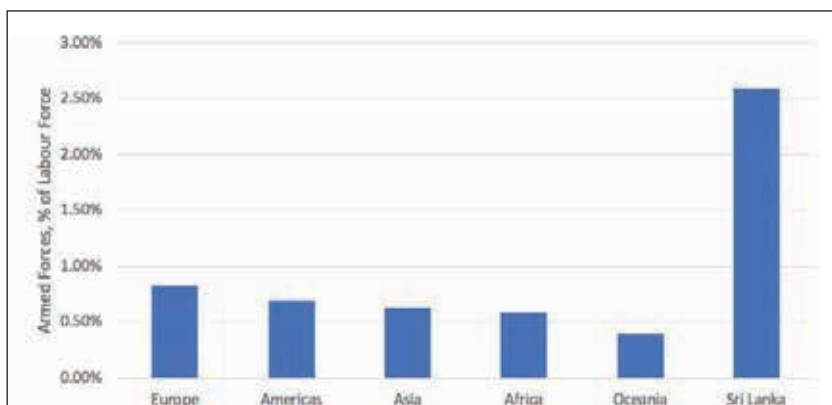
Source: OUSD (Comptroller), FY2018 Greenbook, Table 7-5, “Department of Defense Manpower.”

Figure 10: Too Many Men



Sources: IISS Military Balance 2018 and author's categorisations.

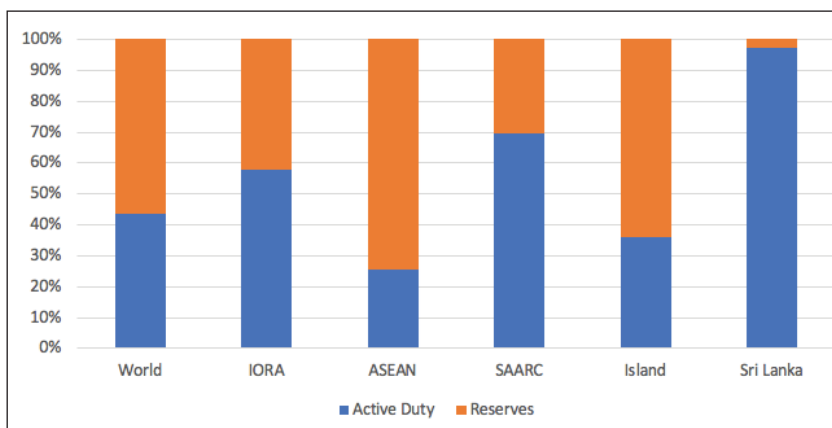
Figure 11: Too Many Men (Cont.)



Note: Other than Sri Lanka, all figures are 11-year average. Sri Lanka data is for 2016.

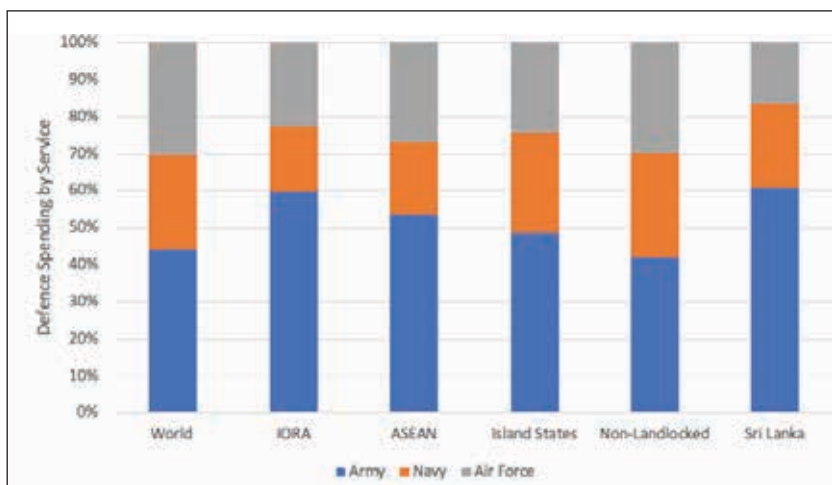
Source: State Department, World Military Expenditures and Arms Transfers 2018.

Figure 12: Sri Lanka's Missing Reserves



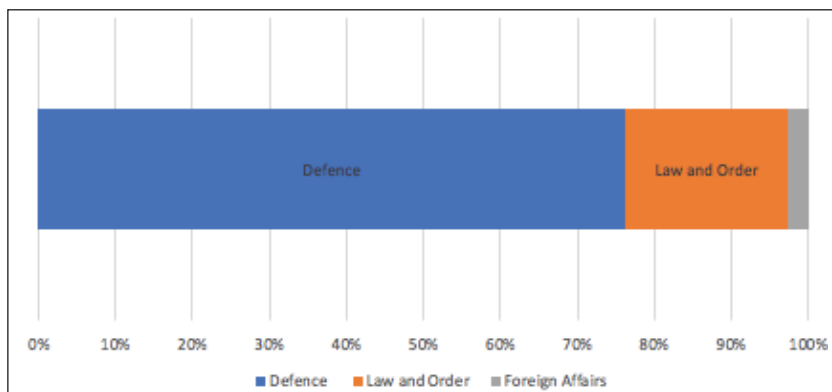
Sources: IISS Military Balance 2018 and author's categorisations.

Figure 13: An Over-Mighty Army



Sources: Jane's Defence Budgets 2018 and author's categorisations and calculations.

Figure 14: Too Much Strength, Too Little Guile



Sources: Budget Estimates 2017, Ministry of Finance and author's calculations.

Similarly, considering continued ethnic tension, allocating greater resources to law and order would allow the upgrading of the investigative capacities – including financial investigative capabilities – of the law enforcement authorities. This would also help manage some of the effects of great power competition discussed briefly later.

