World :

Economic Crisis in Sri Lanka – Some Facts

The economic crisis of our neighbouring country, Sri Lanka has been under discussion for the past five to six months. In fact, the foundations of this crisis are in the economic policies adopted by the country over decades. The conditions imposed by various imperialist countries and the World Bank, the comprador policies of the rulers have all gradually pushed Sri Lanka into this debt trap. It is now in a situation similar to that of India's monetary crisis of 1991. Eyeing opportunity for further reforms, the international media and the mainstream media of our country started creating panic by showing that the decision to completely go for organic farming' as the sole cause for food crisis. This is true only partially. In fact, by the time of this decision, fertilizers were already used for the Yala season (May-Aug), and organic crops are only sown for the now-running season, Maha, whose yield will only come up now.

There are many reasons for today's crisis in Sri Lanka. Its foreign exchange reserves have almost exhausted. Foreign debts have been increasing significantly since 2014, they constituted 42.9 per cent of GDP in 2019. The worldwide crisis of Covid has further compounded this situation. The debt liabilities reached 101 per cent of GDP in 2021. So some people say Sri Lanka is going to default on sovereign debt. Sri Lankan government says that they have never faced such a serious crisis in the last 73 years. It also seeks the help of the SAARC countries in these difficult situations.

As of 2019, Sri Lanka has $ 13.05 billion of foreign direct investments. But by the end of 2017 itself foreign debts amounted to $ 51.72 billion. By the April of 2021 the foreign debt stood at $ 35 billion. The International capital market borrowings constitute the lions share in this with 47% followed by borrowing from international banks at 22%, Japan at 10% and China at near 10%. Of this year's $ 4.5 billion foreign debt service bill, more than half relates to US dollar bonds. As foreign finance capital swells in any country, foreign exchange evaporates like camphor for their servicing (payments). Describing foreign exchange in the 'India Mortgaged' (Court Statement) Comrade Tarimela Nagireddy said *"Foreign private investment has foreign exchange inflow but has an increasing exchange outflow"…… "Foreign investment increases imports and obstructs exports. Foreign capital and private investments are intended mainly to create a sustained climate for the export of commodities and spare parts to underdeveloped countries. An industry or a particular machine imported, is a sweetener demanding further imports of the same for its maintenance. Most of the imports, tied to a particular source and tied to a loan, are costlier in various forms."* what Com. TN had said five decades ago fits to the present situation of a small country like Sri Lanka.

Moreover, the sudden fall in the value of their rupee due to sudden inflation has also led to the decline in exchange reserves. Thus, unable to pay in foreign exchange, Sri Lanka has proposed export of Ceylon tea powder every month to serve the oil import payments to Iran. International Banks and Sri Lankan bourgeois economists are giving following suggestions to deal with this situation.

1) No more running for foreign debts.
2) Levy more direct and indirect taxes on people.
3) Focus on export-based growth.
4) Remove tariffs on imports.

All these suggestions will only aggravate the fundamental crisis and are neither immediate nor long-term solutions. The difficulties that are already going on, the black market business, and the latest crisis have all increased hunger and unemployment. The share of taxes in GDP is already 9%. People are reeling under all kinds of increased prices. Grabbing the opportunity, the World Bank has advised Sri Lanka that if it removes taxes on their imports, food prices will come down. This means that World Bank is trying to intensifying the same old methods used by it to kill Sri Lanka's self-sufficiency, to serve the foreign food and agro companies. They are trying to destroy the world-famous Ceylon Tea brand in the name of the latest organic farming crisis. Sri Lankan comprador rulers are trying to convince the people and the millions of tea plantation workers that they have to suffer temporary hardships for long-term profits. MNCs are keenly watching the developments in Sri Lanka with a lot of expectations on the market potential for organic farming.

Sri Lanka's plantations, some cash crops and processing industries have already gradually gone into the hands of corporate forces. As in India, in the name of Green Revolution and with the advice of imperialist fertilizers and pesticide companies, the annual trade in fertilizers reached Rs.100 billion. All the fertile lands have been damaged. Traditional crops and seeds have disappeared. Cancers and other diseases have become common, while land for food crops has been reduced to pave way for industrial needs and plantations. On the 20th of June, 2021, the Sri Lankan Parliament has enacted a law against the use of inorganic chemical fertilizers for food crops, with 100% organic farming from the next cropping season (Maha). These measures were taken in the wake of warnings of significant reduction in food production.

The sudden shift to organic farming has increased the input costs in the Tea plantations and reduced the yield to half. Thus the main export product, Tea, has seen drastic reduction in the yield. The government had to declare an economic emergency. As a result, food prices have skyrocketed due to rising inflation and the fall in value of the Sri Lankan rupee. Depleting foreign exchange reserves on one hand, traders not coming forward for importing food items on the other, made the food situation very serious forcing the government to import urea by amending the steps taken in the case of fertilizer imports. Yet the circumstances are not improving.

Did the Sri Lankan government take the decision without assessing its effects on food security, unemployment and economy? This shows that policy decisions are made with the dictates of countries and companies that are providing special loans without considering the domestic needs and requirements. It is part of the imperialists' war tactics, part of their trade wars and a continuation of the hegemonic policies that have been in place all these years.

