

Sri Lankan government tries to woo foreign investors

Saman Gunadasa
20 January 2016

A “Sri Lanka Economic Forum” was organised by the Colombo government on January 7 and 8 with the participation of several international investors and economists, including US-based multi-billionaire investor George Soros and former World Bank chief economist Joseph Stiglitz.

Facing an escalating economic crisis, the pro-US government of President Maithripala Sirisena and Prime Minister Ranil Wickremesinghe hosted the forum as part of its efforts to attract foreign investment, on the promise of transforming Sri Lanka into a regional financial and commercial hub. By inviting Soros’s Open Society Foundation to sponsor the event, Wickremesinghe signaled the government’s commitment to serve the interests of finance capital.

Wickremesinghe said the government wanted to make Sri Lanka the “most competitive state in South Asia” and build it as a mega-city, sitting between Singapore and Dubai. Both are police-states, suppressing all forms of dissent, in order to defend the financial and commercial activities of their ruling elites.

Soros, one of the main speakers, warned the government that it was going to launch its agenda amid a worsening global financial crisis. He told the gathering: “I am afraid, I have to be a messenger that delivers bad news because you are facing a very difficult external situation.” Soros added: “When I look at the financial markets there is a serious challenge, which reminds me of the crisis we had in 2008.”

Soros was referring to the collapse of major US finance houses in 2008, triggering turmoil that spread to other major capitalist countries, opening of a new period of global economic breakdown.

Referring to China’s currency devaluations, Soros asserted that China was “de-stabilising the rest of the

world” and “inflicting ... deflationary pressures.” In reality, China, which functions as the world main cheap labour platform, has been hit by global recessionary tendencies and is now itself contributing to the worsening international crisis.

Soros pointed to the crisis only to insist on the need for the Colombo government to impose austerity measures. “Money is no longer coming to developing countries and harsh choices will have to be made, instead of waiting for things to get better,” he said.

Last March, Soros promoted the austerity measures of the Syriza government in Greece, which included slashing wages, jobs, pensions and welfare programs to meet the demands of the European powers and the banks.

At the Colombo forum, Soros insisted: “Sri Lanka will have to ‘swim upstream’ as the external global environment becomes more hostile and funds flow out of developing countries and China’s economy becomes unstable.”

At the same time, Soros sees Sri Lanka as a “bright spot” for his business to extract profits. According to media reports, he is looking at \$US300 million worth of investment opportunities in the fields of tourism, solar power, IT, education and health.

Significantly, Soros praised the “unity government” of Sirisena’s Sri Lanka Freedom Party (SLFP) and Wickremesinghe’s United National Party (UNP). The ruling coalition has been formed to unite the two main capitalist parties, backed by the trade unions and pseudo-left groups, to confront the working class.

The ruling coalition was formed after Sirisena was installed at last January’s presidential election through a regime-change operation, backed by Washington, to oust former president Mahinda Rajapakse. Washington was hostile to Rajapakse’s close political and economic

relations with Beijing, and intervened to bring Sri Lanka into line with its diplomatic and military encirclement of China.

In his speech to the forum, Stiglitz emphasised the need to tackle Sri Lanka's deepening foreign debt crisis. He urged the government to seek the assistance of the World Bank and other international agencies to address the debt problem. Last year, Stiglitz also backed Syriza's plan to seek debt relief by implementing austerity measures.

The economic forum served as a reminder of the acute problems produced for the Sri Lankan ruling elite by the global downturn and financial turmoil, and indicated the ruthless austerity drive to come.

Just two days after the forum, Sri Lankan Finance Minister Ravi Karunanayake announced that the government had decided to seek a \$1 billion investment from an unnamed Belgium source. Ostensibly, the purpose of the investment is to stabilise the value of the rupee, which devalued by 10 percent last year, with a further rapid downturn expected.

This rather dubious arrangement is part of the government's plans to raise \$3-4 billion in the coming months. Foreign investors have been informed they can remit money "without any questions" being asked, and the government will allow them to "withdraw money at any time." Karunanayake said this would "give confidence to the investors," but economists have warned that the plan could create a volatile situation.

Investment capital has been leaving the country. The securities market suffered a net outflow of \$1.1 billion in the first 11 months of 2015, compared to \$104.5 million during the same period of 2014. Share prices on the Colombo Stock Exchange have fallen to their lowest level in nearly one and a half years.

Moreover, the balance of payments deficit was estimated at \$2 billion for 2015, and the foreign debt servicing cost for 2016 is predicted to be around \$5 billion. The country's foreign reserves declined to \$7.3 billion at the end of last year and they are estimated to be inadequate for external financing needs.

Workers' remittances, mainly from domestic servants in the Middle East, have been the main contributor to foreign exchange earnings, but began to decelerate with the escalating warfare in that region. Remittances grew only by 0.8 percent in October 2015, compared to October 2014.

In response, the government has turned to the International Monetary Fund (IMF), seeking further loans. However, the harsh cuts that the IMF will impose on public spending will have grave consequences. A *Sunday Times* editorial noted: "Further IMF facilities will have measures that will result in a part contraction of the economy in the initial years, leading to hard times ahead."

The government and the capitalist class fear social unrest. However, the proposed solutions will only exacerbate the economic and political crisis.



To contact the WSWWS and the
Socialist Equality Party visit:

wsws.org/contact