# Sri Lanka: Destined to the same fate as Argentina?

## Discussion paper on the impact of the IMF/World Bank policies on Argentina and Sri Lanka.

This paper will look at the IMF and the World Bank's historical involvement in the Argentinean crisis and discuss the similarities between strategies developed by these institutions for Argentina to those designed for Sri Lanka. In addition, the paper will look at the consequences of these strategies on Sri Lanka and discuss the likelihood of such a crisis gripping the country should it continue to implement the destructive economic policies proffered by the international institutions.

Despite some fifty years of the Bretton Woods Institutions working towards eradicating poverty, more than one billion people live on less than $1 per day, one and a half billion people do not have access to safe drinking water and 125 million children of primary school age do not attend school. The development models propagated by the IMF and the World Bank over the last five decades have simply not been effective in alleviating poverty world wide. Riddled with problems, the models have wreaked havoc and destruction across diverse communities all over the world, inflicting further misery and hardships to the world's poorest people.

The ideology of these institutions is one which favors the interests of multinational corporations. Both institutions pursue the liberalization of trade and capital markets in order to promote imports and exports. Essentially this strategy requires third world countries to surrender to the international market, by opening their respective markets, so that corporations in the North are able to sell their goods. Clearly the benefits of this approach is enjoyed solely by multinational companies. Consequently, companies are in a position to expand their trade and further their profits at the expense of local producers. Moreover, the domestic private sector in third world countries stand to benefit from the process of globalization. In Sri Lanka, the private sector joined forces prior to the March 2001 budget proposals, in order to write a strategy paper which in addition to supporting World Bank and IMF led economic reforms, stresses the importance of providing the private sector with greater influence to lead and dictate the direction of the country's economy.

Earlier in the history of development, the IMF and the World Bank provided financing to state infrastructure as it was viewed as a means to open up the markets of the developing world. During the 1980's, the institutions pursued a rigorous campaign fighting against state enterprises and placed their allegiance to trade liberalization. At this stage, the institutions held the belief that the markets would solve all developmental problems, despite the fact that this approach is highly unsustainable. There is consensus amongst the international financial institutions that globalization, through the succession of trade liberalization will have the greatest impact in reducing poverty world wide. Conversely, a survey conducted by the IMF in 2000, stated that "progress in raising real incomes and alleviating poverty has been disappointingly slow in many developing countries". Similarly, a study undertaken by World Bank staff (Chen and Ravallion 2001) titled 'Global Poverty Monitoring Database', admits that progress against consumption poverty in the developing world was insignificant during the 1990's. The miracles which these institutions have been anticipating as a result of their economic reforms have simply not materialized.

Vandana Shiva argues that globalization is merely the transfer of influence from state to corporations. This process is expertly facilitated through the World Bank, the IMF and the WTO. In this context governments are reduced to property of the transnational corporations (TNCs) whose purpose is to pursue the goals of these large corporations at the expense of their own citizens. The international market is the overarching goal for all these actors. Democracy is eroded as the state becomes completely controlled by external influences, namely the TNCs. Isolating the focus exclusively on the market results in the exclusion and dispossession of entire communities, as they begin to feel powerless against political leaders, who despite their political ideologies, all appear to be coerced into implementing financially, socially and environmentally harmful development strategies developed by the West. Evidently, throughout this process, the wants and needs of the external institutions are given priority whilst the rights of affected communities are disregarded and ignored.

## Argentina

Argentina is in a state of crisis. The country has been gripped with the worst riots in a decade. Thousands of people have mobilized in the capital to protest against the deteriorating economic situation which has been poorly managed by the government. These protests have been triggered predominately by the austerity plans introduced recently in order to meet exorbitant debt repayments. Moreover, policies introduced of late, including rationing cash withdrawals has instigated widespread anger. Conservative figures estimate that 27 people have died during the riots. There have been additional violent protests across the country, with people storming banks, damaging cash machines and tearing out computers, primarily protesting at government limitations on withdrawing their savings. Riot police have reacted with tear gas and rubber bullets. Accordingly the government has taken action to remove police from border duty to patrol the progressively more lawless streets.