The important foreign exchange earners and crucial sectors to the Sri Lankan export economy are 1. Tourism 2. Fisheries 3. Rubber products 4. Tobacco products 5. Coconut products 6. Textile products 7. Ceylon tea.

Ceylon tea is in great demand worldwide. Six lakh families are directly and indirectly employed in the 600 tea companies in the country. The government knew that production in this sector would fall by more than half and would have an impact on families. Yet it took such decisions.

The burden on people in 5-6 areas where this tea industry is prominent is likely to throw banks into crisis. It goes without saying that the business interests of companies already in the organic farming sector played a key role in transforming Sri Lanka into an organic farming laboratory.

Advocating reduction in cultivation of food crops in countries where there is food self-sufficiency; advocating policy changes towards exports, import liberalisation are all part of the hunt for profits of multinational companies.

Sri Lanka has not collapsed in this one year. It is the result of being trapped in the clutches of foreign finance capital for decades. The Covid financial crisis has only sped its course.

Sri Lanka has a population of 2 crore 20 lakhs and a GDP of $ 80.7 billion in 2020. It has a GDP growth rate of 2.3% in 2019 but declined by -3.6 in 2020. In 1990 the share of agriculture in the GDP is 28.3 %. It came down to 20.4% in 2000 to 11.9 % in 2010 and further reduced to 7.54% by 2019. While there isn't much increase in the share of industrial sector over the same period. It is 22.1% in the 1990, 27.6% in 2000, 28.7% in 2010 and reduced to 26.2% in 2019. In the same period, the share of the service sector increased to 49.6%, 52% and 59.3% in 1990, 2000 and 2010 respectively, and stood at 59.2% in 2019.

In 2016, 4.1 percent of the population was below the poverty line (i.e., those with less than $ 3.20 daily income), while it reached 11.3% by 2020, according to government estimates. Actual figures could be far higher. With a working population of more than 80 lakh people, the country employs 46 per cent in the service sector, 29.9 per cent in the industrial sector and 27.1 per cent in agriculture.

Textile, tourism, telecommunications, IT services, banking, shipping, petroleum refinery, construction sector and agri-culture based industries like rubber, coconut, tobacco are the main industries of Sri Lanka. In 2020, exports were worth $ 12.8 billion, while imports were $ 15.58 billion. A quarter of the exports i.e., 25.29% goes to USA, 22.96% of the imports are from China alone and 19.3% imports are from India. If we look at these numbers, the gap between exports and imports is large; Also the economy of this small country is intertwined to the exports and imports of largest economies such as the US and China, which naturally throws it into crisis. Further, there are always pressures on small countries to import domestically cultivated crops and food items. So the decisions taken by the rulers of these countries are subject to the orders of those who have made foreign investments. The main cause of this crisis is the depletion of foreign exchange reserves to pay the interest on foreign debts every year, and the transfer of wealth as exports to serve the same. Everyone is trying to undermine this fundamental crisis in capitalist system by not talking about it.

Covid has affected tourism sector. We can understand that Sri Lanka which receives 10 per cent of GDP through tourism is affected by this. We can understand the damage caused by a series of natural disasters. But how can we understand that the total foreign exchange reserves are being depleted to acquire various food products and petroleum imports? Why is the share of domestic agriculture sector (mainly 2-3 acres of small holdings) which employs about 30 per cent of the working people and sustains the stability of the economy, declined to 7.54 % of GDP? The developments in Sri Lanka warn that any country that relies excessively on service sector will have to face such a situation sooner or later.

Capitalist countries are trying to make up for the crises in their countries by plundering less powerful countries. For this, they pour foreign investments, ensuring increase in dollar value with decline in currencies of poor countries and this is what happened here. In recent years, the Sri Lankan government has to block traders from trading at Rs. 200 for an American dollar. It has taken steps to use foreign exchange reserves for imports of emergency medicines and food items.

This means that the labour-power of millions of Sri Lankan people has evaporated due to dollar exploitation. What we are witnessing in Sri Lanka is the result of the linking up with the bubble economies of multinational companies. The situation of transferring a port to China to compensate for the debt didn't came in a day. Like many other countries Sri Lanka became a scape goat in the scramble for profits among imperialist countries and their military tactics. Decades of political turmoil created by the rulers who surrendered to the imperialists have resulted in the loss of crores of rupees of the wealth created by the working people in the name of military budgets. The present crisis in Sri Lanka is the culmination of the crises of its economic, political and military policies.

The solutions for this crisis put forward by the World Bank or the Sri Lankan ruling class, will only further the exploitation and oppression on the people; will plunder more and more of its resources. While not solving the crisis, they will further increase its dependency. The international media wants to convince the people of Sri Lanka that capitalist imperialist exploitative practices were not responsible for this growing economic crisis but only its rulers are. Any country which leaves self-sufficiency and self-determination and fantasises foreign investments and earning foreign exchange through exports as growth will end up like Sri Lanka. Therefore, the way before the people of Sri Lanka is to understand the real facts and fight for a new democratic system.

We must demand that our country cooperate with its neighbour which is suffering under imperialist oppression and food crisis, and that our country should not act as a big brother by imposing various restrictions in the name of providing aid but should respond with true camaraderie.