Sri Lankan government pushes through new military spending

Economic burden falls on working people

Dianne Sturgess
16 May 2000

The decision of the Sri Lankan government to put the country onto “a war footing” following a string of military defeats in its war against the Liberation Tigers of Tamil Eelam (LTTE) has already resulted in a new round of economic burdens on the working class and the urban and rural poor.

Last week the Peoples Alliance (PA) government pushed a special bill through parliament to provide an additional 12 billion rupees ($US167 million) for military expenditure and to allow for another 20 billion rupees ($US278 million) to be raised through new borrowing. This hefty increase is in addition to the present defence budget of 52.43 billion rupees, already at an all-time high and brings the total expenditure on the war to 30 percent of overall government annual revenue. Defence spending far outstrips combined government expenditure on public health and education.

One of the measures is a large hike in the defence tax from 5.55 percent to 6.5 percent, through which the government plans to raise an extra 2.5 billion rupees ($US35 million). In the budget for the year 2000 the tax had already been increased from 4.5 percent to 5.5 percent and extended to include sectors of the economy not previously covered.

The government introduced the new defence allocation into parliament as an “urgent matter”, having first gained the approval of the country's Supreme Court. The special bill was debated and passed on the same day with the support of members of the ruling PA coalition, including the Stalinist Communist Party of Sri Lanka and the Lanka Sama Samaja Party (LSSP). The opposition United National Party (UNP) gave its tacit support for the measures by abstaining.

The government has also increased the tobacco tax by nearly 10 percent and liquor prices by about 5 percent, which, according to a finance ministry spokesman, will raise “approximately 1.5 billion rupees [$US18 million] for the war effort.”

To stave off scrutiny of its economic performance, the government requested last week a postponement of a meeting of the Aid Group to Sri Lanka that was scheduled for May 29 in Paris. Addressing IMF and World Bank representatives, the Deputy Minister of Finance and the Minister of Constitutional Affairs G.L. Peris said: “It was the government which decided to put off the Paris Aid Group meeting and it will be held at a more appropriate time.”

Even before the current fighting, the government was walking a financial tightrope and had been seeking to cut back on funds allocated to state departments. A treasury circular issued in March instructed all state institutions to save 5 percent of allocated monies except salaries, medical supplies, welfare, pensions and food, in order to keep the budget deficit within the target prescribed by the International Monetary Fund.

In early May, the Central Bank governor warned at a press conference called to present the bank's annual report that defence expenditure was bound to rise as a result of the escalation of the war. He foreshadowed the imposition of new taxes and the diversion of funds allocated for development work to military spending. The government has already announced a halt to all “short term development programs”—a measure which will further escalate unemployment, particularly among youth in rural areas.

The Central Bank annual report criticised the “irrational” low price of fuel, transport and telephone services and demanded that increases be implemented without delay. The government had previously put off price rises in these areas, including an increase in telephone charges of as much as 20 percent. It has the privatisation of the postal service and power sector on the agenda.

However, even these measures are unlikely to cover the huge increase in spending on military hardware foreshadowed by the government. Over the weekend Foreign Minister Lakshman Kadirgamar explained in an interview with the *Sunday Times* that Sri Lanka had been involved in negotiations with seven countries for arms worth “up to $US800 million."

What has been officially announced is the purchase of eight Kfir fighter planes from Israel at a cost of $24 million. But according to an article in the Indian *Hindu* newspaper last Friday, “Sources pointed out that a Pakistani ship with arms on board is on its way. The consignment includes 122mm Multi Barrel Rocket Launchers along with a load of 1,600 rockets. Besides, Pakistan has already flown in ammunition supplies to

Colombo.... Sri Lanka has also contacted the Czech Republic for delivery of tanks. Colombo plans to airlift them from Prague, to facilitate its early induction."

To impose the new economic burdens, the government and the media are engaged in a jingoistic campaign exhorting the population to sacrifice for the war. Already around 35 percent of the Sri Lankan population lives below the austere official poverty line.

Last weekend the business section of the moderate *Sunday Times* informed its readers: "Vital to achieving this [economic growth] is a public awareness of the link between economic performance and the war effort. Not everyone can fight on the warfronts, but everyone can contribute to the war by sacrifices in consumption and increases in productivity. We must mobilise public support for the war on the economic front if we are to sustain our war expenditures and ensure the sustainability of the war to its bitter end."

The *Island* newspaper, known for its support of the war, went one step further in an editorial on May 10 entitled "Where is the war footing", stating: "Those who lived through World War 2, even in countries like Sri Lanka, recall the stringent measures taken by the British authorities to run the country on a war economy.... Food, clothing, fuel and other essentials were rationed. Public buildings were acquired for the purpose of the war among other measures taken that deprived the people of their daily amenities." Sinhala extremist organisations are engaged in even more lurid propaganda along the same lines.

But the heat of the rhetoric is an indication of just how little public support there is for the continuation of the bitter 17-year war, which has cost more than 60,000 lives and billions of rupees. The PA government is fearful that opposition to the war, expressed in a limited way by surveys, and the failure of its latest recruitment drives and high desertion rates, will take a more conscious political form. Thus, in addition to the nationalist drumbeating, the government has imposed a draconian set of emergency regulations imposing blanket censorship of the media and all protests, strikes and public meetings. Already several companies have exploited the new emergency regime to compel workers to end strikes for better pay and conditions.

In a report released last month the country's Institute of Policy Studies outlined the huge economic cost of the war, stating: "it is reasonable to conclude that, under even the most conservative assumptions, the country has incurred a war cost amounting to two years of annual GDP (at 1996 rates)." It went on to explain that the longer the conflict, "the further the cost will increase, the burden falling most heavily on the poor and the young of this country." While military spending in other "developing countries" had been falling over the last two decades, the IPS report stated, defence expenditure in Sri Lanka had risen from below half a percent of GDP in the early 1970s to an estimated 6 percent of GDP in 1995.

Sections of big business are concerned over the impact of the war on the economy, particularly on foreign investment. The Central Bank noted in its annual report: "The greatest challenge to the above outcome [low level of economic indicators] is the ongoing armed conflict in the North and East." It argued that, in the absence of the military conflict, annual investment would have increased by 2 to 3 percent and economic growth by the same percentages. "If allowed to continue, conflict could seriously drain the resources and energies of the people and marginalise the country in the international community," the report concluded.

Declining exports and rising military expenditures have led to deteriorating trade and current account deficits and a steady decline in external assets. The Central Bank earlier predicted an inflation rate for 2000 of 7 percent, up from 4.7 percent in 1999. But that estimate is now likely to be shattered.

Shares have also been affected. During the first week of May the share index for the Colombo Stock Exchange (CSE) declined by 25 points to a nine-year low as capital moved out of Sri Lankan stocks and out of the country. The new foreign outflow from the CSE for the week was 44 million rupees. Over the past four months the stock market has suffered a net outflow of 1.4 billion rupees, double the figure for the corresponding period in 1999.

Commenting on the latest decline one broker said: "This was owing to the unsettled security climate in the country, particularly in the North, prompting both investors and market advisors [to adopt a] wait-and-see policy." "The regular worldwide publicity of the ongoing battles has created a negative sentiment among foreign investors," another broker lamented.

The deepening economic crisis in Sri Lanka, compounded by intensified fighting in the North and political uncertainty in Colombo, is certain to produce one outcome: growing social and politicals tensions as dissatisfaction mounts among both Tamils and Sinhalese to the war and its impact on living standards.