IMF readies 'Pol Pot option' for Sri Lanka

by Susan Maitra

Mass killings by the Sinhala terrorists and a pall of terror that has settled in over the island lately, indicate that Sri Lanka's President Ranasinghe Premadasa is getting more and more isolated. The economic crisis, which is becoming more serious every day, is now causing food shortages. In the midst of rampant coup rumors in the streets of the capital city of Colombo, it has been announced that the International Monetary Fund (IMF), which is withholding an $87 million loan until Sri Lanka kowtows fully to its demands, will send a delegation to Colombo on Aug. 20.

As the crisis deepens, the stormtroopers of the JVP party are waiting in the wings, modeling their "program" on the genocide of Cambodia's former dictator Pol Pot, who murdered one-third of his own population.

The IMF, which has a strong grip over the Sri Lankan economy, had unsuccessful discussions in Colombo in late July, and is hoping for better this round. The Fund has reasons to be optimistic: Sri Lanka, devastated by the six-year-old ethnic insurrection, is short of food, and the authorities are trying desperately to import it. But suppliers consider the government's 180-day letter of credit a worthless sheet of paper. The suppliers are demanding that offshore foreign banks independently guarantee that payment will be made.

The money to import food would have been available to Sri Lanka if the IMF had released the $87 million drawing on its Structural Adjustment Facility, which would have also unlocked $60 million already committed by the World Bank to ease Sri Lanka's balance of payments situation. But, in return for $87 million, the IMF has asked the Sri Lankan government to make some "structural changes" in the economy. The changes, the IMF says, are necessary to contain Sri Lanka's budget deficit within 12% of the Gross Domestic Product and to slow down monetary expansion.

In particular, the IMF is demanding removal of subsidies on wheat and flour. According to some reports, such a cut will jack the price of a loaf of bread up by 40%. Already the Sri Lankan President has agreed to abandon the poverty alleviation program—the center of his presidential election campaign—and the program for midday meals for underprivileged schoolchildren. The poverty alleviation program called for making available about $75 each to poor families.

Coup threat from the JVP

Compliance with the IMF's subsidy-cutting plans would most likely produce an outbreak of food riots all over the island. President Premadasa has privately expressed such fears already. But more than that, the Sri Lankan President is afraid that cutting subsidies, which will hurt the poor the most, will provide the Janatha Vimukthi Peramuna (JVP)—the Maoist organization which recruits followers using vitriolic anti-India rhetoric, rabid Sinhala chauvinism, and a Pol Pot-like ideology—the dreaded momentum to push the island toward a new holocaust.

In recent months, the JVP has grown in leaps and bounds. Those Buddhist monks who protested against the JVP's campaign of mindless killing, are now being eliminated. During the last two years, the JVP has killed more than 2,000 people, a large number of whom belong to the ruling United National Party. Recently, the chief news editor of Sri Lanka's state-owned television station was assassinated for his "biased" reporting.

The threat of a coup in Colombo is a real one. The JVP has already made deep inroads into the Sri Lankan Army. President Premadasa, in one of his recent speeches, said that "an atmosphere of sorrow, fear, and terror has overtaken the country." The IMF pressure in the midst of this crisis could result in the overthrow of the government.

Sri Lanka fell into the IMF lap in the late 1970s, when former President Junius Jayewardene opened up the country's economy, allowing liberal importation which pushed many local industrialists into bankruptcy. Subsidies to state enterprises were cut drastically. A large free-trade zone was set up in 1978, as a replica of the Shannon free-trade zone in Ireland. Tax holidays, along with other fiscal incentives, were implemented to encourage foreign investment, and offshore banks where Sri Lankan nationals could hide their ill-gotten wealth were established. Some on the island and elsewhere hoped that Sri Lanka would become the Switzerland of Asia.

The decade that followed included all-out ethnic riots and the devastation of the economy. Being a commodity-exporting nation, of tea in particular, Sri Lanka went into the red when international tea prices fell sharply in 1985, and trade imbalances began to grow. The 1986 drought, ethnic riots, and a free-market policy pushed the Sri Lankan economy into the abyss, and at the end of 1987, the nation had accrued a $3.1 billion debt. The country's $300 million foreign reserves could pay for no more than two months of imports. More than 26% of Sri Lanka's foreign exchange earnings go to pay the foreign debt.

With the balance of payments deficit exceeding $600 million in 1988, both the IMF and the World Bank, which were pushing further trade liberalization, moved in to assure Sri Lanka that the Structural Adjustment Facility would be available—provided certain austerity conditions were met.