Sri Lanka's Neoliberal Nightmare, Widespread Famine Triggered by Covid-19 Lockdown and an Unpayable External Debt

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Most developing countries are experiencing famine.

The food crisis is engineered. Global debt is the driving force. The article below describes what is happening in Sri Lanka. The debt is owned by Western financial institutions.

The creditors are behind this process.

The policy mechanism described in this article affects ALL the countries of the Global South.

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With the collapse of its economy in June, the situation is dire in Sri Lanka.

According to the World Food Programme (WFP), Sri Lanka faces a "serious food crisis," with 6.3 million people—close to 30% of the 22 million population—being food insecure. Food inflation has reached a record-high of 90%, making staples such as rice unaffordable for millions of people. Overall, inflation is running at 60%.

> "What we are really worried about now is the food crisis—we are looking at even the dangers of a famine in the near future," says Ahilan Kadirgamar, a political economist and senior lecturer at the University of Jaffna, located in the capital city of the Northern province of Sri Lanka.
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> "Starvation is already hitting some sections of the population."

Sri Lanka, which is very import-dependent, ran out of foreign exchange in April, leaving it unable to import food supplies, fuel, medicines and fertilizer. Buses, trains, ambulances and many cars cannot be driven and electricity power cuts have become common, crippling farming, fishing and factory production.

Sri Lanka defaulted on its $56 billion external debt in May, its first default. The country has obtained 16 loans from the International Monetary Fund and tried to obtained a 17th loan in May but was not able to come to an agreement.

Widespread public protests against President Gotabaya Rajapaksa's government drove him out of the country in July. Rajapaksa appointed political rival Ranil Wickremesinghe prime minister before leaving. Wickremesinghe then took over as president, swiftly cracking down on protests by tear-gassing and jailing dozens of demonstrators under draconian counterterrorism laws.

The immediate causes of the Sri Lankan crisis were the unsustainability of its $56 billion external debt when faced with the effects of the COVID-19 pandemic, which resulted in a drop in tourism and migrant worker remittances from abroad, as well as tax cuts carried out by the Rajapaksa regime.

The pandemic disrupted supply chains for Sri Lanka's main exports of textiles, garments and tea, resulting in reduced revenues.

Worker remittances, which were a major source of foreign exchange, hit a 10-year low in 2021, partly due to COVID-19.

Bomb blasts in 2019 in Colombo (Sri Lanka's capital), along with COVID-19 both reduced tourism revenue, from $5 billion in 2018 to only $200 million in 2021. This compounded the pressures on Sri Lanka.

In 2019, the government implemented massive tax cuts, causing its revenue to plummet. The value-added tax was reduced from 15% to 8% and seven other taxes were eliminated. As a result, the state lost vital tax revenue from a million taxpayers.

Eighty-one per cent of Sri Lanka's external debt is owed to Western financial institutions as well as Japan and India. The financial institutions are mainly commercial banks and vulture funds, namely: BlackRock, JP Morgan Chase, Prudential (all three U.S.), Ashmore Group, HSBC (both U.K.), Allianz (Germany), UBS (Switzerland). These corporations own 47% of Sri Lanka's debt, the largest portion. The Asian Development Bank owns 13% of Sri Lanka's debt, the World Bank 9%, Japan 10%, China 10% and India 2%.

There are, however, deeper reasons for Sri Lanka's collapse. Kadirgamar blames colonialism, neocolonialism and neoliberalism:

> "The economic trajectory for this crisis was set in 1977 by the Junius Jayewardene government, which subjected Sri Lanka to neoliberal reforms, liberalizing trade and finance," Kadirgamar says. "But this trajectory has to be contextualized in the long history of colonialism and neocolonialism."

Sri Lanka was first colonized by the Portuguese, then the Dutch and the British, amounting to almost 450 years of colonialism. Kadirgamar says this made the country's economy dependent on what colonial powers wanted: the exports of commodities—first spices and then coffee and tea.

These exports were aimed at fulfilling the demands of the colonial powers' markets. This colonial strategy was continued by the World Bank in Sri Lanka after the country's independence in 1948. The World Bank advocated primary production for export markets, "as opposed to even minimal forms of industrialization, so that Sri Lanka became dependent on agricultural exports to Western markets with declining terms of trade," Kadirgamar emphasizes.

