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Second Wave of Neoliberalism: Financialisation and Crisis in Post-War Sri Lanka

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Altering the economic and social landscape of Sri Lanka, the neoliberal policies pursued by the Mahinda Rajapaksa government have exacerbated inequitable development, indebtedness, and the marginalisation of the Muslim and Tamil minorities. Whether the crisis in the economy would lead to political changes that will reverse the economic slide and ethnic polarisation, remains to be seen.

The Galle Face Green, a promenade along the Indian Ocean surrounded by the bustle of Colombo, is a plural space where thousands of people congregate every evening; Muslims, Tamils and Sinhalese youth and families across social classes come to snack, fly kites and stroll on the boardwalk watching the waves as the sun sets. It has now regained its past energy with the fear of bombs fading into memory. The Galle Face Green is also the venue of national celebrations, including the triumphalist victory parades which are held annually with pomp and pageantry. In this shared space, the vigilant observer will note another transformation taking place. Across the road, with an array of neon sign boards of banks and hotels in the background, prime state land is now being developed into a massive hotel and mall. How long will the Galle Face Green remain a public space as finance, real estate and tourism eclipse Colombo?

Amidst the debates on accountability, elusive political solutions and militarisation, there is little discussion on the economic transformation underway and the emergence of new conflicts. If one drives from Colombo to Jaffna on the "highway of destruction", the A9 Road, which was the site of major battles in the Vanni, there are new shops, offices and banks not different from the rest of the country. The traces of the war are disappearing except for the militarised monuments of war. Yet if one goes a few hundred meters away from the A9, one begins to see the abject social devastation and poverty plaguing the war-torn people. A deceptive prosperity, visible with the beautification of Colombo through slum demolitions and construction along the new highways and carpeted roads criss-crossing the country, hides the increasing inequalities and dispossession. Authoritarianism and militarisation– the country's inheritance from the war– are crucial for transforming the economic landscape. Much of the emerging resistance to such repressive power stems from bread and butter issues.

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The armed conflict that pitched the state against the Tamil militants began around the same time the Jayawardene regime initiated the open economy policy in the late 1970s. Despite changing regimes, neoliberal policies characterised by trade liberalisation, foreign investment, privatisation and curtailment of labour rights continued but at a slower pace due to the ongoing war. The conjuncture at the end of the war, with concerns regarding security and stability of the country as the guns went silent and the fall out of the global economic crisis of 2008 directing greater flows of capital into the emerging markets, provided the conditions for the acceleration of neoliberal development. The Rajapaska regime seized the moment promising to resolve all problems through a development push.

The authoritarian 18th Amendment to the Constitution of 2010 ensured much greater powers to the president to transform the economy. And in turn the patronage that came with development initiatives assisted in the consolidation of the regime.

The post-war period characterised by a second wave of neoliberalism witnessed great flows of global capital that commenced with the approval by the executive board of the International Monetary Fund (IMF) of US$ 2.6 billion Stand-by Arrangement for Sri Lanka in 2009. This was followed by multilateral and bilateral aid amounting to billions of dollars from actors such as the World Bank, Asian Development Bank (ADB), Japan, China and India, and the sale of sovereign bonds worth US$ 4 billion to foreign institutional investors. The stock market, domestic banks and real estate also attracted billions of dollars. Many national policies ranging from financial and banking deregulation, to tax reforms with an emphasis on indirect taxes thereby burdening the masses, to controversial land grabs stimulated these global financial flows. And much of this capital has been absorbed in infrastructure from roads to ports and airports as well as hotel and real estate development. In Colombo and other towns, particularly along the coast, financialisation has been tied to urbanisation where financial investments have been sunk into real estate with rosy projections of returns from the tourism industry.

National finances consisting of increasing short-term international debt have bound the government to the policies of the IMF. Financiers close to the regime have benefitted from state finances and other funds channelled into the stock market to earn speculative returns. In 2011 and 2012, two Securities and Exchange Commission chairpersons resigned under pressure from financiers resisting market regulation. Furthermore, the chief justice's impeachment was triggered by a ruling on a rural development bill that would have extended centralised patronage down to the rural level and promote rural banking and micro-finance. Moreover, the Urban Development Authority has been merged with the Ministry of Defence to accelerate the process of urbanisation.

Uneven development, where close to 45% of the GDP is concentrated in Colombo and the Western Province, has been further aggravated by urbanisation policies. The government lacks a social welfare program. Even the vision for the two pillars of Lankan society, education and healthcare, has been now reduced to money making ventures. A culture of

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indebtedness has enveloped the urban and rural poor, as unsustainable consumption has been encouraged through bank loans, leasing and pawning with profits siphoned off by the financial elite. The North, cut off from the market for decades, is going through a binge of consumption and consequent indebtedness. Among the war affected Tamils returning to their lands, caste-based social exclusion is reconsolidating with rising disparities in land ownership and access to remittances. Many have been condemned to indebtedness and landlessness. Subaltern women from all the ethnic communities are worst hit by these economic developments.

This second wave of neoliberalism is transforming the economic landscape through greater integration with the global capital markets, financialisation and urbanisation to the benefit of an emerging oligarchy. In the process, it is rapidly creating new forms of social exclusion and conflict. This devastating inequality and dispossession –part of the new accumulation strategy of finance– cannot be swept under the newly carpeted roads.

Financial Crisis

In addition to aggravating class contradictions, the neoliberal policies are fraught with risks.

