Sri Lankan government policies fuel job destruction and inflation

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Sri Lankan President Gotabhaya Rajapakse and his policy makers have enacted a series of economic nationalist measures over the past year, claiming them to be a panacea to the financial crisis exacerbated by COVID-19. Colombo's policies, however, are aimed at imposing the burden of the catastrophe onto workers and the poor with job and wage cuts and harsh increases in the price of essentials.

Confronting falling exports, a collapse in tourist income and high debt repayments, the Rajapakse government has placed import bans on certain goods and printed money, insisting it will "stimulate the economy." Most of the country's major industries have slashed wages and jobs.

In February, Brandix, one of Sri Lanka's apparel manufacturers, which employ some 50,000 workers, axed around 1,000 jobs from its 20-year-old factory in Ratmalana on the outskirts of Colombo. Workers were offered just three months' salary as compensation. Last year, the company retrenched hundreds of workers from its other plants.

The company blamed reduced international orders and low productivity for the job destruction. Long-term employees with relatively high salaries at Ratmalana have been offered jobs on lower pay at one of the company's nearby factories.

Brandix workers have refused the "offer" and suspect the company is planning to transfer production to Bangladesh, where it has factories, in order to boost profits and exploit the low-wage labour in that country.

Over the past 12 months, a total of more than 3,500 jobs have been destroyed at Smart Shirt, Okaya Lanka and Star Garments in the Katunayake Free Trade Zone, and at Esquel outside the zone.

Colombo's measures have heavily impacted on import businesses, particularly those selling vehicles, tyres, ceramics and other goods. Around 100,000 jobs have been destroyed in the vehicle industry alone. Nearly half a million jobs have also been lost in the tourist sector, which continues to be hit by the global impact of COVID-19.

Sri Lanka's youth unemployment rate increased to around 28 percent in the second quarter of 2020, a result of ongoing job cuts and newcomers entering the employment market.

Confronting rising discontent from the youth, the Rajapakse government last year recruited 100,000 young people from low-income families to a job scheme run by a defence ministry-controlled task force. Paid a paltry 22,500 rupees ($US115) per month, the young workers are being employed in different state sectors but without any social rights, such as pensions, received by existing workers.

Import bans have pushed up inflation and seen a continuous devaluation of the rupee. In early 2020, one US dollar was worth 180 Sri Lankan rupees, today it hovers at between 192 and 198 rupees, a devaluation of about 7 to 10 percent.

Although last month's official year-on-year food inflation rate is about 8 percent, the cost of imported food items, such as potatoes, lentils, sprats, dry chillies and sugar, has risen from 10 to 40 percent over the past 12 months. Green gram (mung beans) are now 700 rupees a kilogram, compared to 287 rupees at the beginning of last year.

The cost of spices, essential to Sri Lanka cooking, has also sharply increased because local supplies are inadequate. A kilogram of turmeric, for example, has risen five-fold in the past year and is now around 5,000 rupees.

Questioned recently about the prohibitively high food prices, Trade Minister Bandula Gunawardena cynically declared: "[D]uring the second world war our grandparents ate foods such as horse gram and millet seed. People today have to do likewise, people have to face the crisis."

The minister's comments were no slip of the tongue. In fact, the ruling elites everywhere are pushing workers into situations as bad as during the two world wars and the great depression last century.

On February 12, Sri Lanka Central Bank Governor W.D. Lakshman told a press conference that the government was managing the economy with "alternative" measures, a reference to import controls, restrictions on foreign currency dealings and import substitution policies and Rajapakse's ridiculous "Vista of Prosperity" election rhetoric.

The governor's statements, however, point to the dire measures now being prepared against workers and the poor. While admitting that similar austerity policies provoked "extreme disgust" within the Sri Lankan population during the 1970s, he stated: "I am not saying that we have to go back to that period, but some elements from that period have been adopted."

In the 1970s, the bourgeois coalition government of the Sri Lanka Freedom Party, the Lanka Sama Samaja Party and the Stalinist Communist Party insisted that import controls and substitutions and other economic nationalist measures were the path to prosperity.

These policies, however, were incapable of preventing the sudden and brutal impact of oil price increases in 1973–1974 on Sri Lanka and every other country.

The coalition responded to the "oil shock" and rapid reduction in Sri Lanka's foreign currency reserves with harsh austerity policies, including drastic restrictions on food consumption. Transport of staple foods, such as rice and chillies, was banned within the country and bread rationing introduced.

As explained in *The Historical and International Foundation of the Socialist Equality Party of Sri Lanka*:

"The oil shocks and global recession of 1973–74 impacted heavily on Sri Lanka. Soaring commodity prices, particularly for oil and food imports, produced an acute foreign exchange crisis. Finance Minister N.M. Perera extended national economic regulation to include strict controls on food imports, a state monopoly of rice transport, and a wage freeze. These policies produced acute economic hardship among the working class and rural masses. In the plantations, unemployment, underemployment and soaring prices led to extreme poverty and hundreds of deaths by starvation."

The eruption of a general strike in 1976 and ongoing rural unrest was exploited by the right-wing United National Party (UNP), which came to power in 1977. It quickly dispensed with Sri Lanka's national economic regulatory mechanisms and implemented open-market policies, integrating the country into globalised production and transforming it into a cheap labour platform.

The UNP regime established autocratic executive presidential rule and intensified anti-Tamil communalism to divide the working class and undermine the mass opposition to its escalating attacks on workers and the poor.

Sri Lanka Central Bank Governor Lakshman's statements are a desperate attempt to justify and condition the population to government and big business attacks now being unleashed against all working people.

This month the debt-ridden Sri Lankan government, which has to pay $4.5 billion annually to foreign lenders until 2024, obtained a $1.5 billion swap loan from China and continues pleading for additional loans from other countries. Colombo is also printing money—last year to the tune of 650 billion rupees—because commercial borrowings are becoming harder and harder to obtain.

While workers and the poor face ever-worsening social conditions, the Rajapakse regime's policies have massively benefited big business over the past 12 months. According to Sri Lanka's *Dailyft*, "nine select-listed conglomerates have posted a combined turnover of Rs. 861 billion and Rs. 80.7 billion as profit" in the first nine months of the 2021 financial year.