

World:

Economic Crisis of Sri Lanka Due to Implementation of Liberal Economic Policies – Lesson for India

The availability of basic necessities of life like food, cooking gas, petrol and medicines are primarily determined by imports in Sri Lanka. Therefore, severe foreign exchange crisis is transformed into life and death economic crisis of Sri Lankan people. The shortage of goods intensified. Black marketing aggravated. Prices are touching the sky. In addition, continuous power cuts. All this made the lives of people critical. Their violent cry resulted in the serious protests on the roads. On the other, they have no jobs, no earnings. This is highly terrible crisis in the history of Sri Lanka. The Peoples vociferous protests cannot be suppressed by curfew. The declaration of emergency and directing army to control black market so as to regulate the supply of essentials did not yield any results.

What is Happening in Sri Lanka

The Sri Lanka is severely trapped in the external debt. This year alone it has to repay foreign exchange worth \$ 609 billion. However, it includes one billion US dollars worth payments of Sovereign Bonds which should be repaid in July as well as interest payments to foreign lenders. The share of external debt in Gross Domestic Product in December 2020 is as high as 60.91 percent while the deficit in the current account of balance of payments is to the tune of \$ 740.8 million in September 2021. All this resulted in the rapid depletion of foreign exchange reserves which is just enough to meet payments of imports for one month. The restrictions imposed on imports failed to stop the imports of luxuries. The exchange rate of Sri Lanka's currency deteriorated further as it is determined by market forces, 300 Sri Lankan rupees, now are equal to one US Dollar. Consequently, external debt burden doubled. In the first two weeks of March 2020 the outflow of FDI is to the tune of 19.6 billion worth rupees. This resulted in the severe crash in the stock market.

Its sources of earning foreign exchange are 1) exports 2) tourism 3) foreign remittance. Still, Sri Lanka's exports mainly consists of primary goods like Tea, Rubber, Textiles, Apparel and their prices started declining in global market since 2013. The deterioration in the exchange rate of Sri Lankan currency, though results in the decline of prices of exports will not raise the demand in view of their nature of inelastic demand. Further, more quantity

of export goods should be given for same amount of foreign exchange. Consequently, foreign exchange earnings from exports will decline. The foreign exchange earnings from exports in 2020 declined by \$ 750 million. The devaluation in its exchange rate intensifies exploitation of labour in the process of producing export goods in the unorganised sector with cheap labour.

Another important source of earning foreign exchange is tourism. Numerous tourists will come from China, India, Britain, Russia, Germany, France, Australia, US, Canada, Ukraine and Poland. Travel Ban due to Covid-19 resulted in the crash in this sector. Consequently, earnings from tourism stopped. The hotels, restaurants, casinos developed exclusively for tourists closed which resulted in the loss of employment. However, the foreign loans taken for this purpose doubled.

Like India, Sri Lanka is also talking about 'knowledge based economy' and established educational institutions to train their youth in the skills which have a demand in the foreign countries. The youth trained in that way migrate to various foreign countries such as Middle East, South Korea and Italy. Their remittances is another important source of foreign exchange.

In the past, the Imperialist exploitative forces who support free trade tried to focus the development of Asian Tigers through external trade. Recently, they started highlighting the superiority of Sri Lanka over Singapore. Moreover, they wanted to show the Sri Lanka as a superior model. Now, it is caught in crisis and became bankrupt. However, the migrated workers lost their jobs in foreign countries and came back home with empty hands. This is really a serious warning to India because our Central Government started highlighting the benefit of training our youth which is called as 'Demographic dividend' in the skills which are required by foreign countries. This process clearly ignores to train our youth according to our requirements and to generate employment so as to raise the quality of life.

Thus, self-reliance negated and dependency strengthened in the economic structures of Sri Lanka, this reality is revealed by Covid-19 pandemic.

The imports of Sri Lanka mainly consists of essentials which are characterised by inelastic demand. Therefore, the demand will not decline as their price increases due to devaluation of its currency. Further, payments for imports will increase and complicates the issue of inflation.

Thus, the experience of Sri Lanka once again proved that the devaluation suggested by IMF as a solution to foreign exchange crisis, in fact, aggravates the issue critically.

Sri Lanka has chosen to take additional foreign loans to come out from external debt crisis. India sanctioned credit worth \$ 2.4 billion and sent 40,000 tonnes of rice as an aid. Sri Lanka is requesting India for another loan of \$ 1.5 billion while the China has given loan to the tune of \$ 2.8 billions and Sri Lanka appeals China for another \$ 2.5 billions. Further, it is also requesting IMF and ready to accept its conditions and to implement reforms strongly. However, this will further strengthen its dependency, which might make it a 'puppet' in the hands of monopoly capital.

