

# Sri Lanka: Tensions over Free Trade Agreement with India

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The Free Trade Agreement that was signed by visiting Sri Lankan President Chandrika Kumaratunga and Indian Prime Minister Atal Behari Vajpayee in New Delhi last December 28 is being hailed by a section of the Sri Lankan bourgeoisie as "a landmark agreement" and "a major breakthrough." Other sections of Sri Lanka's elite, however, are warning the agreement could intensify the island's political and economic crisis.

Under the agreement, India will eliminate tariffs on 1,000 Sri Lankan products over a period of three years and Sri Lanka will do away with tariffs on 900 Indian products within eight years. The list of products whose tariffs will be eliminated or reduced and the "negative list" of products which will continue to be protected with tariffs are due to be announced within 60 days. The agreement is expected to come into force March 1, 1999.

One reason the Sri Lankan government has given for entering into the trade pact (FTA) is the need to narrow the gap in Sri Lanka's trade account with India. In 1997 Indian exports to Sri Lanka were valued at US\$560 million, while the value of Sri Lankan exports to India was a meagre US\$42.7 million.

There seems to be no major opposition to the FTA from India's businessmen, media or political parties. Textile producers in Kerala and tea producers in India's Northeast did make some noises, but Prime Minister Vajpayee has been able to assuage their concerns. In Sri Lanka, by contrast, the business and political elite are sharply divided.

While the president of the Ceylon Chamber of Commerce and the chairman of Sri Lanka's biggest conglomerate, Ken Balendran, has praised the agreement as a step in the "right direction", Patrick Amarasinghe, president of the Federation of Chambers of Commerce and Industries, has warned that Sri Lankan capital is ill-prepared to compete. "If this is an opportunity for us to access the vast Indian market, it is well and good," said Amarasinghe. "But our industry is not geared to it." The National Chamber of Industries, meanwhile, has written to the president to demand additional protection for Sri Lankan industry. Otherwise, there is a danger of "downsizing and closures with resultant mass unemployment and loss of technology".

A National Chamber of Industries press release has raised fears the FTA could gravely aggravate Sri Lanka's unemployment crisis: "Industry caters to the employment of educated youth. Industry also remains a main avenue of employment for several hundred thousand school leavers each year. A situation where mass unemployment results from the free imports of industrial products is too frightening to contemplate."

These fears have been backed by the bourgeois paper *theIsland*, which also serves as a platform for reactionary nationalists and racists. Significantly, one Professor Nalin de Silva, a prominent ideologue of Sinhala racist-fascistic elements in Sri Lanka organised in the National Ideology Group, has aired the businessmen's fear in an article in this same paper.

These businessmen and their ideologues shed crocodile tears about workers and the unemployed. These are the same elements who have

enriched themselves off the privatisation of state ventures and use every reactionary labour law to sack workers and attack wages and working conditions. In conjunction with the chamber chiefs who support the FTA, the capitalist opponents of free trade recently urged the government and other parties to scrap labour laws that provide some protection for workers' rights.

The talk about industries as "a main avenue of employment for several hundred thousand school leavers each year" is empty rhetoric. During the two decades of "open economy" (1978-97), under which Free Trade Zones have been established to attract foreign investors, just 258,185 new jobs have been created according to a 1997 Central Bank report.

The real fears of the bourgeois opponents of the FTA are for their profits. Similar disputes between the larger and more competitive sections of capital and their weaker rivals can be seen in every country.

The leader of the main opposition party, the United National Party, has said he is agreeable to an FTA in principle, but the timetable to implement it must be a longer one.

The PA government in Sri Lanka and the BJP-led coalition government in India have signed this agreement with conflicting aims. The Indian bourgeoisie calculates that its much larger and better-capitalised companies will be able to trounce their weaker Sri Lankan competitors. It also conceives of the FTA as part of a series of economic and political arrangements that in sum will greatly boost India's claim to the status of South Asia's pre-eminent regional power. By signing a trade pact with Sri Lanka, the fourth largest of the seven South Asian states, the Indian government hopes to push forward negotiations being held under the South Asian Association of Regional Corporation (SAARC) for the creation of a South Asian Free Trade Area (SAFTA) by 2001.

The Sri Lankan bourgeoisie, meanwhile, hopes that increased access to the large Indian market will lure more foreign investment to Sri Lanka. It calculates that, in a situation where India has not fully opened its market to Western goods, foreign investors will come to Sri Lanka and use it as an export "platform" to India.

In a speech to the Federation of Indian Chambers of Commerce and Industry, the Sri Lankan president conceded that Sri Lanka's rulers have little choice but to seek closer economic and political integration with its closest neighbour, India. She noted India accounted for 75 percent of the \$500 billion total annual income of South Asia, and Sri Lanka just 3 percent. "Without India," said President Kumaratunga, "nothing is possible. India is and will remain the largest and pre-dominant partner among the seven South Asian states." She then appealed for link-ups between Indian and Sri Lankan capital. "We should ... look at joint ventures and the private sector in India should play a leading role in this."

