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The Political Consequences of Sri Lanka's Economic Breakdown: Where Next?

Ahilan Kadirgamar (University of Jaffna)
& Devaka Gunawardena

The State of the Economic and Political Crisis So Far

The momentous year of 2022 for Sri Lanka can be divided into two major phases. In the first phase, people grew frustrated with the failure of their government led by President Gotabaya Rajapaksa, to solve the country's economic crisis. The most immediate cause for its economic collapse was because Sri Lanka had been locked out of borrowing from international capital markets in 2020 with the onset of the Covid-19 pandemic, which prevented the country from rolling over its accumulated sovereign debt. Over time, this led to the depletion of its foreign exchange reserves. The Rajapaksa Government's unwillingness to prioritize imports meant that people began suffering severe shortages of essential goods, including fuel.

The resulting disruption to people's lives led to punctuated rounds of protest from March 31st onwards. Protestors began gathering more visibly in the seaside location of Galle Face Green, next to the Presidential Secretariat, in the commercial capital of Colombo. But they also joined a broader array of demonstrations across the country, including agitations that erupted in Southern Sri Lanka, the heart of the Rajapaksa family's power base. The Government tried to suppress, or otherwise deflect, the protest movement, including appointing ostensible opposition parliamentarian Ranil Wickremesinghe as Prime Minister in May. But Rajapaksa himself was eventually ejected in a stunning popular uprising on July 9th.

The second phase of the crisis and the political response that emerged, was the subsequent attempt by the government of Ranil Wickremesinghe to dismantle the people's movement (or *aragalaya* in Sinhala and *porattam* in Tamil, meaning "struggle"), by arresting key student leaders under the draconian Prevention of Terrorism Act (PTA). In the interim period between July 9th and July 20th, when Wickremesinghe was elected president through a delegitimized parliament, he managed to quickly secure the backing of key elements of the country's establishment, in addition to the repressive apparatus of the state, notably the police and military. Wickremesinghe, however, lacks a social base. Instead, he has portrayed his government as the instrument fundamental in achieving an elusive bailout agreement with the International Monetary Fund (IMF). This is supposedly necessary to resolve Sri Lanka's debt crisis, if not the ongoing economic depression it has sparked. Along the way, Wickremesinghe has managed to dampen the protest movement while co-opting elements within the opposition.

Nevertheless, the economic crisis in Sri Lanka is far from over. The electricity blackouts and queues for petrol were the most visible signs of the breakdown earlier this year. Although these goods technically can now be purchased, their prices have skyrocketed. In September alone, inflation rose by roughly 70%, while food inflation, which affects poorer people even more, jumped by over 90% year over year. The result is that many Sri Lankans are experiencing food insecurity, including more than a quarter of the population according to estimates by the United Nations' Food and Agriculture Organization (FAO). For now, the massive protests that occurred earlier this year have yet to repeat. Meanwhile, the working people and increasingly impoverished sections of the middle class continue to grapple with the question of finding a sustainable political and economic solution.

The Establishment's Austerity Measures and People's Suffering

Within Sri Lanka's political and economic establishment, the debate about the Wickremesinghe-Rajapaksa Government is reflected in a relatively narrow range of thinking. The narrative that the previous government was responsible for the crisis because of its monetary printing has become an entrenched part of mainstream analysis of the problem. This argument was used to justify the massive interest rate shock, when the Central Bank more than doubled interest rates, and the rupee devaluation in April, which has now effectively cut people's incomes by about half. The claim that the Rajapaksa Government tried to implement an untested heterodox policy and was therefore ineffective, is problematic. Rather, its primary fault is that it failed to prioritize imports, choosing instead to continue the free trade agenda, which contributed to the manufactured scarcity of foreign exchange. Worse, the Rajapaksa Government even undermined domestic food production through a catastrophic ban on chemical fertilizers in 2021, though this measure was eventually rescinded after farmers mounted protests.

