Sri Lankan corporate elite demands "tough" economic decisions from new government

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As soon as Sri Lanka's two main parties agreed to form a "national unity government" following last Monday's parliamentary elections, big business mouthpieces publicly demanded that the new government slash social spending and working-class conditions in response to the deepening downturn hitting the Sri Lankan economy.

The corporate elite has laid down the law to the new regime commissioned by President Maithripala Sirisena, in which members of his Sri Lanka Freedom Party (SLFP) will join the government of Prime Minister Ranil Wickremesinghe, the right-wing pro-US figure who leads the United National Party (UNP).

Yesterday's *Sunday Times* reported that the corporate elite and its economic advisers are "urging 'tough' economic decisions," from the UNP-led government, insisting on "policy reforms that are conducive to foreign investment." These demands include reducing the ballooning fiscal deficit, raising tax revenue from the current 12 percent of gross domestic product (GDP) and increasing infrastructure investment.

Speaking to the *Times*, economist and corporate advisor Sirimal Abeyratne said the country's debt burden was 700 percent of its tax revenue. "Sri Lanka cannot waste public money anymore," he declared, calling for 300 state-owned enterprises to be "trimmed" to enhance their "competitiveness."

A recent Central Bank of Sri Lanka press release highlighted the widening trade deficit and decline of exports during the first half of this year, pointing to the sharp impact of the global slump. Export earnings dropped 4.2 percent, year-on-year, to $US944 million in June, the bank said. During the first six months of 2015, export revenues fell 0.6 percent on a cumulative basis, while the trade deficit widened by 15.6 percent to around $4 billion.

"Tea exports continued to decline in June 2015 for the eleventh consecutive month, due to lower demand from main tea buyers such as Russia (a drop of 29 percent) and the Middle East (a drop of 24 percent)," the bank noted, largely because of the global economic downturn and the political turmoil in the Middle East and Russia.

The overall drop in exports reflects the worsening post-2008 recessionary tendencies in the United States and the European Union, which are Sri Lanka's main export markets. In May, the Central Bank reported: "Textiles and garments exports to the EU market declined by 11.8 percent in May 2015, continuing the declining trend observed from March 2015."

The Central Bank's latest data indicates a looming balance of payment crisis. The first six months of 2015 produced a balance of payments deficit of $791.7 million, compared to a $1,954 million surplus in the corresponding period last year.

Foreign loans have largely covered the deficit, increasing the burden of debt repayments. Plus there is a heavy reliance on tourism and uncertain sectors, such as remittances from workers employed overseas, mainly in the Middle East.

The economic crisis has been compounded by the suspension of Chinese-funded projects which were begun under the previous government headed by President Mahinda Rajapakse. Sirisena ousted Rajapakse in the January presidential election, in a regime-change operation backed by the US which was hostile to Rajapakse's economic and political ties with Beijing.

Since January, when Sirisena appointed a minority UNP-led government, state foreign debt has increased at an accelerated pace. The government obtained foreign loans totalling $3.8 billion on expensive commercial rates through Sovereign Bonds and Development Bonds. It also established a currency-swap arrangement with the Reserve Bank of India that was signed when Indian Prime Minister Narendra Modi visited Sri Lanka in March to cement closer ties between New Delhi and Colombo.

In addition, the government raised loans from the domestic market through Treasury bonds and bills to the tune of 661 billion rupees, compared to a total of 445 billion rupees for the whole of 2014.

These loans point to the Treasury's near-financial bankruptcy. Palitha Ekanayake, an economist, told yesterday's *Sunday Times*. "The Treasury funding coffers are almost empty and it needs to collect taxes and duties to meet day-to-day recurrent expenses such as wages and salaries, pensions, Samurdhi, and needs to borrow money to meet the rest of the expenses such as poor relief, health and education expenses, development expenses, repayment of debts and interest and other expenses," he commented.

In February, the International Monetary Fund (IMF) rejected the government's $4 billion loan request, because last year's fiscal deficit blew out to 6 percent of GDP, breaching the IMF's 5.2 percent target.

Former Finance Minister Ravi Karunanayake indicated in July that the government would cut the deficit at least to 5.5 percent of GDP in the next fiscal year. This means the government will impose austerity measures—increasing taxes, slashing the limited welfare programs and cutting subsidies to government enterprises.

Business leaders have demanded a "stable government" that can impose such "reforms." Former Ceylon Chamber of Commerce president Suresh Shah told the *Sunday Times*: "One of the biggest problems has been inconsistent policies (in the past) and this I believe is a priority to resolve in the next six months."

Shah urged the government to initiate discussions with the private sector on its proposed "second-generation" reform plan to privatise state-owned businesses. As in every other country, big business and international investors are seeking to plunder every resource, including the remaining state ventures.

For several months, the tea and rubber plantation companies have demanded large workload increases, such as boosting the daily tea-plucking target from 16-18 kilos to 25 kilos.

Workers at the Deeside Division of Glenugie in Maskeliya struck in February against such a workload increase. The company retaliated by unleashing a witch-hunt in July, sacking three workers and suspending four on bogus charges and subjecting them to police arrests.

In July, workers at Ganepalla Rubber estate, Yatiyantota, also in the central hills, similarly protested against heavy workloads and pay cuts. The company victimised workers, 13 of whom were arrested on false charges.

These attacks are warnings of wider preparations by the employers and the Sirisena government to try to crush workers' resistance and impose the burden of the global capitalist crisis.