Sri Lankan workers face austerity measures

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Sri Lanka's Central Bank annual report for 2009, issued last month, claims that "the optimism created by the restoration of peace, the conducive macroeconomic environment, complemented by the global economic recovery has placed the economy in a position to grow at a faster rate". The bank predicts growth of 6.5 percent in 2010, up from 3.2 percent in 2009.

This optimistic picture largely reflects the propaganda of President Mahinda Rajapakse's newly re-elected government. It is designed to lull working people as it prepares to implement severe cuts to living conditions, jobs, education, health and subsidies to meet the terms of last year's $US2.6 billion loan from the International Monetary Fund (IMF).

Despite the bank's claims of "global economic recovery," the austerity program is part of the new stage of the international economic crisis that began in the US during 2008. Having incurred massive debts to prop up the financial system, governments around the world are seeking to impose the burden on the working class.

The new pressures on the Sri Lanka economy are already visible. Export income increased by 8 percent in the first two months of this year compared to the same period of 2009, when the world recession forced factory closures that wiped out hundreds of thousands of jobs.

However, apparel exports—which account for 37 percent of export revenue—have continued to drop. They declined by 19 percent in the first two months of 2010 compared to 2009. Further job losses are likely. Amid growing competition, the big foreign apparel companies operating in Sri Lanka, such as MAS and Brandix, have started shifting to Bangladesh.

Apparel exports to the European Union, Sri Lanka's main market, declined by 18 percent in the first two months of this year. They could be further eroded in August if the EU implements its decision to stop GSP+ tariff concessions. The EU announced the decision earlier this year, making limited criticisms of the government's human rights record as part of a push to gain political influence over Colombo.

Rising import prices are adding to a growing trade deficit. Yesterday, the *Sunday Times* business pages noted: "The signs of adverse conditions in the international marketplace are evident already. It is likely that 2010 would be a year when the terms of trade would be unfavourable to the country mainly due to the increase in import prices of essential goods."

The newspaper indicated that the trade deficit for 2010 would rise to $US8 billion if the trend registered in January continued, creating "a huge strain on the balance of payments". The trade deficit of $3.1 billion in 2009 was offset by increased remittances from Sri Lankans working abroad. However, it warned: "Although remittances are continuing to increase at about 12 percent this year, even such an increase would be inadequate to offset this deficit in the trade balance."

Two-thirds of Sri Lankan remittances come from the Middle East. These jobs remain vulnerable to the ongoing global financial turmoil. In the latter part of 2008 and early 2009 many workers, particularly from construction industry, had to return from the Middle East.

The Central Bank report claimed that the defeat of the separatist Liberation Tigers of Tamil Eelam (LTTE) last May "provided an unprecedented opportunity to revive economic activities". With a massive military occupation of the North and East of the island, the government is appealing to international investors to set up operations to exploit cheap labour.

According to the Central Bank, the investment "opportunities" in these provinces range from infrastructure, agriculture, tourism, transport, health, education and industry to the commerce and the service sectors. Various tax concessions have been offered to attract investments into these areas and the Board of Investments (BOI) has already approved several projects.

Despite such incentives, Foreign Direct Investment (FDI) fell in 2009 by 32 percent to $601 million, compared to $889 million in 2008. The government is hoping that tourism will boost economic growth. The Central Bank said earnings from tourism increased by 2.2 percent to $350 million in 2009. However, the outlook remains uncertain.

The bank report reveals how vulnerable the Sri Lankan economy remains. In late 2008 and early 2009, the “sharp outflow of foreign investments, the non-rollover of short-term debt, drying up of new commercial financing and servicing of higher petroleum bills” caused an abrupt downturn. The country’s foreign reserves dropped to the dangerous level of $1.3 billion in February last year—only enough for six weeks imports.

Increased war expenditure also contributed to massive debts and a deep budget deficit. The total national debt increased to 4.1 trillion rupees at the end of 2009. Under President Rajapakse, the public debt has doubled since 2005. As a proportion of gross domestic product (GDP) it rose to 86.2 percent in 2009 from 81.4 percent in 2008. The budget deficit rose to 9.8 percent of GDP.

The Rajapakse government was forced to seek an IMF bailout loan last July. The conditions include halving the budget deficit to 5 percent by 2011, increasing tax income and restructuring major state owned enterprises (SOE) to pave the way for privatisation.

The government is now under mounting pressure from the IMF, which held back the third loan instalment in February after the government failed to reach an interim target of cutting the budget deficit to 7 percent of GDP. The IMF is demanding concrete plans to impose its austerity measures in the next budget, which the government has postponed until July.

The Central Bank report emphasised the need to restructure the SOEs, as well as “the health and education sectors,” in order to “improve efficiency and productivity”. The report said seven key entities lost nearly 50 billion rupees in 2009, or equal to 1 percent of GDP.

These enterprises were the Ceylon Petroleum Corporation, Sri Lankan Airlines, the government railways, the Ceylon Electricity Board (CEB), the postal service, Mihin Airlines, and the Sri Lanka Transport Board (the government bus service). The bank called for them to be converted into commercial entities and listed on the stock market.

Successive governments have attempted to privatise most of these corporations but have had to shelve the plans in the face of stiff resistance by workers. Last year, the government amended the Sri Lanka Electricity Act to empower the Public Utilities Commission to allow private companies to start power projects. The jobs of the CEB’s 14,000 workers are threatened.

The railways and postal departments are among the other enterprises that governments have moved to privatise in recent years. About 15,000 workers are employed in the railways, and 19,000 in the postal service. Successive governments have already cut both workforces. The trade unions have supported such “rationalisations” via so-called voluntary retirements.

Having postponed the budget until July, Rajapakse issued a decree on Friday to finance government operations for the next three months. But with a clear majority in parliament and the opposition parties offering no fundamental differences, the government is setting the stage for a major confrontation with the working class.