Sri Lanka's economy was further wrecked by the premature decision to default on April 12th. Already, the establishment has become nervous about criticism over this decision. The Central Bank Governor, for example, has derided "conspiracy theories."[1] The vision of the economy that a predominant section of the elites is trying to push not only involves implementing the IMF's recommendations, including raising energy prices. It also represents a far deeper structural transformation of the economy that could intensify the ongoing social devastation. Already in its recently announced Budget for 2023, the Wickremesinghe-Rajapaksa Government has pushed back against the discourse of subsidies to ease working people's pain, especially through the possibility of a food subsidy. Instead, Wickremesinghe has proposed the establishment of new economic zones that will supposedly attract private investment. But the underlying story of the economic breakdown in Sri Lanka is the booming cost of goods and the sharp repression of working people's incomes, resulting in people's purchasing power being drastically reduced.

[1] Sunday Observer. "Driving Policy Action in Sri Lanka." November 5, 2022.

The government's implicit strategy for revived accumulation is predicated on further wage repression during an economic crisis in Sri Lanka that finds its nearest parallel with the Great Depression of the 1930s. But more than this entrenched bias in the establishment's thinking, is the dawning realization that there is no international fix for Sri Lanka's problems. After announcing a preliminary Staff Level Agreement in September, the IMF informed Sri Lanka's government that it must first negotiate with bilateral and private creditors before it can access funding. This may prove difficult to navigate, since Sri Lanka is considered part of the geopolitical struggle between China and the United States, including the latter's regional allies. In addition, earlier expectations that Sri Lanka could eventually regain access to international capital markets to roll over its sovereign debt once it had received the IMF stamp of approval, have been tempered by reality. The country's entire development path since the late 1970s, when economic liberalization was first initiated, has been overturned. Sri Lanka is now seeking to downgrade its status to a lower income country to access concessional financing, in addition to coordinating humanitarian aid through multilateral institutions.

Given the lack of a social base and the ongoing economic devastation that is wreaking havoc on people's lives, it is unclear how the Wickremesinghe-Rajapaksa Government will navigate the dangerous gauntlet between the immediate suffering people are experiencing and long-term visions for reviving accumulation. The government has presented a rough timeline that predicts Sri Lanka will have achieved a primary budget surplus by 2025. Even these projections, however, are seen as extraordinarily optimistic. Meanwhile, in the absence of economic relief for the people, it is unclear what type of popular legitimacy, if any, the current government will be able to sustain.

The tremendous efforts of the people's movement challenging the decades-long Rajapaksa political project of authoritarian populism, led to the ousting of President Gotabaya Rajapaksa. However, it has yet to result in the necessary institutional transformation, especially the abolition of the widely hated Executive Presidency. People's frustrations with the current Government are far from abating. The question of how this opposition is articulated will depend on an extremely uncertain conjunction of political forces, including the possibility that nationalist and xenophobic demagogues will be able to capitalize on people's frustration. Meanwhile, without economic relief within a clear, long-term plan to overcome the causes that led to Sri Lanka's crisis—including its severe dependency on financial markets— the Wickremesinghe-Rajapaksa Government will find it considerably difficult to govern. Instead, Sri Lanka could even lapse into an anarchic state, with the ongoing dangers of crime and social breakdown overwhelming the tenuous structures of solidarity that were built by the protest movements.

The country does not have to look deep into its past to observe the possible consequences. This includes the uneven effects of economic liberalization that combined with Sinhala nationalism to produce a devastating insurrection by a rebellious youth movement, the Janatha Vimukthi Peramuna (JVP), in the South during the late 1980s. Given the long downturn within the contemporary global economy, the dangerous limitations of the Wickremesinghe-Rajapaksa Government could be compounded in the absence of concrete alternatives to remedy the crisis through active and far-reaching mobilization of the polity. The latter solution fundamentally depends on the type of political legitimacy that, quite simply, the Wickremesinghe-Rajapaksa Government lacks.

People-Centred Reforms to Democratise the Economy Need to be Introduced

On a deeper level, the neoliberal economic model that was previously driven by financial speculation and modest export growth, has experienced a stunning breakdown. But the search for alternatives is nevertheless constrained by the persistent emphasis within its establishment that Sri Lanka has no other choice than to implement more austerity for its citizens. For the millions of people who are experiencing an economic hard landing, this is not acceptable. To break out of this framework, there must be a reckoning with the real causes of the foreign exchange crisis, specifically Sri Lanka's overwhelming dependence on imports since its economic liberalization began in the late 1970s.