Despite two and a half decades of IMF supported free market reforms, 100 children die daily from hunger and disease in Argentina. Faced with four years of recession, unemployment is running at 18%, resulting in 15 million people, half of which made up the country's middle class just five years earlier, living on or below the poverty line. Presently, up to 2000 people a day are falling below the poverty line. Further, 12 million Argentineans, a third of the country's population, can not meet the expense of essential nutritional requirements. 200 000kg of food aid has already been distributed throughout the country to its impoverished constituents.

Eduardo Duhalde has recently become the country's fifth president in a staggering two weeks and is about to devalue the peso, ultimately cutting wages and savings capacity of millions of people, bankrupt many firms and increase the prices of basic goods.
Duhalde, in recent years, has been more and more critical of neo liberal policies. On January 1, as he assumed presidency, he asserted, "..for many years in Argentina they have made us believe that amid this new world order, there is only one possible economic model. This is complete falsehood". Placing the concerns of the people

above economics he plans to restrict the capability of foreign firms operating a number of the country's power, water and telecom firms, to increase their rates. Predictably, this has infuriated numerous foreign firms working in Argentina. Additionally, he has plans to utilize public money to reduce unemployment and a dual exchange rate to safeguard local industry.

The impact of the crisis has been devastating on the people of Argentina. Anibal Veron, one of the victims of the crises, lost his job with his company owing him for nine months worth of work. With five children to feed this was ruinous. He decided to join the 'piqueros', a group of angry unemployed people who barricade roads. Anibal was killed by the military police during a blockade late last year whilst protesting against the injustice of the crisis.

Argentina has suffered from decades of political turmoil. During 1976, a military coup overthrew the government of Isabel Peron, widow of Juan Peron who controlled the political sphere from 1946. Subsequently the 'dirty war' was initiated where 30 000 suspected leftists were killed. In 1982 the Argentine military invaded the Falkland Islands. During 1983, the military government, whom at this stage were discredited by the loss of the war, fell and Raul Alfonsin became the new president. A mutiny was initiated in 1987 in Buenos Aires by disaffected military personnel known as the carapintadas or the 'painted faces'. By 1989, Alfonsin gave power to the president elect, Carlos Menem, subsequent to food riots and hyperinflation. During 1990, following another carapintada uprising, 13 people died. Menem was re-elected in 1995. President Fernando de la Rua was elected in 1999. During this same period, a financial catastrophe haunted the government. Vice President Carlos Alvarexzn resigned in 2000. During December 2001, when Argentina was faced with the most severe unrest in decades, President de la Rua resigned. Replacing him was Adolfo Rodriguez who resigned after being in office for only one week. Political turbulence in Argentina has been incessant for the best part of three decades.

The fundamental reason for the crisis is a recession which transpired as a result of years of pubic overspending and excessive borrowing. This has left the country on the brink of defaulting on its $132 billion public debt. A figure which amounts to one seventh of the total debt held by all developing countries combined. The government has been restricted in terms of its ability to reduce interest rates as a consequence of fixing the currency to the dollar at a one to one rate since the early 1990's. This became problematic as the greenback's continual rise in value ensured that exports became uncompetitive. Further, the public finances crisis was exacerbated by the reduction in tax revenues.

There is no doubt that the IMF is largely responsible for the outcomes of the Argentinean crisis. The past three decades which have been dominated by IMF economic policy reforms has seen foreign investors pillage the country. During the 1970s and 1980s subsidiary companies of multinational companies borrowed billions of dollars from banks in the west. These debts were then nationalized by the state. By 1984, the country's public debt had increased from $7.8 billion to an incredible $46 billion. During Menem's time in government, who in 1991 fixed the currency to the dollar, a strategy which assisted in reducing hyperinflation, set in motion the process of giving control of the government debt to foreign banks. As a result the nation's debt was augmented from $65 billion in 1991 to $160.2 billion in 2000.

The IMFs privatization campaign ensured that multinationals made billions of dollars worth of profit over the decades. For example, a French company has obtained a significant proportion of the nations water system and subsequently has increased rates by an astonishing 400%. Banks, once owned by the government and supported the nations debt repayments, have been sold to foreign operators such as the Citibank of New York during the mid 1990's. Eventually the government reached a point whereby there were no state companies left to sell. Furthermore, the 1997 East Asian financial crisis turned investors away from the idea of investing in 'emerging markets'. The appreciation of the dollar resulted in pricing Argentinean goods as uncompetitive in the world markets, tumbling the country into a recession.