The Efficiency Question: Diagnostic Conclusion

The previous section on the allocative question argued that Sri Lanka spends too much on defence. In the case of this section, focusing on the efficiency question, the historical and comparative diagnostics suggest that Sri Lanka spends too much on personnel. This misallocation arises from the absence of reserve forces, an over-mighty army and insufficient expenditure on diplomacy and policing.

Taking the results of the two sections and using them as rough 'rules-of-thumb', we can develop a rough benchmark to assess how much Sri Lanka ought to spend on defence and how it should spend it.

If we take the average percentage of central government expenditure for lower middle income South Asian post-conflict states and similar population states – which comes to eight per cent – then Sri Lanka's defence budget ought to be 1.5 per cent of GDP rather than just over

two per cent. This amounts to a reduction of over US\$450 million (S\$611 million) per year.

Table 4: Spend Less on Personnel. Composite Benchmark is the Average of World, IORA and Island States

Personnel		Procurement	R & D	O & M	Other
Composite Benchmark	46%	18%	4%	26%	7%
Sri Lanka	70%	6%	0%	17%	7%
Difference	-24%	11%	4%	9%	0%

Source: Author's calculations.

Similarly, if we take the world, IORA and island states' averages by operational and service, Sri Lanka's defence budget ought to resemble the details in Table 4. This suggests that much of the reduction should be from the personnel budget. This is not to suggest that this is the optimal budget for Sri Lanka. But it does require us to think analytically and justify divergence from this benchmark.

An Optimal Budget from First Principles

Introduction

This section is a first pass attempt at developing an optimal defence budget for Sri Lanka from first principles. This is not an easy task. There are five main conceptual challenges:³⁰

1. Identifying current and future threats.
2. Evaluating response strategies for countering these threats.
3. Estimating optimal capabilities and force structure.
4. Costing these capabilities and forces.
5. Weighing the security benefits against other government objectives.

Since ‘identifying current and future threats’ and weighing their relative importance is not strictly about budgeting, the author has placed that analysis in Annex 1. However, a short summary is provided here.

Threat Analysis

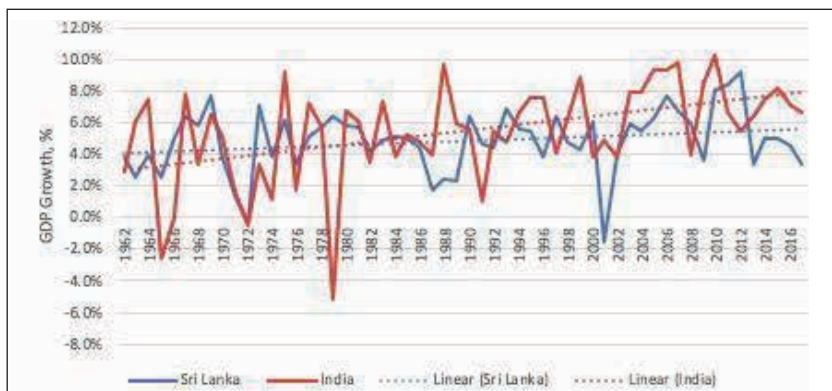
Sri Lanka faces only one existential security risk – the extremely low-probability event of an Indian invasion. This exceptionally low-probability risk arises from geography and will, therefore, be persistent over time. However, it is a slow-moving threat. The change in the strategic calculus, culture and operational capabilities on which invasion is predicated will take a long period of time to obtain. This will give Sri Lanka time to respond. Therefore, the best response is to ensure that Sri Lanka’s long-term GDP growth exceeds that of India, complemented by investment in diplomacy and intelligence.

³⁰ ‘NATO Defence Planning Process’, North Atlantic Treaty Organization, 2018, www.nato.int/cps/en/natohq/topics_49202.htm. Accessed on 18 March 2019.

However, other measures may be required to limit India’s ability to influence domestic affairs, such as influence over domestic political actors.

Internally, there are no conventional threats to the state’s monopoly of violence, and none are likely. The prospect of insurgency – beyond isolated, low capability attacks – is dim. On the one hand, aggrieved groups lack the demographic profile, human resource capability or political appetite for violence. On the other, the state has developed a highly effective policing and security apparatus compared to the origins of insurgency in the 1970s and 1980s. Finally, there are no foreign powers supportive of any local insurgency attempts. In any case, Sri Lanka’s continued ethnic conflict requires resolution in the political domain, not a military one. For more detailed justification of this assessment, please refer to Annex 1.

Figure 15: India is Now Growing Faster Than Sri Lanka



Source: World Bank.

Response Strategies

India

Probability of Invasion

At this juncture, it is imperative to reiterate that the probability of Indian aggression in the form of a conventional attack is extremely low. First, India has no reason to attack Sri Lanka. Second, attacking

Sri Lanka is not consonant with its own strategic culture. India has not been an expansionist power.³¹ Both its forays into South Asian states – Bangladesh and Sri Lanka – did not lead to a long-term presence. The Indo-Lanka Accord and contemporary Sri Lanka's foreign policy maturity ensure that no threats to Indian security are likely to emanate from Sri Lanka. Third, India does not have the capabilities. Sri Lanka, as an island, is at a significant strategic advantage. Amphibious assault is complex, costly and requires highly specialised equipment, such as landing ships, which India does not have in anywhere near the requisite numbers. In fact, two of the three conditions in Michael O'Hanlon's test for amphibious assault cannot be easily met.³² Therefore, money is better spent on more pressing issues, such as economic growth and poverty alleviation, which also have positive security spillover effects.

In fact, from a security perspective, irregular forms of interference, such as influence operations, are much more likely to occur. This applies as much to India as it does to China and other states. Countering these are much less resource intensive. We can break down countering influence operations into two main types. The first is ensuring that foreign powers do not have undue influence over politicians and bureaucrats. This involves strengthening campaign finance legislation and enforcement. For example, the long-discussed asset declarations and register of interest could help limit the role of foreign financing in elections. On the enforcement side, improving the investigative capabilities and indolence of law enforcement authorities is imperative – as would be improving the counter-intelligence capabilities and focus of the State Intelligence Service.