While the process of liberalization was initially hailed in terms of the "opening" of the economy, the reality is that external investment was restricted to narrow industries, such as garments, in which workers' wages could be repressed. In addition, there was growing speculation in urban real estate, which was flooded by commercial borrowings in the international capital markets in the aftermath of Sri Lanka's civil war, which ended in 2009. While the Government led by Gotabaya's elder brother, Mahinda Rajapaksa (2005-2015), may have been corrupt and spent incredible sums on vanity projects, the reality is that, at its core, the neoliberal economy contained inescapable contradictions. The current crisis is the inevitable consequence of decades of liberalization policies that accelerated in Sri Lanka's post-war years because of deepening financialization.

The desire, then, to imagine a more successful Sri Lanka in which it undertakes modest political reforms without touching the basic structure of its liberalized economy, is an exercise in futility. Within the establishment, some with greater foresight argue that the government must commit itself to abolishing the Executive Presidency, which has been the bane of the country's existence since the position was created in 1978 to impose neoliberal reforms. But it is the deeper failure to imagine an economic alternative to austerity, which now enables Ranil Wickremesinghe to exercise the full powers of state repression to suppress both dissenting and popular responses to the economic crisis in general. This situation is untenable. The question of how it will finally be resolved, however, remains up in the air.

For those committed to an egalitarian resolution of the crisis, the question must be asked, now more than ever, on what it would mean to transform Sri Lanka's economy to reduce imports and increase local production, even while the country grapples with the longer-term question of debt? This question is part of a regional and global story. Sri Lanka, as many have recognized, is in many ways a forerunner of a new wave of debt crisis in developing countries.[2] Yet the country should not be viewed simply as a comparative example of the best way to conduct an IMF-led bailout. Instead, the people's movement that erupted onto the scene this year offers deeper resources for the critical imagination, which could catalyze an urgent reckoning over the broader relationship between state and society and how to democratize it.

The image of protestors jumping into the swimming pool in the President's house sparked global interest in Sri Lanka's people's movement and its ability to reclaim public space. It will be a far more challenging exercise to transform the foundations of an economy that has clearly gone off the rails. Only by taking on these problems directly, via people-centered approaches for reforming and democratizing the economy, will there be any hope that the movement does not simply end in the failure, typical of too many other past examples of stalled, if not failed, revolts. To avert a food crisis

[2] Financial Times. "Sri Lanka's Woes are a Warning to Other Developing Nations." July 13, 2022.

that could even become a famine, alternative economic measures could include, for example, an extension of a food subsidy, such as the rice subsidy that prevailed before it was dismantled in the post-1970s reform period. There needs to be more support for the country's agricultural production along with a public distribution system, which could draw from and rebuild the historically vibrant cooperative system.

Meanwhile, the political outlook over the next two years remains unpredictable. While Wickremesinghe has ambitions of completing the term of the presidency that comes to an end in late 2024, he is bound to face many challenges. In February 2023, he will be allowed by the constitution to dissolve the parliament, paving the way for elections. This will support the parliament to regain its legitimacy. But given his dependence on a Rajapaksa-backed majority in parliament for his survival, he is unlikely to opt for dissolution. In turn, this could lead to unrest among sections of the political class and the wider citizenry. Indeed, as the rural populace suffocates because of disruptions to their livelihoods, there may be further mounting waves of protests, perhaps this time from the rural and urban periphery.

As such, despite the rhetoric of some politicians and establishment actors, the reality is that the political moment opened by this year's remarkable protests has yet to conclude, even while many continue to experience pain and deprivation under the lack of economic relief. Despite the persistence of a bleak economic horizon, what type of popular response it will trigger remains an open-ended question; one to which the current Wickremesinghe-Rajapaksa Government lacks an answer. ■

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- **Ahilan Kadirgamar** is a Political Economist and Senior Lecturer at the University of Jaffna, Sri Lanka.

- **Devaka Gunawardena** is an independent researcher and Political Economist with a PhD from UCLA.

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For inquiries:
Jinkyung Baek, Senior Researcher

Tel. 82 2 2277 1683 (ext. 209) j.baek@eai.or.kr

The East Asia Institute
1, Sajik-ro 7-gil, Jongno-gu, Seoul 03028, Republic of Korea
Phone 82 2 2277 1683 Fax 82 2 2277 1697
Email eai@eai.or.kr Website www.eai.or.kr