Intent on meeting debt repayments, Fernando de la Rua developed eight austerity plans within his first six months in office (in 1999) which included a 13% cut in state worker wages, severe cuts in education spending and a goal to diminish pensions and increase taxes. The incessant cuts in public spending served to intensify the country's four year recession and continued to further exacerbated the current social and economic problems.

After nine IMF stabilization plans beginning in 1983, Argentina was left with the biggest sovereign debt default in history.

In September 2000, the 'Technical Memorandum of Understanding' produced by the IMF was signed by the President of the Central Bank of Argentina. This 'understanding' proved to be fatal for Argentina. The understanding necessitated the country to reduce its budget deficit from $5.3 billion in 2000 to $4.1 billion in 2001. Additionally, this agreement also required Argentina to decrease salaries by 20%, under the government's emergency employment program, hence reducing salaries from $200 per month to $160. Slashing public spending even further, the agreement also obligated Argentina to decrease payments to the elderly by an astounding 13% as well as diminish salaries of civil servants by 12-15%. Essentially the plan paralyses consumer spending despite the aim being to increase economic production by 3.7% and consequently reducing unemployment.

Only through agreeing to this socially, politically and financially disastrous program, could Argentina have access to $1.2 billion worth of aid. This forms part of a larger $26 billion emergency program for 2001 prepared by the IMF, World Bank and an assortment of private lenders at the end of 2000.

Precipitating the crisis, in December 2001 the institution refused to pay Argentina the $1.2 billion aid package. This decision further deteriorated the country's economy. Refusing to respond to the social effects of the crisis by adopting solutions that will have a positive effect on the poor, like eradicating the nations enormous debt or allowing Argentina to put an end to the austerity plans which are threatening to strangle the economy, it developed a proposal for an international bankruptcy system whereby countries are able to suspend debt repayments whilst they negotiate with their creditors. Subsequently, Jubilee Plus, a debt campaign group, has called for a UN administered international bankruptcy court to broker fair agreements between insolvent countries and their creditors. Such an idea a few years ago would not have been taken seriously at all, however, now the deputy managing director of the IMF has expressed that there is a need for the system to be improved.

The IMF, an institution established with the intention of supporting troubled economies, believed the solution to the crisis was to institute further cuts in public spending, a decision which unleashed the worst public unrest in Argentina's recent history. The riots in Argentina have demonstrated that austerity programmes stipulated by the IMF for countries suffering from colossal debt are socially and politically volatile. With Argentina's historical political instability, economic crises in the country have the potential to lead to military coups. Furthermore, Argentina's dilemma's have the probability of engulfing the region creating further economic, political and social instability across South America

## Sri Lanka

Like Argentina, Sri Lanka is suffering as a result of IMF and World Bank policies which focus on the liberalization of trade and capital markets. Sri Lanka's colossal debt repayments are being borne predominately by the country's poorest communities. In Sri Lanka, 20% of poor families receive only 4.8% of the national income while 20% of the rich enjoy 56.4% of national income. Malnutrition in Sri Lanka is currently at a staggering 60%.

At the beginning of 2001, Sri Lanka was unsuccessful in securing consent on the loans it had sought from the World Bank and the IMF at the Development Forum, the Paris Aid Group Meeting. The World Bank explained that this decision was a result of the Sri Lankan government not placing adequate effort into fulfilling the requirements the institutions had previously stipulated in loan agreements. This was a blatant attempt by these institutions to make use of their influence to manipulate the political and economic design of the country in 2001.

Economic demands dictated by the Bretton Institutions which included the acceleration of the privatization process, focusing on the privatization of water and completing the privatization of states banks, electricity, postal services and insurance; bringing an end to the civil conflict; and the formation of a joint government in Sri Lanka that grants the private sector with a major role in designing the country's economic strategies, were politically arduous to meet. Moreover there was fierce opposition from Trade Unions and the people of Sri Lanka. The strategy of the World Bank to withhold loans was part of the procedure to instigate changes within the Sri Lankan government so that they would have the capability to carry out their recommended adjustments which were perceived to be crucial. An authoritarian political regime is crucial for the implementation of such harsh and socially destructive policies. Hence, such a regime was fashioned at great expense to the people.