Irregular interference is all the more likely when domestic cleavages remain unresolved and when the economy is weak. Serious Indian intervention in Sri Lankan affairs was only made possible by the high grievance levels among the Tamil population. Therefore, the surest long-term route to limiting Indian intervention is ensuring a sense of equal citizenship and eliminating grievances among all communities

³¹ G K Tanham, *Indian Strategic Thought: An Interpretive Essay* (Rand Corporation, 1992).

³² Michael E O'Hanlon, *Defense Policy Choices for the Bush Administration, 2001-2005* (Brookings Institution Press, 2010).

in Sri Lanka. Furthermore, high levels of domestic conflict often cause economic stagnation. The oft-cited case of the July 1983 riots leading to Motorola and Harris Corporation terminating the construction of semiconductor plants, thus preventing Sri Lanka from developing an electronics manufacturing industry like Southeast Asia, is worth repeating.³³ However, this issue needs to be primarily that of politicians, not the military.

Detering an Invasion – The Strategic Level

Even though an Indian attack is highly unlikely, if we are trying to maximise security subject to a particular resource constraint, then Indian expansionism should be considered in our calculations. As such, this section focuses on how Sri Lanka can most efficiently make Indian intervention in Sri Lanka dangerous and costly. In other words, how can Sri Lanka most efficiently deter an Indian invasion? However, caution and subtlety are also necessary to avoid unnecessarily provoking India. The J R Jayawardene government's failure to read Indian concerns and respond appropriately were perhaps the premier reasons for the escalation of rag-tag guerilla war into a full-scale insurgency.

Therefore, the first line of defence is ensuring that Sri Lanka understands India well and is able to shape Indian policy and develop a relationship that benefits both parties, rather than bringing them into conflict. It is often said that diplomacy is the first line of defence. For Sri Lanka, nowhere is that adage truer than with India. Since the Jayawardene government's foreign policy disasters, the Sri Lankan government has sought to cultivate cordial ties with Delhi. However, the acute weaknesses in Sri Lanka's diplomatic service mean that Colombo's ability to understand and influence Delhi is severely limited.³⁴

The Sri Lankan state has also failed to build close relationships with the Indian states and regional parties that play an increasingly

³³ Saman Kelegama, *Development under stress: Sri Lankan economy in transition* (SAGE, 2016).

³⁴ D Alphonso, *Towards a Self-Reforming Foreign Ministry*, Lakshman Kadrigamar Institute, forthcoming.

important role in shaping Indian foreign policy. The most egregious example is, of course, Tamil Nadu. The long-standing failure to normalise relationships with this neighbouring Indian state and economic powerhouse is one of Sri Lanka's key post-independence foreign policy failures.

Should diplomacy fail, there are two main sources of deterrence. The first is the threat of inflicting asymmetric costs for the duration of an invasion.³⁵ The second is making any Indian attempt to hold Sri Lanka costly.

The international order established following World War II has played a vital role in preserving Sri Lanka's Independence. That remains true today. Should it choose to invade Sri Lanka, the greatest cost India will incur will be diplomatic. Therefore, building Sri Lanka's diplomatic capacity is crucial. In particular, building relationships with Indian allies – primarily, the US and Japan – can help restrain Indian action. As such, the further upgrading of military-to-military ties with the US is useful. Small investments in improving diplomatic capacity – useful for a number of other national objectives – can also make the prospect of intervention significantly more costly. Concomitantly, ensuring that Pakistan and China come to Sri Lanka's aid is also a *sine qua non*.

Moving on to the military dimension, taking over Sri Lanka – considering India's size, complete air-superiority and ability to blockade the island – is not difficult at the moment. Sri Lanka's air-defence and ship-defence forces – area-denial/access control capabilities in the jargon – are effectively non-existent. Any solution, it must be stressed, ought to be entirely defensive in nature. Offensive deterrence strategies could risk provoking an Indian response. However, it must also inflict sufficient costs, making interference very costly and uncertain. Considering the threat India faces from China (not to mention its domestic insurgencies), this may be easier than it appears. All Indian troops and armaments will have to arrive in Sri Lanka by sea or air. However, India's airborne and amphibious assault capabilities are limited. Therefore, off-the-shelf

³⁵ Thomas Schelling, 'The strategy of inflicting costs', in Roland N McKean (ed.), *Issues in defense economics* (NBER, 1967), pp.105-127.

surface-to-air missile (SAM) and surface-to-ship missile (SSM) systems should be sufficient to inflict sufficient costs to make invasion very unlikely. This is also what an authoritative RAND study recommended for Taiwan.³⁶

The second element of deterrence is about making staying costly in the event of a successful invasion. A key element of this is developing an equivalent of a 'second-strike capability'. A second strike capability has largely been thought of in nuclear terms through hardened launch sites, mobile launchers and submarine-based nuclear missiles. But with the advent of cyber-warfare, a second strike is now possible even if Sri Lanka is overrun. In the event of an Indian attack, a few crack teams distributed, possibly even covertly, in countries around the world could ensure sustained pressure on Indian military infrastructure. Developing offensive cyber capabilities also greatly improves Sri Lanka's ability to collect signals intelligence. This is another area where Sri Lanka is woefully lacking in capacity. Sri Lanka has, to the author's knowledge, no ability to measure Indian air force and ship movements or political deliberations in Delhi.

