The political economy of the Sri Lankan "peace process"

Part 1

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This is the first of a two-part series. The second in the series will be published tomorrow, Friday November 14.

If events surrounding President Kumaratunga's attempted constitutional coup last week tended, at times, to assume something of a comic opera character, the reason is not to be found primarily in the conduct of the principal political actors. Rather, it lies in profound changes within the world economy and Sri Lanka's relationship to them.

Kumaratunga and Prime Minister Wickremesinghe strutted about and delivered their lines, but the real decisions were being made behind the scenes, above all in Washington and, to some extent, in New Delhi. If Wickremesinghe appeared to remain calm in the midst of the crisis, it was because he knew he had support where it counted most.

Upon his return to Colombo last Friday from his visit to the United States, Wickremesinghe gushed: "President George W. Bush has expressed full confidence in my leadership, and the government's avenue to go ahead with the peace process. The support of the American government and the Congress is with me and this government, which has a mandate from the people." Note here the order of importance: first Bush, then the US Congress and, finally, the mandate from the Sri Lankan people.

In Singapore, where the progress of the coup was carefully followed, an editorial in the *Straits Times* on November 10 pointed to the real relationship of forces. Wickremesinghe's decision not to rush home from Washington upon news of Kumaratunga's moves was "smart tactics", it said. He was not going to be denied "the personal endorsement of the peace moves" by Bush and "with that secured, he returned to Colombo last Friday confident he would endure."

There was a time when a Sri Lankan political leader, conscious of the anti-imperialist sentiments of the mass of the population, would have tried to give at least the appearance of national independence, even as he collaborated behind closed doors with the leaders of world imperialism. After all, Wickremesinghe's own uncle, former president Junius Richard Jayewardene, the architect of the executive presidency now held by Kumaratunga, was widely known as "Yankee Dick" because of his perceived subservience to the interests of the United States.

How the situation has changed. Now US backing is openly proclaimed as the key factor in determining Sri Lanka's political future. This underscores the fact that the post-war era of national independence is well and truly over. Large sections of the world are being returned to virtual colonial status, either through military force or by means of vast economic processes.

In the decade of the 1930s, amid the rising tide of anti-colonial struggles, Leon Trotsky made clear the relationship between the fight for national independence and the socialist revolution. The struggle of the colonial masses for independent national states was, he insisted, profoundly progressive—striking blows against political and economic backwardness in the colonies themselves and against the imperialist powers.

"But it must be clearly understood beforehand," he continued, "that the belated revolutions in Asia and Africa are incapable of opening up a new epoch of renaissance of the national state. The liberation of the colonies will be merely a gigantic episode in the world socialist revolution ... The national problem merges everywhere with the social. Only the conquest of power by the world proletariat can assure a real and lasting freedom of development for all nations of our planet" [*Writings 1933-34*, Leon Trotsky, p. 306].

In Sri Lanka (Ceylon) the perspectives of the Fourth International found powerful living form in the struggle waged by the Trotskyists of the Bolshevik Leninist Party of India (BLPI) and the Lanka Sama Samaja Party (LSSP) against British colonialism. When independence was granted under the Soulbury constitution of 1948, BLPI leader Colvin R. de Silva declared that there was nothing for the people to celebrate. The new status was not independence but "a refashioning of the chains of Ceylon's slavery to British imperialism" in which the task of holding down the masses had been left to Ceylon's "own" bourgeoisie, with British imperialism retiring into the background.

But the post-colonial settlement generated powerful political pressures. The decade of the 1950s seemed to open up new political vistas, so far as the former colonial countries were concerned. This was the era of national independence and national economic development, personified by such figures as Nehru in India, Nasser in Egypt, Sukarno in Indonesia, and Nkruma in Ghana. There was talk of "African socialism", and even of "Nehruvian socialism", which found its echo in Sri Lanka, where the bourgeois nationalists of the Sri Lankan Freedom Party (SLFP) advanced "socialist" policies based on state regulation of the economy.

The public sector was expanded and pension plans were introduced, along with medical care programs and food subsidies. At this time the Sri Lankan population enjoyed the highest living standards in the whole of Asia.