Consequently, Sri Lanka's president consented to commence immediate tax increases, deregulate the Rupee and agreed that no further salary increases in the state sector would be implemented during that year. As a result of the President of Sri Lanka complying with all their demands, the IMF provided Sri Lanka with a stand by loan of US$253 million in April 2001 which US$131 was released instantaneously. However, not long after these negotiations, the Bretton Institutions placed further pressure on the Sri Lankan government to implement their recommended reforms by insisting that balance loans would be provided every 3 months at US$30 million, after ensuring that the adjustments had been effectively implemented. Accordingly, the government was compelled to undertake additional measures which further burdened poorer communities.

The impact of these economic reforms were felt heavily by poor communities. For example, subsequent to the tax increases, milk companies increased their prices. This has placed milk, an essential nutritional requirement, out of reach for many of the country's poorest people. Accordingly mothers and children country wide are suffering from poverty, hunger and malnutrition.

The business community in Sri Lanka has played a colossal role in advocating market liberalization. They play a key role in the process of globalization and are avid promoters of World Bank and IMF economic reforms and in 1998 issued a policy paper supporting the economic reforms that have taken place in Sri Lanka since 1977. Further, the paper drew attention to the additional adjustments that are required for Sri Lanka to continue along this path of economic development. These actions include the removal of existing labour laws, altering the current wage system and a cutback in holidays. Additionally the paper highlighted the importance of the private sector being considered by both major political parties, as the main thrust behind economic growth and development for at least the next 15 years and as such should play a larger role in dictating the economic policies of Sri Lanka. The World Bank has requested identical reforms and adjustments in policies.

Prior to the March 2001 budget proposals, the Joint Forum of Chambers, Commerce and Industry Employers Organizations and Trade Associations, developed a strategy paper which was presented to the Sri Lankan government titled *A Way Forward Strategy.* In this strategy paper, which incorporated deadlines to implement their recommendations, the private sector articulate their support for a joint government or at the very least a joint program over the next two years that will see through World Bank and IMF reforms. This Forum, claiming to be representative of Sri Lanka's private sector, emphasized the need for Sri Lanka to act promptly in executing the prescribed economic reforms, as the US economy is in the midst of a recession and the global economic sphere requires adjustments similar to those advocated by the Bretton Institutions. Needless to say, the private sector in Sri Lanka are leading the way in promoting the notion of greater power being given to them to lead and determine the direction of the economy.

In Sri Lanka, the private sector would like to see a focus on the export of goods and services as a strategy for growth and development, targeting specific sectors and sub sectors. Ideally the private sector envisages a labor market which need not prescribe to restrictions currently in place in relation to termination of employment. Among many things, they are advocating for the removal of labor protection laws which are in place to protect the most vulnerable members of the community.

The July attacks on the airport in Colombo had severe consequences on the Sri Lankan economy. The coalition of private industries used this to formulate a powerful argument for the economy to be recreated by a united government. Consequently, Sri Lanka's two largest political parties, the PA and the UNP, have reached agreement on a substantial number of issues regarding economic strategies and policies for the island. However the two parties ran into some difficulties as they were unwilling to share power within a joint government.

The UNP, Sri Lanka's newly elected party, is perceived by the World Bank, IMF and the US government as the party more apt in directing and managing a private sector led liberalized economy. Further the UNP has expressed interest in establishing a joint government with the PA. This fits into line with the wishes of the the private sector as well as the World Bank and the IMF.

Sri Lanka has in the past, been an idol for success in the area of human development. The country successfully obtained low income disparities as well as a relatively high level of food security. This was a direct result of incessant pressure placed on the government by the people to ensure the social welfare of the community through protective and supportive government policies and services. However, over the last two decades, Sri Lanka has endured a virtual reversal of these achievements as a result of World Bank and IMF structural adjustment programs.

