

World recession impacts Sri Lankan economy

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Latest reports on the Sri Lankan economy for 1998 and forecasts for 1999 indicate the impact of world recessionary tendencies on the country's economy. Economic analysts and some businessmen predict low economic growth, a further decline in exports and shutdown of some manufacturing sectors.

In a review of the economy published in early March by a leading brokerage firm in Sri Lanka, John Keels, it is reported that though there was 13 percent export growth in 1997, this dropped to 2.1 percent in 1998. The same review predicts: "The global slowdown, following the Asian and Russian crises, will continue to affect Sri Lanka's exports in 1999." The firm's estimate is that the growth of exports in 1999 will amount to an insignificant 0.5 percent.

Tea--which is Sri Lanka's main agricultural export, accounting for 70 percent--has taken a severe beating as a result of the Russian economic collapse and the continued crisis in the Persian Gulf. US-imposed sanctions against Iraq have resulted in a total loss of that market for tea since 1991. The People's Alliance government's attempt to work out a deal on the issue under the United Nation's "oil for food" program also failed due to continuing tensions in the region. Iraq had been one of the largest importers of tea from Sri Lanka.

Previously, more than 20 percent of Sri Lanka's tea exports went to Russia. The share of tea exports to Russia fell from 23 percent in 1997 to 18.6 percent in 1998, due to the collapse of the rouble. Tea prices on the world market dropped by 30 percent in 1998, and total tea export revenue growth declined to 7.8 percent from the 1997 level of 16.73 percent. The John Keels review predicts that these revenues will decline an additional 5 percent in 1999. Last month, the private tea factory owners association announced that they will be compelled to close down factories because of the loss of revenue due to low prices.

Sri Lanka faces sharp competition from Malaysian

and Indonesian rubber and rubber products as their prices have dropped sharply due to currency devaluation since mid-1997. According to the Export Development Board, Sri Lankan revenue from rubber declined by 24.08 percent in 1997 and 45.33 percent in 1998, creating a grave crisis in the rubber plantation industry. Coconut export revenue also dropped by 20.98 percent in 1998.

A major crisis has developed in the textile industry as well. "Cheap fabrics from South East Asian countries have flooded the local market, aggravating the debt crisis in the textile industry, and have started to wipe out the industry," lamented Y.A. Gnanam, chairman of the Textile Manufacturers Association. Total duty waivers for the import of fabrics, adopted in the 1999 budget, have added to this crisis. The government had taken this step in the name of market "liberalisation". Now the Textile Manufacturers Association has demanded that the government take over the industry's debts and pay three months salary compensation to the retrenched workers. "If not," the association says, "the government must give full protection and concessions to the industry." The government--pressured by the IMF's liberalisation policies--is not prepared to protect the ailing industry. The jobs of 30,000 textile workers are endangered by this crisis. Last year 5,000 jobs were wiped out in two mills privatised by the former UNP regime.

The garment industry has expanded since the opening of the economy to foreign capital in 1977. This was touted as a success story by the UNP and PA regimes over the past two decades. The industry became the main source of foreign exchange, accounting for nearly 50 percent of industrial exports. In 1997 garment exports declined to 21 percent, in dollar terms. By 1998 they fell to 7 percent, resulting in the closure of several factories. Sri Lanka's main market for garment exports is the United States. However, according to the

Minister of Industries of the PA government, Mexico and Caribbean countries are now making inroads into the US market.

The fall-off of external trade has begun to affect the banking system as well. Last year Sri Lanka's export and import trade growths were a meagre 2.1 percent and 2 percent respectively. Banking interests have expressed concern over the effect of the Russian crisis on tea plantations. Russian tea importers are taking discounts according to rouble devaluation, and "payment of bills already held is likely to prove difficult," according to the research unit of the Sri Lanka branch of the Indo-Suez Bank. The Central Bank estimates that US\$19 million is tied up in the local banking system as a result of Russian crisis. Meanwhile, the World Bank is pressing for privatisation of the state-owned banks and insurance corporations.

The Sri Lankan ruling class is making a desperate attempt to develop the Colombo Stock Exchange (CSE) as a platform to attract foreign investment. But the Southeast Asian crisis, sanctions imposed on India and Pakistan following the nuclear tests and other convulsions in financial markets throughout the world have badly affected the CSE. The all-share price index of the CSE was 702.2 at the end of 1997, and it had slipped to 575.64 by the end of 1998. According to estimates, the foreign component of CSE transactions fell from 60 percent to 40 percent in 1998.

In the wake of this developing crisis, economic growth slowed to 4.7 percent in 1998 and is expected to decline to 4 percent this year. These recessionary tendencies are now being translated into attacks on jobs, working conditions and living standards.

In response to the developing economic crisis in Southeast Asia, developing since mid-1997, Chandrika Kumaratunga's People's Alliance government said that her regime could avert its impact by following "prudent economic policies". But developments have shown that it is impossible for any country to insulate itself from the effects of economic globalisation. The competition amongst transnational corporations for markets and profits has produced an over-capacity of production and deflationary tendencies. The rapid movement of productive capital and speculative capital seeking profitable markets is creating an even more volatile economic situation.



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