The economic programme, with its emphasis on investment in infrastructure development, required major flows of global finances and counted on returns from the tourism sector. However, while infrastructure development is raging forward, it might be difficult to sustain financial flows if there is capital flight from emerging markets. Furthermore, the expected returns from tourism are nowhere in sight.

Over the last few years, most of the major banks in Sri Lanka have been doubling or tripling their assets by expanding their retail business, including loans to households. Such expansion of their assets has been in part possible through debt instruments in the global financial markets. For example, the Bank of Ceylon floated a total of US$ 1 billion in euro dollar bonds in the international capital markets in 2012 and 2013. The National Savings Bank is in the process of floating a similar bond to raise US$ 500 million or US$ 1 billion. The National Development Bank and Development Finance Corporation of Ceylon Bank (DFCC) were given tax incentives to float similar bonds worth US$ 250 million each. Such dollar-denominated bonds are encouraged by policy makers, as they bring valuable foreign exchange necessary for the burgeoning import bill. Indeed, comparing the flow of finances through such transactions in the capital markets with foreign aid, points towards an increasingly dominant role of the financial sector. The total disbursement of aid from the multilateral and bilateral donors in 2012 was about US$ 2 billion. Compare that with bonds worth US$ 1 billion floated by the Bank of Ceylon alone, or the total of US$ 4 billion of sovereign bonds floated by the government over the last few years.

Next, official statements about the expected increase in foreign direct investment (FDI) require critical analysis. These are not long term investments in production such as building of factories etc., rather it is speculative finance which is invested in real estate, and

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particularly tourism related hotels and malls. The government desperate for such financial flows is also planning to encourage casinos. The beautification policies in Colombo and other towns, as well as the transformation of coastal areas, are driven by such speculative real estate interests.

There are increasing signs of this financial accumulation strategy heading towards a crisis. Massive inequalities are visible from the large number of luxury buildings and cars as seen in the elite quarters of Colombo versus the process of dispossession affecting the larger population. Indebtedness has been on the rise due to financial processes targeting the lower classes for bank loans, leasing and pawning. Indeed, many rating agencies are beginning to worry about the financial health of many of the banks. In recent years, banks have acquired large foreign debts and could face serious problems if the rupee depreciates coupled with an increase in non-performing loans. While the pawning business had boomed in recent years with banks entering this business in a major way, the recent fall in global gold prices have brought out problems of recovery. Even as hotels are being built, luxury hotel occupancy data released early this year showed a fall from 90% in late 2011 to 76% in late 2012 . Not only is the estimated number of tourists not coming in, but also those who do visit cannot afford luxury hotels and seem to prefer guesthouses. If the post-war economy seemingly went through a boom, it was mainly due to the increased financial flows. However, it is that very dependence on foreign capital that might worsen the country's economic woes.

Resistance

Socially devastating economic changes often face major resistance. In the last two years, almost on a weekly basis, one trade union or another either threatened to strike or actually carried the strike out. The massive protests by workers against the private pension bill in mid-2011, witnessed the killing of one worker. Militant protests by student unions in January 2012, led to the shelving of a private university bill. The shutdown of coastal parts of the country by fisher-folk protesting fuel price hikes in February 2012, led to the firing and killing of one fisherman. Lecturers shut down all universities for three months last year when they carried out one of the longest strikes in the history of the country. And this year, there was a major trade union mobilisation against the electricity price hike. In early August 2013, protests against the pollution of water by a factory in Weliweriya led to firing by the army causing the death of three individuals, including two students, and injuries to many others. The firing on protestors in Weliweriya, in particular, points to a dangerous precedent of the use of military force to serve the interests of capitalist firms.

A major economic crisis in the next few years seems unavoidable. However, the political opposition, the United National Party (UNP), is in shambles. And with the second wave of neoliberalism, the Rajapaksa regime has taken forward the UNP's economic agenda and robbed the opposition of an economic critique and an alternative. The liberal quarters and international actors have been engaging with Sri Lanka on issues such as the repression of

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the minorities, liberal governance and the possibilities of international intervention. However, such interventions circumvent economic issues and in reality strengthen nationalist and xenophobic forces inside the country often to the benefit of the regime's national standing. Furthermore, the regime is backing a Sinhala-Buddhist nationalist anti-Muslim hate campaign, which is gaining ground among the Sinhala population. Such nationalist mobilisations are attempts to distract the Sinhala population from their economic woes and maintain the regime's electoral base. Finally, going by the flow of international finances into Sri Lanka in recent times, it is amply clear that bilateral political pressures are often trumped by the interests of bilateral and global financiers.

The island economy has historically been shaped by global economic forces with dependence on trade for both imports of essential items and exports of tea, rubber, coconuts and garments, and now more recently dependence on migrant remittances. And the trigger for the crisis can both be internal or external, with the conditions set by indebtedness and the free flow and flight of capital. But will such an economic crisis lead to political changes that attempt to reverse this economic slide and ethnic polarisation? Or will it lead to the scapegoating of the Muslims and further oppression of the Tamils?

Sixty years ago when the UNP was in power, political forces coalesced when the rice subsidy and the mid-day school meal were cut after the Korean War boom. Some 200,000 people attended a major protest rally at the Galle Face Green, and subsequently the "Great Hartal" shut down the entire country in August 1953. That was a turning point that culminated in the change of regime, which adopted its discriminatory "Sinhala Only" policy in 1956, souring ethnic relations. Historically, economic issues determined the trajectory of politics. Whether an economic crisis will generate a turn towards the fascist right or more progressive politics merging class issues with the predicament of minorities, will depend on actors to take forward the mantle of economic democratisation.