Sri Lankan downturn wipes out thousands of jobs

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The Sri Lankan economy is rapidly sliding into recession, with the growth rate collapsing, exports declining and thousands of jobs being eliminated. The slump has intensified under the impact of the world downturn, especially since the September 11 terrorist attacks on New York and Washington.

Though the Gross Domestic Product figures have not yet been released for the third quarter of this year, Central Bank economists have privately predicted a negative figure. In the first and second quarters, the official growth rate slipped to a mere 1.4 percent and 0.4 percent respectively, compared 7.3 and 6 percent for the same periods last year.

Sri Lanka has not experienced such low growth since 1956 and 1971, when the annual rates fell to 0.7 and 0.2 percent respectively.

Central Bank Governor A.S. Jayawardana, a supporter of the outgoing Peoples Alliance (PA) government, told the media on October 17 that growth for the year would be 2 percent, compared to last year’s 6 percent. Private analysts, however, have forecast a zero or negative figure. The Ceylon Chamber of Commerce Economic Intelligence Unit has predicted 0.6 percent growth for the year—one-tenth of last year’s result.

Even the Central Bank figure is a drastic reduction from the 4.5 percent growth predicted early this year and the revised mid-year estimate of 3 to 3.5 percent.

During the first half of this year, production of tea—one of the country’s main foreign exchange earners—dropped by 5.4 percent and coconut output, another main agricultural crop, declined by 5.6 percent. Textiles, clothing and leather products, which make up more than half the industrial exports, recorded a 5.4 percent decline.

Total exports dropped 6.92 percent during the first eight months of this year, a sharp turnaround from 26 percent growth in the same period last year. Business leaders were most concerned that textile and garment exports declined by 9.04 percent. At the same time, imports fell 12.7 percent, with the biggest falls in investment goods (22.8 percent) and intermediate goods (9.2 percent), which are mostly used for finished products.

The slump has already led to massive retrenchments and attacks on working and living conditions.

* Garment industry employers have obtained approval from the Labor Commissioner to retrench workers and downgrade permanent employees to temporary workers. At least 15,000 temporary workers will have their wages cut in half immediately. Apparel Exporters Association past chairman Lyn Fernando told the *Sunday Times:* “The crisis is there. Factories are closing down or are on sale; machines are being sold or joint ventures advertised to raise funds.”

* Along the south-west coast—Sri Lanka’s premier resort region—all contractual and seasonal hotel staff have been laid off. In some hotels workers were asked to take leave until the situation became “favourable”. Some hotels, including those belonging to the John Keels Group and Aitkin Spence, have closed down. While offering free rooms and tickets to lure tourists, hoteliers have placed the full burden of the slump onto the workers. Tourist arrivals dropped by 54 percent and 64 percent in August and September respectively. Tourism directly employs 40,000 workers, while tens of thousands more are dependent on it.

*Thousands of jobs are seriously threatened in the construction industry. “We have no business. How can I pay salaries? There are no buildings coming up,” Chamber of Construction chairman Surath Wickramasinghe said. Since the mid-1990s, the building industry’s share of GDP growth has declined from 6-7 percent to 3 percent.

The downturn has been compounded by the July 24 attack on the country’s main international airport and air base by the separatist Liberation Tigers of Tamil Eelam (LTTE), as well as the September 11 events. National Chamber of Exporters chairman Patrick Amarasinghe admitted: “We had major problems of our own and they have been multiplied by many times because of the problems in the US... We are now facing our worst-ever crisis and we are asking the government to take some urgent measures.”

President Chandrika Kumaratunga is trying to present the attacks on jobs and conditions as a natural and inevitable outcome that the masses must simply bear. In a television interview, a cabinet minister, Maithripala Sirisena, said the downturn and terrorist attacks have resulted in retrenchments in America and therefore Sri Lanka cannot avoid the fallout.

However, the government, nervous about business criticisms and unrest among workers and poor, has announced an “economic stimulus” package. Facing a general election on December 5, it has handed substantial concessions to big business while granting small salary rises, pension increases and subsidies to workers and middle class people.

Business handouts include abolition of the 1 percent turnover tax on banking and finance, removal of the import duty on selected raw materials, reduction of the cement import duty, stamp duty reductions and other rebates for exporters, and a 2 percent cut in interest rates. Government workers will receive a pay rise of just 1,200 rupees (about $US14) a month, while pensions will rise by 750 rupees (about $8) a month—nowhere near enough to cover the increased cost of living.

The International Monetary Fund (IMF) and business leaders have expressed dissatisfaction, demanding more business concessions and condemning the pay and pension rises. IMF senior resident representative Nadeem ul Haq told the *Daily Mirror* that the business relief package was “inadequate” and the “across the board pay and pension hikes... cannot be a substitute for structural reforms.”

Employers Federation director general Gotabaya Dissanayaka declared that the wage rises would have “adverse consequences” for the “competitiveness” of the private sector. He rejected a government request to extend the pay increase to private sector workers.

The IMF has delayed a review of the remaining installments on a standby loan it promised last March after the government pledged to implement structural reforms and reduce the budget and balance of payment deficits. The review will not proceed until after the election.

Employers are pushing for far greater inroads into working and living conditions to boost profits and attract foreign investors. Employers Federation chairman R. Sivaratnam told the Federation’s recent annual general meeting: “In the current drastic downturn in economic activity the urgency for the reforms we seek assumes great significance.” He advocated the overhaul of “protective labour laws” and the creation of a “more flexible labour market.”

Whatever government takes office after the election will immediately attempt to deliver the demands of business and the IMF, setting the stage for sharp class battles.