In addition, probably the cheapest method of making staying costly is having a large pool of trained citizens, organisational abilities and access to weapons and ammunition – in other words, reserves.³⁷ It is also about making the country ungovernable. This requires the creation of a large group of reservists. However, it also means planning and drilling for such contingencies. There is also considerable evidence to suggest that preparing the civilian population to engage in non-violent resistance can also considerably increase the costs of holding a country.³⁸

In summary, Sri Lanka does not need to worry much about Indian intervention. Insofar as it does, in the long run, it should focus on ensuring higher growth rates. Subject to this caveat, Sri Lanka needs to invest in diplomacy, intelligence, area control/access denial systems, second-strike cyber capabilities and effective reserves. Since

³⁶ Michael J Lostumbo, et al., 'Air Defense Options for Taiwan: An Assessment of Relative Costs and Operational Benefits' (RAND Corporation, 2016).

³⁷ John Akehurst, Anthony Farrar-Hockley, 'Reserve forces: Defence on the cheap?', *The RUSI Journal*. Vol 130, No.2, 1985, pp.15-18.

³⁸ Gene Sharp, *The Politics of Nonviolent Action*, 3 Vols. (Porter Sargent, 1973).

the Indian threat is not imminent and unlikely to materialise quickly, these forces can be small, with the option of scaling as necessary.

Detering an Invasion – The Operational Level

India's strategic environment is many magnitudes more hazardous than that of Sri Lanka. India has a history of war with Pakistan and China, both nuclear-armed states. Border disputes are common and tensions between the states remain high. Therefore, India needs to maintain readiness to fight a two-front war against Pakistan and China. The Indian Chief of Defence Staff, General Bipin Rawat, echoed his predecessors in stating that "India cannot rule out the possibility of a two-front war with China and Pakistan despite having credible nuclear deterrence capabilities."³⁹ In fact, the two-front war doctrine has long been central to Indian military planning.⁴⁰ Looking at the Indian force posture, this doctrine is clear. Forces are largely amassed in the North-West pointing to Pakistan and in the North-East pointing to China.

A two-front war is particularly challenging because the strategic balance has deteriorated from India's perspective. China's spectacular rise and subsequent military modernisation have also considerably shifted the strategic balance against India.⁴¹ Meanwhile, India's military modernisation has stagnated. *Livemint* observes that 68 per cent of India's military hardware is in the vintage category and that India simply cannot afford to be ready for a two-front war.⁴²

³⁹ Rizwan Zeb, 'Can India fight a two-front war with China and Pakistan?', *The Asia Dialogue*, 30 March 2018, www.theasiadialogue.com/2018/03/30/can-india-fight-a-two-front-war-with-china-and-pakistan/. Accessed on 16 March 2019.

⁴⁰ Francine R Frankel, 'The breakout of China-India strategic rivalry in Asia and the Indian Ocean', *Journal of International Affairs*, Vol.64, No.2, April 2011, p. 1-17.

⁴¹ Rajesh Rajagopalan, *India's Strategic Choices: China and the Balance of Power in Asia* (Carnegie Endowment for International Peace, 2017).

⁴² Editorial Board, 'Two-front war: a debate for more opulent times', *Livemint*, 20 March 2018, <https://www.livemint.com/Opinion/osVGkC2Rwy2y5gNgFQNEil/Two-front-war-a-debate-for-more-opulent-times.html> Accessed on 18 March 2019. Also see Abhijnan Rej, 'The Sobering Arithmetic of a Two Front War', *Observer Research Network*, 10 July 2018.

Figure 16: India's Bases Concentrated in the North



Source: Jane's Dashboard.

Therefore, at a minimum, it is assumed that India will have to allocate at least two-thirds of its forces to defence from Pakistan and China. Therefore, it will only be able to allocate a third towards intervention in Sri Lanka. Even then, from a military perspective, it is assumed that losing half of that one-third would be unacceptable as it would leave India under-protected to the North. From a political perspective, even smaller losses would be unacceptable. Therefore, for effective deterrence, Sri Lanka merely needs to be able to credibly demonstrate that it can destroy one-sixth of Indian capacity in the relevant domains. The author, thus, uses the one-sixth ratio to estimate the Indian force in relevant domains and the capabilities required by Sri Lanka to counter them.

However, Sri Lanka does not need that full capability unless there is a major change in the strategic environment. It should invest in a minimal deterrent subject with the option to 'mobilise' in a relatively short period. This 'smart' deterrent could be one-fourth of the one-sixth ratio that constitutes a full deterrent. However, the smart deterrent must include the ability to scale up to the one-sixth ratio identified above within a couple of years. In practice, this means training enough personnel to operate and maintain the equipment

needed to meet the one-sixth ratio requirement. In addition, it means having expedited procurement processes in place. These include a domestic component (to identify platforms and release expenditure) and an external element (through the purchase of ‘options’ to have rapid delivery from a reliable provider should the risk level increase). Considering that the US and Russia are politically and militarily close to India, China would probably be the most reliable arms supplier.

Table 5: Types of Strategies and Capabilities

Strategies	Capabilities
Conflict Prevention	Diplomacy, Intelligence
Inflicting Asymmetric Costs	Diplomacy, A2/AD
Making Staying Costly	Reserves, Second Strike

Source: Author’s presentation.

Communal Conflicts and Extremism

Having defeated the LTTE, the Sri Lankan state is yet to win the peace. As argued elsewhere by others, including this author, winning the peace is fundamentally about addressing root causes of political grievance. In addition, engaging with the large Tamil diaspora abroad is also vital. However, the Sri Lankan security sector too has a role to play.

1. In maximising the country’s security, it should minimise any action that exacerbates communal tension. There are many circumstances where national security and reducing minority grievances are not in a zero-sum relationship. For example, by building camps on state land rather than private land, the security forces can maintain the same level of security but not increase the level of grievance. The security forces ought to identify all instances in their domains where such ‘Pareto improvements’ can be made and execute them.
2. Addressing political grievances within their domain of responsibility. For example, ensuring that representation of Tamils and Muslims in the police and armed forces approximates to their population ratios.