The present crisis did not emerge suddenly. It is the consequence of powerful implementation of laissez faire/ liberal policies since 1977 and more strongly especially from 2009 onwards after the end of civil war which is in fact, promoted by Imperialists.

Consequently, distortions strengthened in the economic structures of Sri Lanka. The dependency well established which negated self-reliance. The continuous canvas about the crisis of Sri Lanka strongly pursued by Global and Indian media did not mention about root cause of the problem is a serious contradiction. Its focus is exclusively on two reasons. 1) The Government of Sri Lanka reduced the rate of Value Added Tax (VAT) as its final burden fall on common people whose lives are already in a critical condition due to loss of jobs and earnings owing to Covid-19. The media which is in the grip of monopoly capital states that reduction in VAT resulted in the rise of budget deficit and lead to the emergence of present crisis.

The media did not talk about the loss of government revenue due to various incentives and concessions offered to corporate forces to improve its position in the rank of Ease of Doing Business. Like India, the government of Sri Lanka passed new Acts and reformed existing Acts to improve Ease of Doing Business. The index in this regard prepared by World Bank shows that in 2019, Sri Lanka achieved progress to the extent of 11 places. This is acceptable to the monopoly capital as well as global media.

The World Bank reports reveal that though Sri Lanka shows reduction in the rate of Extreme Poverty, as high as 45 percent of its population live in near poverty conditions. Moreover, the reports of World Bank, further states that owing to Easter bombings in 2019 and Covid-19 pandemic in 2020, as many as 50,000 people thrown into extreme poverty additionally. This resulted in the demise of five year progress achieved in reducing extreme poverty.

The mainstream media categorically canvassing that it is the serious mistake of government of Sri Lanka to reduce VAT though it is regressive and it is projected as one of the main reasons for the present economic crisis. Because, the IMF condition strongly directs the imposition of regressive taxes

to raise revenue so as to reduce budget deficit. This is also useful to reduce the purchasing power of the people. Joseph Stiglitz, who worked as the main economist of World Bank in 2000's stated that poverty will increase enormously in third world countries due to the implementation of neo-liberal economic policies. He expressed in the language of World Bank about the nature of natural economic crisis of capitalist mode explained by Karl Marx.

2) The second reason showed by mainstream media is the proposal of shifting to organic farming which is free from chemical fertilisers and pesticides. The media further states that the Sri Lankan government did not care to listen the warnings of Sri Lankan scientists that the shift to organic farming creates food shortage.

In fact, the process of shifting to organic farming yet to start because already Yela season started with the use of chemical fertilizers. The Mafia of chemical fertilizers in Sri Lanka is very strong as it is linked to the turnover of 100 billion rupees chemical fertilizers per annum. Immediately they stored and created serious artificial scarcity of chemical fertilizers. Thus, it distorted the issue.

Vandana Shiva, an environmentalist states that Global chemical industry is behind the conspiracy of blaming Organic Farming. It hides true causes of crisis. The government took excessive foreign debt for the purpose of tourism and to construct infrastructure and consequently, caught in vicious foreign debt trap. She, further states that shift to organic farming is strongly proposed by recent IPCC report. This will free the farmer from debt trap, ensures benefit from multiple cropping, no fertilizer subsidy to the government, reduction in the import bill, soil conservation, decline in global warming, environmental protection like so many benefits can be derived from organic farming but its serious enemy is Globalisation. Therefore, it has to be opposed and localisation should be strengthened. Thus, she supports the arguments of economists like Samir Amin. The organic farming is successfully implemented in Cuba which stands as a model for the world.

Crisis in Sri Lanka - Neo-Liberal Exploitative Policies

Third world countries are to be articulated as Dependent economies for the continuation of domination of monopoly capital without any hindrances.

The neo-liberal policies have emerged for this purpose. Almost all the third world countries are trapped in this vicious circle of these policies. The Sri Lanka has been implementing this policy strongly since 1970's. They are the basis for the present economic crisis.

Like all the emerging/ backward economies. Sri Lanka also possesses cheap labour, natural resources, valuable minerals especially graphite,

offshore oil and gas reserves is another attraction. It has locational advantage as it is at the crossroads of major global shipping lanes. The oil tankers and containers which come from Europe and Middle East to go to East Asia must pass Sri Lanka. Therefore, it is more attractive and strategic for imperialist exploitative forces.