Since 1977, consecutive Sri Lankan government's have endorsed the economic development strategies advocated by the IMF and World Bank respectively, which encompassed export orientated growth and structural adjustment programs towards export led economic growth. The essential components for the overarching strategy of globalization. Despite the international development institutions insistence that these economic reforms would reduce poverty, in reality they led to the degradation of a social system designed to protect the most vulnerable groups in society, and formed an unsustainable socio-economic and political situation within the country. According to the World Bank, since 1977, Sri Lanka "began the transformation from an inward looking socialist system to a market economy based on liberalized trade, exchange arrangements and foreign investment. Since then the GDP has grown at a moderate rate of 4-5% per year."

Structural adjustment programs which the government of Sri Lankan agreed to implement had disastrous effects on the country's poorest people. A majority of subsidies and services which were at one stage supplied by the government and critical to the livelihoods of the most vulnerable communities have been removed. Instead, subsidies are now provided to the private sector in the form of tax relief, credit and free facilities, as they are viewed as the main thrust behind economic expansion. The private sector now enjoys subsidies at the expense of the poor. It is unmistakable that strategies employed by these international institutions favor the private sector. Matters relating to poverty reduction appear to be inconsequential in comparison.

As stipulated by the World Bank and the IMF, Sri Lanka has privatized various state services and in recent times has been compelled to expedite the process even further. This strategy serves the interest of the private sector and works towards increasing the social disparities.

More recently, the World Bank has recommended to the Sri Lankan government, that water be privatized. This is part of the process to encourage individual farmers to move away from their small scale domestic orientated farming, to "high value" export orientated crops. In a report written by the World Bank in 1996 and subsequently presented to the Sri Lankan government, the institution stated that the country's non plantation agriculture sector is not going to expand unless farmers discard their current domestic orientated work for export orientated crops. The report also states that a major reason that small farmers are unwilling to adopt export agriculture is due to the fact that water and irrigation is supplied to them free of charge at present. Essentially, the World Bank is articulating that these small farmers, who have been engaged in small scale farming for generations, be forced into adopting large scale agriculture which they perceive to be beneficial for the economy, through privatizing water. The privatization of water is an unambiguous strategy to completely immobilize small farmers from continuing their small scale agricultural work.

Sri Lanka currently has 1.8 million small farmers of which approximately 1 million are paddy farmers. Privatization of water will deprive communities of the most essential natural resources imperative for their survival and effectively rob millions of farmers of their livelihoods, resulting in high level of unemployment. The social consequences of such a process which alienates so many people from the economy will be catastrophic.

To fight against this enormous injustice MONLAR embarked on a campaign to educate farmers all over Sri Lanka of the consequences of such a proposal. The campaign was immensely successful in providing a critique of The National Water Resources Policy and Institutional Arrangement developed by the National Water Secretariat without any consultation with the people of Sri Lanka. In addition, the campaign was successful in providing alternative proposals to the Secretariat developed by communities.

The dairy industry in Sri Lanka is another example of the IMF's and World Bank led campaign on privatization. In 1981, under the policy of liberalization and privatization the government decided to close the National Milk Board and signed an agreement with Nestle to develop the dairy industry. The entire milk foods industry is dominated by a few companies such as Nestle, Anchor and Maliban who market milk powders imported from the West only. Further, Sri Lanka does not possess fresh milk in its market.

The strategy employed over the last two decades in Sri Lanka by the IMF and the World Bank for rapid export oriented growth through market liberalization, attracting foreign investments for export oriented industry as well as the structural adjustment programs of the World Bank and the IMF have been unsuccessful in providing the trickle down effect to alleviate poverty. The social impacts of the institutions economic policies are completely ignored.

The implications of World Bank and IMF policies have the potential to be disastrous for Sri Lanka. The current government is showing clear signs of leading Sri Lanka into agreeing to further economic adjustments that will inevitably lead to an increase in poverty island wide. Further measures in Sri Lanka to accelerate IMF and World Bank led economic policies have the potential to lead to massive civil unrest, arguably on a much larger scale and of far worse consequences to those experienced by Argentina.