3. Preventing extremist attacks. Sri Lanka's intelligence capabilities – including maritime capabilities – have improved considerably over the past few decades. But they are still weak. Perhaps the pre-eminent weakness, considering that many threats are likely to originate overseas or have an international connection, is weak intelligence sharing networks. Sri Lanka's human rights record, poor counter-intelligence capabilities and diplomacy mean that Sri Lanka does not have the level of intelligence cooperation it needs with key players, especially the US, the UK, India and Canada. Furthermore, specialised intelligence capabilities, such as financial intelligence, are also very limited. Sri Lanka's ability to monitor its exclusive economic zone, one of the largest in the world relative to its land size, is also sparse.

Therefore, what Sri Lanka needs is a highly capable intelligence service, border control and maritime surveillance. In the low probability event that a small-scale insurgency ensues, having the nucleus of a military that can be expanded is vital.

The force structure required to deter an Indian invasion will be more than sufficient for Sri Lanka's internal security needs. The Sri Lanka police force numbers 84,376 persons. The armed forces nearing 30,000 will be sufficient to nip any small-scale insurgency in the bud, especially with greater maritime surveillance and intelligence capabilities.

Great Power Competition

As noted earlier and in Annex 1, Sri Lanka is becoming one of the many foci of great power competition as the unipolar world order comes to an end. There is clear evidence of Chinese interference in elections through political financing. Great power competition is also one of the reasons for past Indian intervention.

The response to this threat does not significantly involve the defence budget. Rather, it is about improving the quality of Sri Lanka's governance and institutions, including improving campaign finance legislation, creating independent law enforcement authorities and speedier courts. Further details on how great power interference in domestic affairs can be limited are found in the chapter on 'Recommendations'.

Table 6: Forces Needed to Deter India with Costs

Force	INDIA		MAX Acceptable Loss	Force	SRI LANKA (% Ratio)		SRI LANKA (% X ¼ Ratio)	
	Number ⁴³	Deployable against Lanka			No. needed to deter India	Cost	No.	Cost
Ground-attack aircraft	678	226	113	SAM	161 missiles & launchers ⁴⁴	\$409 million	40 missiles & launchers	\$106 million
Helicopters	531	177	88.5	MANPAD	534 missiles & launchers ⁴⁵	\$69 million	133 missiles & launchers	\$18 million
Landing Craft	19	6	3	SSM	80 missiles & launchers ⁴⁶	\$170 million	16 missiles & launchers	\$43 million
OPVs	18	6	3					
Active Duty	1.395 million	233,000	NA	Active Duty ⁴⁷	29,125	\$200 million ⁴⁸	29,125	\$200 million
Reserve	1.115 million	185,000	NA	Reserves	179,875	\$400 million ⁴⁹	44,968	\$100 million

Sources: ISS Military Balance 2018, RAND and others, and author's calculations.

In the case of full deterrence, if we assume, as RAND has in the past, a 20-year lifecycle for the equipment, then the procurement cost of SAMs, man-portable air-defence System (MANPADs) and SSMs is US\$648 million (S\$879 million) divided by 20. That is US\$33 million (S\$44.78 million) a year. Using RAND estimates for Operations and Maintenance (O & M), one can estimate the O & M costs to roughly double this figure per annum. This results in a cost of US\$66 million (S\$89.56 million) per annum for full deterrence. In 2017, Sri Lanka spent US\$100 million (S\$135.70 million) on procurement and US\$262 million (S\$355.53 million) on O & M respectively. When procurement required for full deterrence is added, it becomes US\$428 million (S\$580.78 million) [The author assumes here no reduction in procurement of other weapons and systems]. Personnel costs for reserves and active duty can then be added, \$400 million (S\$542.8 million) and US\$200 (S\$271.4 million) respectively. This gives us a costing for the full deterrence option – US\$1,028 million (S\$1,394.97 million). In the case of smart deterrence, the annual cost of SAMs, MANPADs and SSMs is \$17 million (S\$23.07 million) per annum, including O & M costs. Personnel cost is US\$300 million (S\$407.09 million). We assume that existing procurement and O & M decline by half, from US\$362 million (S\$491.22 million) to US\$181 million (S\$245.61 million). Thus, minimal deterrence costs US\$498 million (S\$675.77 million) per annum. Note that these figures exclude pensions.

- ⁴³ All figures for Indian force capabilities are from the IISS Military Balance 2018
- ⁴⁴ Modern SAM systems have a kill probability of 0.6 to 0.9. The author assumes a kill probability of 0.7. The SAM platform is the LY-80, export version of the HQ-18 SAM system. The HQ-18 is based on the widely used and highly effective BUK missile system, <https://delhodefencereview.com/2017/04/05/pakistan-army-inducts-chinese-made-ly-80-surface-air-missile-system-protecting-strategic-assets/>
- ⁴⁵ Cost data is from <https://www.files.ethz.ch/isn/160759/BICCbrief47.pdf> and assumes purchase of Iгла SA-18 MANPAD
- ⁴⁶ See *Science of War* by Michael O’Hanlon, Initial Amphibious assault. “More than 90 per cent of missiles fired at undefended ships reached their targets (with 54 ships sunk or otherwise put out of action with just 63 missiles fired). About 68 per cent of missiles fired at ships that had defences but failed to use them properly reached their targets. Against ships employing their defenses, about 26 per cent of missiles fired reached their mark.” Cost data is from RAND (<https://apps.dtic.mil/dtic/tr/fulltext/u2/1055953.pdf>) and based on an RBS-15 system.
- ⁴⁷ The author assumes here that Sri Lanka only needs one-eighth India’s deployable forces prior to mobilisation and one-half after mobilisation. First, transporting soldiers to the island requires overcoming SAM and SSM batteries multiple times to ferry sufficient troops. Second, Sri Lankan soldiers only need to defend airfields and landing points. Third, Sri Lankan soldiers will face a home advantage either operating from fortified positions or using guerilla tactics.
- ⁴⁸ 29,125 is approximately 10 per cent of the current force level. Therefore, the author divides current personnel expenditure, approximately \$1 billion, by 10. The author then multiplies this by two to reflect the higher skill level required to man a capital-intensive army.
- ⁴⁹ The author uses the same procedure as (7) above. Following the literature, the author estimates that reserves cost a third of active-duty troops. Rajesh Rajagopalan, “Indian Balance of Power in Asia” (Carnegie Endowment for International Peace, 2017).