Since 1970's it is articulated as Open economy like India to take strong measures for privatisation, to make it export - oriented economy to increase Ease of Doing Business, to attract foreign investments by offering various incentives and concessions. It passed new Acts and reformed existing Acts for this purpose. It encouraged public-private partnership as a measure to ensure transparency. The left wing labour organization which oppose neo-liberal policies are strongly suppressed with violence. Janatha Vimukthi Perumana, a M-L Party in Sri Lanka aims to build socialist structures. Few reports estimate that during 1988-99 the army killed as many as one lakh members belonged to this party.

The civil war with LTTE continued during 1983-2009. The government increased defence expenditure excessively to strengthen army with the advice and co-operation of imperialist exploitative forces to end the civil war. Later on, totally ignored the issue of discrimination raised by the civil war. While implementing neo-liberal policies strongly, it announced in 2000 that it will stand as a "strong commercial model".

It started taking foreign/ external loans at high rates of interest for the infrastructure led growth. It took loan from IMF 17 times including the expected present one in 2022 and promising for the strong implementation of economic reforms. The Sri Lanka also took loans from Asian Development Bank, China, Japan and European countries. It built a Hambantota Southern Port, modernise Colombo International Airport, Expressways to connect North and East tourist centres of Sri Lanka.

China extended loan to Sri Lanka for infrastructure under 'Belt and Road initiative' during 2006- 2019 is as high as \$ 12 billion. More than 750 acres of land is reclaimed in Indian Ocean to build an International Port City- a World Class Free Trade Zone. A firm owned by the government of China is constructing it with \$1.4 billion. It is expected to be completed in 2043 and till then, this project yield no revenue. After its completion, the Sri Lanka agreed that 43 percent of reclaimed land will be leased out to China for 99 years.

To construct Hambentota International Airport, Sri Lanka took one billion US dollars from China. The new government which came to power in 2015 agreed to give 15,000 acres of land around the Port under 'Debt for Equity Swap' to China for 99 years lease instead of repaying the debt.

The Sri Lanka severely trapped in external debt in the process of creation of infrastructure. Consequently, in flow of foreign investment increased to get the benefit from developed tourism. Moreover, the bilateral agreements of Sri Lanka with Singapore, Thailand, Australia, China, India and Pakistan has created a large market basis for the foreign investment. International Brand Hotels like Shangri Le with 800 rooms, Hyatt with 550 rooms, Marriot with 200 rooms, Crown Casino with 450 rooms are built and John Keels constructed a Casino connected resort with 800 rooms. In addition, so many local brand villas emerged to attract tourists.

Many multinational brands like Cargill JKH, LOLC holdings and MAS holdings and Brandix in Apparel, LAUGFS Holdings in electricity, Atikem Spence in Hospitality, Dilmah, Island Tea in Tea, Ceylon Tobacco, DCSL, CBL in consumer goods are established firmly in Sri Lanka.

The export - orientation did not diversify exports rather confined to textile, readymade garments, tea which are made with cheap labour. In view of their nature of inelastic demand, the demand will not increase as well as their price. The majority people whose livelihood is based on this export-oriented industry are casual labour with low wages and no job security and subjected to high labour exploitation.

Further, essentials mainly depends upon imports. Though Sri Lanka is an Island, it imports Tinned Fish indicates the level of negation of self-reliance. On the name of Knowledge- based economy, the education sector is with the government to train the youth in the skills which have demand in foreign countries. The skilled youth have no option except to migrate to other countries and earn foreign exchange for remittances. No question of national development.

The development of agriculture sector did not connect to the needs of the nation. The poverty is concentrated in villages. The World Bank estimates reveal rise in the income inequalities, the share of household income of top 10 percent is more than 38 percent while it is less than 5 percent for bottom 20 percent. The continuous rise in prices increases the wealth of rich further and make the poor poorer. Though, the estimates show the decline in extreme poverty, the problems of hunger, malnutrition and under nutrition are rampant. It is already noted that as many as 45 percent still live in near poverty conditions.

Strong Implementation of Economic Reforms since 2009–Reversal of Growth Estimates

Since 2009, the Economic reforms are implemented aggressively. The Asian Development of Outlook, 2014 estimates that the strong implementation of liberalised policies resulted in improving foreign

relations, increasing flows of foreign direct investment, raising exports and tourism, decreasing deficit in the current account of balance of payments as well as deficit in the budget and raising the growth of service sector. Therefore, the report expects the rate of growth of GDP in 2014 and 2015 will be 7.5 percent and appreciated Sri Lanka as a fast growing economy in Asia.

