Sri Lankan ministers accuse US of delaying IMF loan

Saman Gunadasa
4 July 2009

After more than three months of delay by the International Monetary Fund in considering Sri Lanka's urgent request for a $US1.9 billion loan, Colombo has publicly accused the United States of obstruction. The Sri Lankan government requested the finance in March because of a rapidly deepening economic crisis produced by its war expenditure and the impact of the global recession.

Deputy finance minister Sarath Amunugama declared at a seminar on June 24: "The US has no business obstructing a project [the IMF loan] that is technically sound... This is an unacceptable case of the bullies trying to run the World Bank and the IMF." He claimed that "President Obama is very badly misinformed" and "for the first time, in a very ugly way, the US is trying to bring a palpably political agenda into the IMF."

External trade minister G.L. Peiris, who was in Washington last week to meet IMF, World Bank and Obama administration officials to canvass for the loan, told Reuters the delay was "wholly counterproductive."

On July 2, however, at a bi-weekly press meeting, IMF spokeswoman Caroline Atkinson indicated that a decision on the loan would be further postponed. "We don't have a date for an Executive Board meeting at present on Sri Lanka," she said, adding that "discussions are continuing" on the loan and that finalisation would "depend on the Executive Board". Atkinson gave no reason for the delay. Generally, the IMF takes three to four weeks to decide on a loan.

While the US and other Western powers backed the Sri Lankan government's brutal war to eliminate the separatist Liberation Tigers of Tamil Eelam (LTTE), they are primarily concerned that since the war ended in May, China has emerged as a key player in Colombo, having provided considerable military aid.

Worried also by continuing instability in both Sri Lanka and southern India, which has a population of over 70 million Tamils, the Western powers are demanding that President Mahinda Rajapakse's government pursue "political reconciliation" with the Tamil minority—i.e., strike a deal with sections of the Tamil business and political elite. As part of its pressure on Colombo, the US is exploiting the fact that in the final stages of the war, the Sri Lankan military killed thousands of Tamil civilians, injured tens of thousands and incarcerated nearly 300,000 in detention camps.

On June 23, US State Department official Gregg Sullivan said US assistance to Sri Lanka would depend on the government providing access to the war-ravaged north of the country, sending Tamil people back to their homes and allowing aid groups to "operate effectively". He insisted that the US "expects the Sri Lankan government to hold accountable those responsible for violations of international humanitarian law".

Asked by journalists about the IMF funds, Sullivan denied that the US was "threatening to block the loan". In the same breath, however, he noted that the US "will carefully assess any program in light of the conditions in Sri Lanka at the time." On the same day, Assistant Secretary of State for South and Central Asia Robert Blake made a similar statement before the US Senate foreign relations committee, adding that the US was pressing Sri Lanka "to engage in political reconciliation with Sri Lanka's Tamil minority".

On June 26, the State Department reinforced its stance

© World Socialist Web Site

by renewing its travel warning for Sri Lanka, stating that despite “the conclusion of hostilities, remnants of the insurgency group remain” and “Sri Lanka’s security posture remains heightened.” Sri Lanka’s defence spokesman, Keheliya Rambukwella, described the travel advisory, which could severely affect the tourism industry, as “totally baseless”.

The US-Sri Lanka tensions have nothing to do with any sympathy in Washington for the plight of Tamil civilians. They relate to conflicting strategic interests in Sri Lanka and South Asia as a whole, particularly between the Western powers and China.

For its part, the Sri Lankan government is seeking closer ties with China. Sri Lankan Foreign Minister Rohitha Bogollagama this week made a four-day official visit to China at the invitation of his counterpart, Yang Jiechi. Bogollagama was scheduled to meet Chinese Vice President Xi Jinping and Vice Premier Li Keqiang and address a businessmen’s meeting.

This week the Sri Lankan government also announced a special economic zone for Chinese companies. China’s Huichen Investment Holdings Limited will manage the zone located at Meerigama, 55 kilometres north of Colombo, for 33 years. Media and Investment Promotions Minister Anura Priyadarshana Yapa told a press conference: “This is the first time the government has given a foreign country a specific area to develop and attract foreign investments into the country.”

In a bid to boost foreign investment, Yapa said the government planned to carve out economic zones in locations formerly held by the LTTE—the war-scarred northern town of Kilinochchi as well as the eastern areas of Batticaloa, Ampara and Trincomalee, a key strategic naval port.

The IMF loan delay is accentuating the government’s economic problems. Its foreign reserves declined from $3.1 billion last September to $1.1 billion in February, only enough to cover six weeks of imports. The Central Bank reported this week that the reserves had increased to $1.6 billion in June, but economists warned the situation remained grave.

Economist Sirimal Abeyratne told the *Sunday Times* that a small increase in foreign exchange inflows had helped bring some temporary relief. “But we still have a very difficult foreign exchange situation. Our exports have reduced sharply and our trade deficit has widened badly,” he said.

According to the latest available figures, in the year to April exports fell 28.2 percent to $437.6 million. Garment exports, the country’s main foreign exchange earner, fell by 10 percent in April, industrial exports by 24 percent and tea exports by 44 percent. Imports also fell by 36.9 percent in the first four months of this year, with large drops in both consumer and industrial imports pointing to falling production and living standards.

Over the past year, due to the deteriorating global market, about 200 factories, mainly producing for export, have closed down and hundreds of thousands of workers have been laid off. And with excise duty revenue falling due to declining exports and imports, the government is raising duties, increasing the price of many goods, including essentials. On Wednesday, the price of petrol increased by 10 rupees to 130 rupees ($US1.13) a litre.

As the standoff over the IMF loan continues, the government has tried to put on a brave face, saying it would not accept any conditions for the IMF loan. But the business elite remains anxious. “All investors are waiting for a clear direction on the IMF loan,” Hussain Gani, associate director at Asia Securities, told *Forbes* on Thursday.

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact

© World Socialist Web Site