Conclusion

If, on the very conservative assumption that current military procurement and O & M budgets do not change, and we add the full deterrence capabilities, then annual defence expenditure per year is \$1.03 billion (S\$1.395 billion). Also added is an extra US\$100 million (S\$135.70 million) for intelligence, diplomacy, maritime surveillance and cyber capacity development under both the full deterrence and smart deterrence scenarios, bringing the total to US\$1.13 billion (S\$1.53 billion) and US\$598 million (S\$811.47 million) respectively. These force structures are both a vast improvement on Sri Lanka's defence capabilities and a very large saving of treasure.

Table 7: More Security for Less Money

	Status Quo	Full Deterrence	Smart Deterrence
Budget US\$ Million	US\$1,867	US\$1,128	US\$598
% of 2017 Budget	100%	60%	32%
% of GDP	2.1%	1.3%	0.7%

Source: Author's calculations.

It is also worth noting that the share of GDP spent on defence under the full deterrence scenario – 1.3 per cent of GDP - is close to the 1.5 per cent suggested by the composite benchmark in the diagnostic section. Considering that Sri Lanka's security environment is more benign than many states and that defence budgeting is often inefficient for reasons discussed earlier, it is no surprise that the smart deterrence scenario suggests an even lower number.

Spillover Efficiency

As this is not central to the argument made in this paper, and due to the limitations of space, the paper does not explain how a reformed defence budget could improve spillover efficiency. Nor does it estimate the magnitude of their effects. However, a few quick points on this topic are pertinent.

Macroeconomic: Reducing the defence budget could help increase Sri Lanka's growth rate. There are two possible mechanisms. First, by improving government finances, it could help reduce the tax burden,

thereby stimulating private investment and consumption. Note that reducing the tax burden has important welfare and distributions effects due to the highly regressive nature of Sri Lanka's fiscal system. Alternatively, the government could use the money saved to increase public investment.

Reducing the budget deficit could also reduce Sri Lanka's macro-economic vulnerability. Sri Lanka's debt to GDP ratio is now over 90 per cent – 10 per cent higher than the level at which the likelihood of financial crises increases significantly. And that debt is increasingly dominated in foreign currency, making Sri Lanka even more vulnerable.

Labour market: Sri Lanka often faces significant labour shortage in construction and tourism. Reducing the number of active-duty troops and releasing them to work in these sectors will help reduce these shortages. Note that Sri Lanka's construction costs are already some of the highest in the world. Moreover, as the military modernises to a more capital-intensive model, soldiers in the military will acquire greater technical training which will provide the private sector with a larger pool of trained labour.

Industrial policy: Carefully integrating local procurement into the military's modernisation can act as a de facto subsidy for key sectors identified in Sri Lanka's National Export Strategy. Of the six sectors identified, three are relevant to Sri Lanka's military modernisation. For example, the development of defensive and offensive cyber capabilities can help Sri Lanka's information technology/business process outsourcing sector transition from service provision to the development of intellectual property and higher value-added services. Similarly, maritime surveillance can spur Sri Lanka's boat building industry, while electronics could benefit from local manufacturing requirements and maintenance contracts for some weapons systems.

Recommendations

Information and Accountability

The reformation of the defence sector is often harder than other types of reforms. Defence issues are often particularly emotive and politically controversial.⁵⁰ Information is generally lacking in the public domain. This means that policymakers and the public are unable to easily assess whether defence spending is at the optimal level or spent efficiently.

Therefore, a first step is reviewing Sri Lanka's national security environment, establishing clear national security priorities (and weighting their importance relative to other national priorities), assessing the capabilities required and carefully costing them. In other words, the Sri Lankan government needs to create a process of publishing a defence white paper that involves a strategic review, national security strategy, force plan and projected budget every five years. It must thus carefully identify ends and rigorously link means to these ends.

Annex 1 argues that the National Security Council (NSC), led by a National Security Advisor (NSA), should lead such a process. In addition, to increase accountability and ensure public scrutiny, the Ministry of Finance (MOF) should commission an independent defence white paper every five years and annual independent analysis of the defence budget. In order to ensure implementation, the Parliamentary Oversight Committee on Defence should require a public annual progress report from the NSC, perhaps with a classified addendum.

This will naturally require some improvement in the human resource capabilities at the Ministry of Defence (MOD), NSC, MOF and Parliamentary Oversight Committee on Defence. Therefore, the following are recommended:

⁵⁰ C J Hitch and M N Roland, *The Economics of Defence in the Nuclear Age* (Harvard University Press, 1960).

- Establish the positions of a MOD Economist and MOD Civilian Military Advisor and staff their offices with experts in economic and civil defence who are independent of the services.
- Establish the position of an Economist to the NSC and staff the office with experts in economic and civil defence who are independent of the services and MOD.
- Ensure that the MOF has at least two civilian officers with specialised training in defence budgeting and security issues.
- Ensure the publication of defence budget analyst at Parliament’s Committee on Public Accounts and a defence economist at Parliament’s Oversight Committee on National Security.
- Ensure the publication of a capability-based security budget that includes expenditure on diplomacy, intelligence and policing.