All these estimates are reversed since 2013 has to be noticed. As per World Bank, the trends in the growth of Sri Lanka are unsustainable. Its rate of growth of GDP is around 6.4 percent only during 2003–2012 and it is declined to 3.3 percent in 2018 and to 2.3 percent in 2019. The share of public debt in Gross Domestic Product was 77.9 percent in 2017 but increased to 101 percent in 2020. It is wonder to notice that despite this deterioration, it could achieve progress in the index of Ease of Doing Business. This is not at all a paradox but quite natural in the process of making it a dependent formation.

In 2016, Sri Lanka took loan to the tune of \$ 100 billion from World Bank, \$ 162.2 million from IMF, \$100 million from Japan International Co-operative Agency by accepting the conditions. Accordingly, it has introduced reforms in financial sector, Formulated New Inland Revenue Act, increased VAT as part of tax reforms and introduced formula to determine atomic fuel price.

Thus, Sri Lanka is taking external debt continuously. In 2018, it took \$ 1.25 billion from China, \$ 200 million under currency swap deal from Bangladesh. However, Sri Lanka is not in a position to repay. Therefore, agreed to send \$ 5 million worth of Ceylon Tea per annum to repay the oil import bill of Iran to the extent of \$ 251 million.

In this way, its external debt is on the rise continuously as well as its deficit in the current account of balance of payments Foreign exchange reserves decreased to \$ 13.05 billion in 2019. Covid-19 pandemic in 2020 clearly revealed the nature of dependent system of Sri Lanka. Now it is clear that these systems will not survive. Protests of people touching the sky. The Government of Sri Lanka declared emergency in September 2021.

Conclusion

The forces of monopoly capital faced certain difficulties to articulate Sri Lanka vigorously for their own interests due to the LTTE civil war during 1983 to 2009. The collusion of India with the strategies of Imperialist forces to remove this inconvenience resulted in sending Indian Peace Keeping Force (IPKF) to suppress LTTE civil war. In the process, so many developments took place till the murder of the then Prime Minister of India, Rajiv Gandhi.

The present critical experience of Sri Lanka should be a lesson to all the emerging economies which are strongly implementing policies which are favourable to imperialist forces on the name of neo-liberal policies. It is the

firm and scientific prediction that the present Sri Lanka crisis is the future image of India. This will not be visible to economists whose observation is peripheral and therefore, they give hopes that the danger is not in near future. In fact, same neo-liberal policies have been aggressively implementing since 2014 in India. They are implemented to destroy the lives of majority and to increase the wealth of billionaires enormously. Job-loss growth is continuing. Majority people are living in miserable conditions on the assumption that they are normal, in the unorganised sector without any job security.

On the other, the government is giving various concessions and incentives to monopoly capital and waiving thousands of crores of rupees loan extended to them by public sector banks. On the name of sale/disinvestment, valuable public sector undertakings are handed over to corporate forces at as cheap as possible. Roads, Railways, Ports and Airports i.e. entire transportation sector is handed over to monopoly capital. Government is taking strong measures to hand over land, forests, all the natural resources including minerals as well as entire collective properties inclusive of rivers to corporate forces. Taking excessive external debt for the creation of infrastructure and generation and supply of power to hand over them to monopoly capital on the name of asset monetization. In the agriculture sector, only cultivable land is with farmers. With black farm laws, the government designed to hand over it to monopoly capital. However, it is stopped presently owing to the one year strong and stable movement of farmers. Health and Education sectors are corporatised resulting in the demise of public education and health systems. Majority are denied. With more than 100 crore extremely poor people, a separate country is built within India in a disguised way. Their children should learn skills which have demand in other countries and should have to migrate for the survival. Imposing GST to collect more and more revenue from the people who are in miserable conditions due to demonetisation and Covid-19 pandemic. For the past several years, the prices of petrol, diesel and cooking gas is on the rise continuously. Excessive rise in the prices of all essentials including the prices of medicines and transportation charges. The lives of bottom 70 percent is critically miserable and on the other extreme rise can be seen in income and wealth inequality. Ambanis and Adanis are successful in getting place in world billionaires. Self-reliance is negated. As rightly said by A.K Bagchi, the India has been articulated as a strong dependent country for the interests of imperialist exploitative forces. Comrade Tarimela Nagi Reddy already in his Court statement titled 'India Mortgaged' firmly stated 50 years back that rising external debt is a strong index of growing crisis in India. The

rate of growth of external debt is higher than the growth rates of national income. As a result, it is impossible for India to repay. Looting emerging economies is the definite way for dominant countries to come out from their crisis of capitalism and this process naturally throws emerging economies into critical crisis. Sri Lanka is no exception in this regard.

Either in India or in Sri Lanka, a strong consolidated people's movement is necessary to build society free from exploitation and oppression and to ensure decent lives to all. This necessarily requires the leadership of revolutionary forces.