Historically, Sri Lanka has been subject to civil unrest led by youth disenchanted by governments who pursue the trade liberalization and privatization agenda of international financial institutions and the private sector whose policies are excluding youth from adequate employment opportunities in the economy. Policy directions resulting in social inequalities and the inability of communities to access effective livelihoods led to the first armed conflict in the south during the early 1970's. Civil unrest occurred again in the south from 1988-1990 as a result of social inequalities and a severe lack of employment opportunities. During this period a reported 60 000 people disappeared. This figure is reputed to be the highest in record of the history of the UN Committee for Involuntary Disappearances. As is evidently clear, civil unrest in Sri Lanka has been immensely destructive – socially, politically and economically. Further civil unrest in Sri Lanka as a result of additional detrimental economic measures has the potential to be far worse than the previous uprisings, causing irreparable social, economic and political damage.

As has been previously stated, the people of Sri Lanka have in the past, fought a courageous battle against the harsh economic policies of the Bretton Woods Institutions. However, Sri Lanka's civil war that has been raging for over two decades, acts as an obstacle for Sri Lankan's to unite against these massive international forces. The Sri Lankan government has been Sinhala dominated since Sri Lanka won independence in 1948. Minority groups in Sri Lanka are engaged in a battle to ensure that their basic rights are respected first and foremost. Tamils in the Northern and Eastern provinces are fighting for self determination. This remains the political focal point for Sri Lanka. Polarization of communities in Sri Lanka renders the country unable to join together in the struggle against the destructive policies of these institutions. It is imperative for the war to come to an end if Sri Lanka is to win the battle against the these powerful institutions, as the continuation of the conflict is acting as a barrier to marry the diverse communities of Sri Lanka in a united cause.

## Conclusion

The World Bank and the IMF exert enormous influence over developing countries. Donors to Sri Lanka have complete autonomy in determining the agenda for aid. In other words, the agenda can be drafted to suit their own purposes and this is exactly what happens. Interests of multinational companies are promoted whilst debt repayments are borne by the poorest communities. Developing countries can only access loans from the institutions if they comply with their plans, despite how disadvantageous or destructive they may be. This is evident in both Argentina and Sri Lanka. Further, these institutions refuse to acknowledge local cultures and solutions proffered by them to alleviate poverty. They simply pursue their own agenda at the expense of the world poorest communities.

The development models which feature the integration of economies into international markets and accelerating development have failed to have positive effects in Sri Lanka or Argentina. The emphasis on reducing public spending in order to increase revenue and heavy foreign investment has had catastrophic effects for both countries with the poorest communities bearing the brunt of the consequences.

Given that in the past 50 years, the Bretton Institutions have failed in their attempts to eradicate poverty through their harsh economic measures, it is time to search for new strategies to tackle the problem at its root cause. Billions of people world wide can not continue to live in less than $1 per day. It is simply not acceptable that millions of the worlds children do not attend school. Sri Lanka can not continue to tolerate a 60% malnutrition rate. It is unacceptable. Structural reforms are required that will encourage the contribution of poor communities in the creation of development strategies. The social and political impacts of their recommendations made by these institutions need to be taken into account, when they are proffering their 'solutions'. Governments need to stand up to these intuitions and refuse to give in to their disastrous proposals which only benefit multinational corporations and the domestic private sector. Alternative approaches need to be expressed. Voices of the poor need to be heard and acknowledged. A new approach to development is required that encompasses a fresh understanding of development priorities. Communities must be consulted and play a central role in the creation of development strategies.

The similarities between Sri Lanka and Argentina are striking. It is crucial that the IMF and the World Bank not be allowed to continue to dictate the future for Sri Lanka as the consequences clearly could be disastrous. Sri Lanka must conceive its own development strategies which are sustainable and contextually appropriate. The IMF and the World Bank have for too long dictated the course of development for many diverse communities around the world, wreaking havoc and causing mass destruction to communities and their environment. It is time to put a stop to the annihilation. Together, communities must confront these powerful institutions and demand that their voices be heard. Communities must pressure governments to put the best interest of their people first as opposed to favoring the wishes of the private sector first and foremost.

Sri Lanka must act fast if it is to reverse the destructive forces of these institutions. Only by local communities uniting in their struggle against the totally destructive forces of these actors will change occur. They must be challenged. They can be challenged. Sri Lankan's must demand that they are given the freedom to create their own solutions to poverty. Solutions which are appropriate, inclusive and sustainable – both socially and environmentally.

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***11 February 2002.***