Cutting Costs: Reducing Active-Duty Personnel

According to the optimal budget outlined above, Sri Lanka needs only 30,000 active-duty personnel and 170,000 reserves. Currently, the country has nearly 254,000 active-duty soldiers and 33,000 reserves.⁵¹ Note that this reserve number may be unreliable as Sri Lanka’s Volunteer Force, although created as a reserve force, has in the last few decades, been permanently deployed. Therefore, there are two key priorities: reducing troop numbers and increasing reserves.

In the case of reducing troop numbers, the following are two options:

1. *Voluntary Retirement Scheme*: The services can offer a voluntary retirement scheme, which includes financial compensation and vocational training, plus a job offer in the construction and/or tourism sector. The World Bank will almost certainly offer

⁵¹ *Jane’s Sentinel Security Assessment – South Asia*, Jane’s Information Group (IHS Markit, 2019).

financing and the private sector is desperate for labour in these sectors.

2. *Curtailing recruitment*: Reducing troop numbers through natural attrition. Reducing recruitment is likely to meet the least resistance from within the services as it does not affect the interests of those already in the service. However, there is one important exception to this rule. The number of officer positions is tied to the number of soldiers. As an intermediate measure, subject to a sunset clause, the number of officers should be temporarily de-linked from the number of troops under command. This will ensure that resistance to reducing recruitment will be limited.

Sri Lanka has the nucleus of a reserve force and the necessary legal and institutional structure in the form of the Volunteer Force. This can be expanded by offering active-duty personnel the option of switching into the reserves, potentially offering them incentives to join the reserves and matching them with vacancies in the private sector – especially construction, manufacturing and tourism. One advantage of the reserve approach is that it offers a smooth process of reducing mobilisation levels, ensuring social stability while enabling active-duty troops to smoothly enter the labour market. Furthermore, like the US, the reserve can be divided into different groups with differing levels of readiness and training.

Improving Efficiency: Area Defence, Diplomacy and Intelligence

As the army's manpower and budget are likely to contract the most in response to the modernisation suggested above, it may be prudent to ensure that as large a share of area defence responsibilities as possible are allocated to the army. For example, rocket forces – SAMs and SSMs – could be placed under army command, with the air force and navy focusing more on maritime surveillance.

Increasing the resources available for diplomacy should not be difficult because the foreign ministry consumes such a miniscule share of Sri Lanka's government expenditure. A first step is doubling

the size of the foreign ministry cadre from just over 200 to 400, taking care to ensure that rapid recruitment is not at the expense of quality. In fact, one proposal – that has been received with favour by the highest authorities – is a one-off closed competitive entry exam for army officers to join the foreign service. Furthermore, the capabilities of recruits can be upgraded by sending them for degrees overseas. For further details on improving the human resources available for diplomacy, see *Towards a Self-Reforming Foreign Ministry*.⁵² Similarly, improving Sri Lanka's representation in Kerala, Karnataka and Andhra Pradesh is neither expensive nor difficult. It could also have positive commercial spillovers.

The re-organisation of Sri Lanka's intelligence services is the subject of a paper on its own. But it may be worth highlighting three major constraints to the efficiency of intelligence agencies in Sri Lanka. First, they are not focussed on threats to the realm. As noted in a number of newspaper reports, intelligence services appear to allocate substantial resources to political intelligence. Second, the potential for deeper intelligence sharing partnerships is limited by concerns about human rights. Third, in practice, there is no clear demarcation of responsibilities between the State Intelligence Service and Military Intelligence. The solution to these issues is creating an Intelligence Oversight Committee in the Parliament, limiting Military Intelligence to strictly military intelligence (as opposed to external or internal intelligence) and remedying the grossly inadequate (and irregularly applied) oversight of the intelligence budget contained in Financial Regulation 237D.

⁵² D Alphonsus, *Towards a Self-Reforming Foreign Ministry*, op.cit.

A Review of Sri Lanka's Strategic Environment

Background

Institutional weakness undermines national security policymaking and prevents it from effectively addressing Sri Lanka's main post-war threats.

1. Following the defeat of the LTTE and two Marxist insurgencies, national security policymaking in Sri Lanka remains reactive and operationally focussed. Thus, political violence resuming remains a high risk.
2. Since Independence, Sri Lanka's security policymaking has been characterised by:
 - (a) Poor inter-agency coordination among security agencies – including the three services, police and intelligence agencies – and between the security sector and civilian agencies. Inter-agency rivalry has prevented informed, integrated national security policymaking, often making policy the result of bargains between different agency interests.⁵³
 - (b) Ad hoc policy formulation, which has been reactive and tactical. The absence of formal institutional processes for strategy development, multi-stakeholder input into the policy-formation process and a long-term approach that integrates the state's response to symptoms and causes of violence has left Sri Lanka's political and military strategies at cross-purposes.

⁵³ Sanjaya Colonne, 'Counter-Insurgency Campaigning and National Security Transformation: Lessons from Eelam War', Doctoral Thesis - Institute for Defence and Strategic Studies, Nanyang Technological University, 2004, <https://dr.ntu.edu.sg/handle/10356/14392>. Accessed on 20 March 2019.