In pursuit of such an economic alliance, the Sri Lankan bourgeoisie is ready to accept Indian claims to political predominance. Last year, the Sri Lankan government was among the few states in the world to publicly defend the BJP government's explosion of nuclear devices.

The FTA is an expression of irreversible economic tendencies: the

development of the productive forces--especially in the capital-intensive computer and telecommunications sectors--demands more and more international integration and co-operation. But capitalism is utterly incapable of bringing about the harmonious integration of the world economy and using its resources for the benefit of working people.

Rather the FTA, like similar trade blocks in the advanced capitalist countries (NAFTA and the European Economic Union), is an alliance between rival national bourgeoisies directed against their common rivals and the oppressed masses.

During the 1980s, when India's economy was largely closed to foreign capital, Sri Lanka was able to attract considerable foreign investment. But in the 1990s this investment has trailed off.

In 1995, there was US\$195 million worth of new investment in Sri Lanka and in 1998 just \$155 million. Moreover, the chairman of the Board of Investment recently announced that as a result of the East Asian economic crisis Sri Lanka lost US\$75-100 million in foreign investments.

The FTA is a desperate attempt on the part of the PA government to reverse this trend. It will be accompanied by a new round of attacks on workers' jobs and wages. According to business circles in Sri Lanka, the fact that labour costs in Sri Lanka are higher than in India constitutes the biggest obstacle to benefiting from the FTA. Thus Sri Lankan workers, like their counterparts throughout the world, will face renewed attacks in the name of "market competitiveness".

Already the PA regime has used "free trade" in certain agricultural products (including potatoes, chillies and onions) to drive down commodity prices and, by making it less and less possible for small peasant producers to sustain themselves, sought to stimulate the emergence of large-scale capitalist farming.

The FTA will mean further economic upheaval and impoverishment for both workers and peasants. "Loss of business will result in unemployment, poverty and social unrest," prominent Sri Lankan economist Dr. J.B. Kelegama bluntly declared. But Kelegama's alternative, an even closer alliance between Sri Lankan and Western capital, would produce no different results.

Neither the nationalist economic policies pursued by the Indian and Sri Lankan bourgeoisies in the decades after the end of direct British colonial rule, nor the open market policies of recent years have broken the cycle of economic backwardness and dependence. One measure of this is the perpetuation of mass poverty. India boasts that it has reduced the percentage of its population living in poverty from 45 percent in the 1950s to 30 percent last year. But the total number living in poverty has swollen during this period from 164 million to 320 million--greater than India's total population at the time of independence.

In Sri Lanka, according to the latest Central Bank survey, the share of the national income of the lowest 40 percent of the population rose from 11 percent in 1986 to 13 percent in 1997. But, according to prominent economists, this was mainly due to the remittances of Sri Lankans working abroad, particularly in the Middle East, and because of the incomes earned by youths in the military and police, which have been expanded to wage war against the Tamils of the North and East and to suppress social unrest in the South. The same Central Bank survey shows that in 1953 the share of the national income going to the lowest 40 percent was 14.5 percent. Thus social inequality in Sri Lanka is much greater today than it was in the 1950s, shortly after the end of colonial rule.

Under the FTA the collaboration of the bourgeoisies in both countries will be strengthened against the working class and other oppressed sections. The PA government aims at getting further support from the Indian government in carrying out its war against the Tamil masses in the name of defeating the "terrorist" LTTE. In every crucial political crisis in the post-independence period, Sri Lankan governments have sought the assistance of the Indian ruling class.

The ostensible organisations of the working class--the Lanka Sama Samaja Party (LSSP), the Communist Party (CP), Nava Sama Samaja Party (NSSP) and the trade unions--have said nothing about the FTA, but all support the bourgeoisie's "open economic policy". The LSSP and CP are members of the PA. The NSSP, which presents itself as a left critic of the PA, mouths words about the need for "transborder alliances" to confront transnational capital. Yet it recently participated in an "all-party conference" called by the business chambers. In the same way the NSSP participated in the All Party Conference called by UNP President J.R. Jayawardena, which laid the basis for the Indo-Lanka Agreement in 1987.

The Socialist Equality Party of Sri Lanka has issued a statement outlining the programmatic basis for working class resistance to the FTA in Sri Lanka and India. It reads in part: "The development of global production, the integration of the world as one economic entity, and the development of the productive forces to a level at which they can only effectively be operated internationally--all these developments are progressive. The working class must reject the opposition to FTA on the basis of reactionary nationalist programs. These are the programs of reactionary elements who are bent on rolling back the wheels of history.

"The working people face loss of jobs, working conditions, welfare benefits and other rights and gains because of the drive of international capital for profit. If the working people were to harness the world economy, utilising the revolutionary developments of technique for the fulfilment of the needs of mankind, it could eliminate hunger, want, epidemics and other social disasters and establish the conditions for a great leap in human culture. This can be achieved only on the basis of the program of socialist internationalism....

"The working class and oppressed in Sri Lanka and India and across all South Asia must fight for the program of the United Socialist States of the Indian subcontinent against the program of the bourgeoisie, which, whether under the name of FTA or SAFTA, is the program of profit hungry international capital."



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