But the post-war restabilisation of world capitalism, of which these processes formed a part, also had its impact on the Fourth International. An opportunist tendency led by Michel Pablo and Ernest Mandel came to the view that Trotsky's perspectives had failed, or become irrelevant, in the "new world reality" they now confronted. Increasingly they began to substitute national tactics, based on immediate political gains within the national milieu, for the program of international socialist revolution.

The LSSP steadily adapted itself to the state structure set up by the British imperialists and their collaborators in the Sri Lankan bourgeoisie, eventually joining the capitalist coalition government of Mrs Bandaranaike in 1964. Returning to coalition government in 1970, LSSP leader Colvin R. de Silva rewrote the constitution in 1972 to enshrine Sinhala chauvinism, making Sinhala the official language and Buddhism the state religion.

Opportunists always seek to justify their betrayals on the grounds that their policies are more "realistic." While the principles of the revolutionary movement may sound wonderful, they constitute little more than a "great dream." In fact, history has demonstrated that it was precisely the perspective of national economic and political independence for the colonial countries that would prove to be completely unviable.

However powerful it might have appeared at certain times, this perspective was always based on two conjunctural conditions: the post-war boom in world capitalism on the one hand and the Cold War on the other. The first provided the material means for a certain limited economic expansion, while the second gave the bourgeois nationalist leaders certain room to manoeuvre, balancing between the imperialist powers on the one hand and the Soviet Union on the other, in their bid for economic and political concessions.

The post-war boom came to an end by the mid-1970s with the onset of the deepest recession since the 1930s. This was to have a devastating impact on Sri Lanka, shattering the nationalist program of the coalition government, on which its "socialist" pretensions had rested.

The government's response to rising balance of payments problems and increasing inflation was to introduce further regulations, both internally and externally. But these measures only intensified its economic problems, as well as generating deep hostility in wide sections of the population. The government's austerity measures went so far as to impose conditions on what people could or could not eat, with the cost of living rising to unprecedented heights and restrictions on imports leading to increased unemployment. Faced with growing opposition, the government's only response was to use its emergency powers to outlaw strikes.

In the general elections of 1977, the Bandaranaike government was swept out of office. The SLFP's representation was reduced to just 8 seats out of the 168-seat parliament.

The turmoil in the Sri Lanka economy was part of a global process. In 1979-80, US Federal Reserve chairman Paul Volcker initiated interest rate rises that were to have a devastating impact on the so-called developing countries—all of which depended on international loans. The economies of Latin America experienced a "lost decade" in which economic growth stagnated, while sub-Saharan Africa has never recovered. Under the aegis of the "structural adjustment programs" of the International Monetary Fund, the programs of national economic development, based on import substitution, were replaced with an increasingly "free market" agenda and export orientation.

The UNP government, which came to power in 1977, was one of the first to institute the new agenda. Economic regulations were withdrawn and significant sections of the economy opened up, including banking and finance. As a consequence external debt began to increase rapidly. After rising from $62 million in 1960 to $231 million in 1969, and to $380 million in 1974, it rose steeply after 1977-78, reaching a level of just under $4 billion by 1986.

The government's turn towards the free market, and the assault on living standards that it entailed, was accompanied by an increasing resort to communalist politics. Just as the Bandaranaike government had utilised communalism to mask the increasing bankruptcy of its nationalist agenda, so the Jayewardene government found communalism a more than useful weapon in introducing its "free market" regime. The anti-Tamil pogroms of the early 1980s led directly to the commencement of civil war in 1983.

While creating untold misery for millions of people, the increasingly repressive measures utilised by the regime to conduct the war were also employed to enforce significant privatisation. The selling off of state-owned enterprises was first announced as state policy in 1987. Since then more than 80 public enterprises have been turned over to private hands. By the year 2000, the proportion of workers employed in the public sector had declined from 21.5 percent to 13.6 percent.

While the privatisation of state assets boosted government revenue, it was by no means sufficient to overcome the financial problems generated by the war. During the 1990s the conflict was estimated to be costing the government a staggering $77.5 million every day.