- (c) Absence of civilian expertise in the policymaking process. The national security policymaking suffers from a virtual absence of civilian expertise. Insights from political science, economics and technology in the policymaking process are limited. Instead, policymaking and strategy are almost the exclusive preserve of operationally oriented, tactical military officers who are equipped with very limited strategic thinking skills. Civilian involvement in security policy is limited to an administrative civil service *sans* security expertise.
 - (d) Inability to integrate internal and external security, for example, failure to link Indian intervention in Sri Lankan affairs – for example, the arming of the LTTE and intervention of the IPKF – to global and regional geopolitical balances-of-power.
3. These deficiencies are particularly salient following the end of the war. Sri Lanka's three main security threats for the foreseeable future – (a), (b) and (c) below – require deep coordination, long-term policy planning, civilian expertise and navigating the nexus of internal and external security.
- (a) The resumption of ethnic violence: Despite the defeat of the LTTE in 2009, core grievances of the Tamil community remain unaddressed.⁵⁴ This is exacerbated by high levels of educated youth unemployment, a key enabler of political violence in the Tamil majority Northern Province and a large politically active diaspora. Hence, violence remains a possibility.
 - (b) Islamic extremism: Sri Lanka is the star to a crescent of emerging Islamic extremism. The Horn of Africa, Middle East, Indian Subcontinent and Southeast Asia are sites of violent extremist activity and are ripe for further

⁵⁴ Verite Research, 'Sri Lanka Strategic Assessment 2016', Asia Foundation, March 2016, <https://www.veriteresearch.org/publication/sri-lanka-strategic-assessment-2016/>. Accessed on 15 March 2019.

radicalisation. This has been exacerbated by Buddhist extremism that is radicalising Sri Lanka's domestic Muslim population.

- (c) Great Power rivalry: After a hiatus of nearly 200 years, following the end of British, French and Dutch rivalry in the Indian Ocean, the region is once again emerging into a major theater of great power competition.⁵⁵ The US, India, China and their respective allies (for example, Australia and Pakistan) have competing geostrategic and geo-economic interests in the Indian Ocean and Sri Lanka's geographic location means that it is becoming a focal point in this competition.

Problem Analysis

The current NSC, though operational, is leaderless and lacks expertise.

4. The failure to overcome the above institutional weakness and adapt to current security priorities stems from a long-term mismatch between rapid expansion in the size, capabilities and function of the security services and institutional development. Despite the security sector utilising much of the country's manpower and economy, except for initiating two intelligence services and a joint operations command, the remaining major institutional reforms, the introduction of a NSC and Chief of Defence Staff, have been largely cosmetic. The structure of security policymaking reflects Sri Lanka's security environment at Independence – a ceremonial army and a treaty-based security guarantee from the UK.
5. At the heart of this failure to reform security policymaking institutions is the ineffective NSC, the apex national security decision-making body in Sri Lanka. This executive body consists of the President, Defence Minister, Foreign Minister,

⁵⁵ R D Kaplan, *Monsoon: The Indian Ocean and the Future of American Power* (Random House, 2011).

Chief of Defence Staff, service chiefs and intelligence heads. It suffers from many serious shortcomings, as it is:

- (a) Operational rather than strategic, the Security Council's weekly meetings are reactive and operationally focussed. Strategy development or follow-up on the implementation of strategic decisions is largely absent from discussions. Sri Lanka does not have a defence review or national security strategy development process.
- (b) Institutionally crippled, the Security Council does not have institutional leadership in the form of a NSA or a dedicated secretariat. Thus, no one person is responsible for managing the process and even the most basic of bureaucratic best practices are not followed. For example, there is no formal system of preparing agendas and keeping minutes, resulting in repetition of debates, implementation failure and absence of clarity of responsibility.
- (c) Dominated by the military, none of the civilians on the Security Council as a rule have 'domain expertise' in national security nor have access to civilian advisors and counsel. This asymmetry is re-enforced by the numerical dominance of the military: six of the eleven NSC members are military officers. The military dominates decisions without significant debate or scrutiny.
- (d) Unable to integrate foreign policy and defence, the Security Council is almost solely concerned with the internal operationalisation of internal security decisions, with little understanding or exploration of how foreign policy and defense interact to affect national security.

Recommendations

Establish a robust NSC process led by an empowered NSA

6. To overcome many of these shortcomings many countries – especially those modelled on Anglo-Saxon military traditions like Sri Lanka – have effectively used a formal NSC process and NSA. Therefore, the President should:
 - (a) Appoint and empower an NSA as the principal civilian advisor to the government on national security and responsible for running the ‘NSC Process’ as an ‘honest broker’.⁵⁶ Considering the overwhelming role the military currently plays in national security policymaking and the dearth of civilian security expertise in the civil service, appointing an external NSA may be prudent. A recent study found the US NSA had the following responsibilities, which could constitute the Sri Lankan NSAs basic terms of reference.⁵⁷

Table 8: Functions of a National Security Advisor

Principal Civilian Advisor	Honest Broker
Source of personal advice and counsel to the President and Prime Minister	Balance resources within the system
Focal channel for information during crisis situations	Strengthen the position of weaker advocates
Conduit for written information to and from other principals	Bring in new advisers to argue for unpopular opinions
Organiser of NSC meetings	Establish new channels of information to ensure plurality of voices
Management of NSC Secretariat	Arrange independent evaluation of starting assumptions and policy options
Shepherd cross-government preparation for, and delivery of, NSC decisions	Monitor the effectiveness of the policy making process

Source: J P Burke, *op. cit.*

⁵⁶ B Sparrow, *The Strategist: Brent Scowcroft and the Call of National Security* (United Kingdom: Hachette, 2015).

⁵⁷ J P Burke, ‘The National Security Advisor and Staff: Transition Challenges’, *Presidential Studies Quarterly*, 39(2), June 2009, pp.159-178.

- (b) Create a NSC Secretariat under the leadership of the NSA and staffed with civilian experts who will not only run NSC meeting (preparing agendas, briefings and keeping minute) but also research and write analytic reports on strategic issues.
 - (c) Develop a formal inter-agency NSC process for policy-formulation headed by the NSC and led by the NSA. This process should also be used in the developed of quadrennial defense reviews and national security strategies.
7. Considering the grave problems of the status quo, the success of the NSC/NSA model in major defence partners and the absence of tested alternatives, the evaluation of alternatives may be beyond the scope of this paper.

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Mr Daniel Alphonsus was an adviser to Sri Lanka's finance minister. He also worked at Sri Lanka's foreign ministry and at Verité Research.

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