> "Sri Lanka was the first economy in South Asia to go through neoliberalism and we have now had four-and-a-half decades of this strategy, which includes paying for our huge import bill through external debt, which became unsustainable—especially because Sri Lanka was borrowing from Western capital markets at very high interest rates," Kadirgamar says.

That focus made Sri Lanka particularly vulnerable to economic collapse.

> "This heavy borrowing was not balanced by income because Sri Lanka had only four sources of this that were inadequate: agricultural and garment exports, tourism and remittances from migrant workers" Kadirgamar says. "Other factors, such as the COVID pandemic and the authoritarian Rajapaksa regime, (which) completely mismanaged the economy, contrib- uted to the collapse but the primary reason for this was the dependent character of Sri Lanka's economy."

Balasingham Skanthakumar agrees with Kadirgamar, emphasizing neoliberalism's disastrous effects on Sri Lanka. He is a researcher and member of the editorial collective of Polity Magazine of the Social Scientists' Association of Sri Lanka.

As Skanthakumar told me,

> "Neoliberalism is an extension of historical processes of exploitation and domination of poor countries by rich countries, in so far as it entrenches the colonial division of labour through which Sri Lanka began cultivating tea (a non-Indigenous crop) as its primary export to satisfy the tastes of Western consumers."

Today, Skanthakumar says, Sri Lanka's main export is ready-made garments, which is a result of the neocolonialism through which labour-intensive, low-value added apparel is produced by women workers. Capital-intensive, high-value added manufactured goods are imported from abroad.

> "There is no space within neoliberalism for Sri Lanka to diversify its economic base, to promote import-substitution, nor to prioritize self-sufficiency in basic foods and other essential needs including pharmaceuticals," says Skanthakumar.

In other words, low-income countries in the Global South cannot win in the neoliberal system because their manufactured imports are always much costlier than their raw material exports, which are all that they are allowed to send by the dominant Western powers that control the global trading system.

The attempt by southern countries to bridge this gap by taking on increasing debt only primes them for economic collapse, which also now threatens Pakistan, Bangladesh, Argentina, South Africa and Zambia.

Thirty-six countries are in a state of “debt distress,” according to the World Bank.

But there is something different about this international crisis, as it has ensnared not just poor countries but the Western enforcers of neoliberalism and neo-colonialism as well. European countries face spiralling energy costs. For example, energy costs in Germany have increased by 860% in this year alone.

According to geopolitical analyst Drago Bosnic, writing on the Infobrics website,

> “The European Union is going through a tremendously difficult economic and financial crisis. Sanctions aimed at Russia are wreaking havoc in many…Western economies.”

Ten million people face poverty in the United Kingdom as it experiences its “sharpest economic contraction” in 313 years, according to Reuters.

Meanwhile, French President Emmanuel Macron has informed his compatriots that France is in a “series of crises, each more serious than the other” and warned of “the end of abundance and tough times ahead.”

> “The collapse of Sri Lanka is not isolated,” says Sri Lankan writer Indrajit Samarajiva. “These are global trends going back to the 1980s. The broad logic is that if your economy is not productive and you don’t control your means of production, you’re in a debt trap—and sooner or later it will clang shut.
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> “Every country that hasn’t secured its energy, food, and productive capacity is vulnerable to shocks and COVID-19 was just the first of many to come this century. Climate collapse is already well advanced. We’re headed for global changes that will make the last century look like a cakewalk.”

Sri Lankans are not bereft of progressive solutions to extricate their country from its crisis.

> “There has to be a focus on local agricultural production and, where possible, self-sufficiency in food,” Kadirgamar says, “but to be able to do that, we need to completely change the trajectory of our economy, which has been focused on agricultural production for exports.
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> “This change has to be tied to the creation of a public distribution system where the state takes responsibility to import essential foods that we cannot produce and to distribute them and then to also buy produce from farmers and possibly set prices.
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> “Marketing boards and cooperatives should be part of this distribution system. The government also needs to provide stimulus and relief to farmers. All of this can only happen if there is redistribution of wealth through a wealth tax on money accumulated over decades.”

Samarajiva calls for “a socialist or communist revolution in Sri Lanka and a dictatorship of the poor and working class.

“We have to seize the means of production. Sri Lanka is facing an energy, food, and foreign exchange crisis and the neoliberal consensus only offers more debt and monetary tinkering instead of doing the obvious. We need massive public works projects in renewable energy, agriculture, and industrialization."

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