In April-May 2000, the government's claims that it would eventually win the conflict were shattered when the LTTE dealt a major blow to Colombo's armed forces, taking Elephant Pass, the entrance to the northern regions.

Adding to growing financial tensions, the economy contracted by 1.4 percent the following year—the first-ever year of negative growth in Sri Lankan history—and indebtedness soared. The total public debt rose to almost 100 percent of gross domestic product, while external debt approached $10 billion. In January 2001, after the government had obtained a $253 million loan from the International Monetary Fund, the Central Bank decided to float the rupee.

With the return of the UNP-led government of Wickremesinghe in December 2001, negotiations began in earnest with the IMF for new loans. Representing the interests of the most powerful global financial institutions, the IMF makes any loans conditional upon the "restructuring" of the economies of recipient countries. Formerly, these measures were called "structural adjustment programs." But the exposure of their impact in recent years—especially in Africa, where poor countries have been forced to pay much more on debt and interest repayment than on health and education—has forced the IMF to devise new names.

Accordingly, Colombo made its application for funds under the Poverty Reduction and Growth Facility, the IMF's so-called concessional facility for low-income countries. The Wickremesinghe government had to first submit a Poverty Reduction Strategy Paper (PRSP), spelling out how it would meet the IMF's demands.

In December 2002, the government issued its 252-page PRSP entitled "Regaining Sri Lanka". The opening section, dubbed a "Vision for Growth", could be summed up as the Sri Lankan bourgeoisie's lament for the lost opportunities of the previous two decades.

"The truth is that Sri Lanka," the document began, "is in the thick of an economic crisis—a crisis born of indebtedness" which if not arrested soon "will keep employment and incomes at the worst nadir for generations to come."

Such a declaration, any objective observer would be obliged to conclude, amounted to an admission that, after more than 50 years in power, the Sri Lankan ruling elite was completely unfit to rule. But according to the government's twisted logic, the very crisis for which it—together with its predecessors—bore responsibility, established the case for the accelerated "free market" agenda being devised with the IMF.

The statement's references to alleviating poverty were mere window dressing. The real motivation for the new program was the fear that, having already lost valuable time, Sri Lanka would fall still further behind its rivals in the Asia-Pacific region in the struggle to secure a profitable niche within the framework of the new global economic order.

"Sri Lanka," the document continued, "began to liberalise its economy in 1977. Since then, it has made considerable progress. However, in recent years that progress has slowed, if not come to a virtual halt compared to many other countries. Many have rapidly and successfully moved on with the process of economic reform and integration. ... They initiated more open economic policies and forged closer economic ties during this period. Unfortunately, this country has lagged behind. It did not keep pace with or implement the reforms so crucial to build a strong economy."

Outlining "the path ahead" the document set out the standard IMF-dictated program, based on government spending cuts, privatisation of state-owned enterprises and the cutting of jobs across the economy.

Overcoming the debt crisis, required "cutting down or pruning in many areas". In order to increase productivity—described as a "never-ending job"—it was necessary to "aggressively seek investment and market possibilities for our goods and services around the world." Above all, it was necessary to accelerate the "process of privatisation of commercial activities so they could be more productively undertaken by the private sector" and ensure a "greater flexibility in the movement of people between jobs"—a euphemism for the creation of unemployment and job insecurity.

The PRSP was followed by a "Letter of Intent" from the government to the IMF, detailing the policies it would implement as well as declaring it stood "ready to take additional measures" and to "consult with the Fund in accordance with the policies of the Fund on such consultations."

The government's memorandum on economic and financial policies emphasised its commitment to carry out the IMF's dictates to the letter. It would provide "accelerated private sector growth", "eschewing the previous unsustainable policies of 'redistribution and transfers'". Blaming the "continued dominance of the public sector in the economy" for inadequate growth and high poverty levels, it insisted that "the main focus will be on structural reforms that remove barriers to productivity growth and encourage private-sector led development." It would restructure public finances to meet this end.

The memorandum clearly met with the approval of the IMF chiefs because on April 18, 2003, the executive board approved a $567 million facility for the Sri Lankan government to help finance its program over the next three years.