

# Debating the Transition from a Closed to an Open Economy

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The year of 1977 has become a highly charged symbol for understanding the current crisis. After the transition from a 'closed' to an 'open' economy, many now claim that Sri Lanka is moving backwards. But we must be clear on what is responsible for the ongoing breakdown. Over the decades since Sri Lanka began liberalising its economy, it has become increasingly reliant on imports, even for its export-oriented manufacturing. Meanwhile, as the global economy became more financialised, Sri Lanka issued sovereign debt to cover the gaps in the neoliberal growth model. Accordingly, when the COVID19 pandemic hit, Sri Lanka's increased exposure to foreign debt made it even more vulnerable to economic slowdown. Although the current regime in power has aggravated the crisis because of inadequate policy measures, the structural problem emerged out of historical choices made by capital.

Specifically, as Kethesh Loganathan pointed out during the initial ascent of the neoliberal economy, the new policy reinforced capital's historical tendency toward unbalanced production in Sri Lanka. As he put it, in the earlier period, "the import-substituting industries were mainly engaged in providing the frills and the packaging of virtually finished imported products" (1981: 15). He further explained that throughout Sri Lanka's post-independence history, the wage goods sector and the capital goods sector were never properly integrated. Loganathan asserted that the open economy simply reinforced this dynamic and made it even worse: "While it is true that there has been an increased diversification of the economy led by construction, transport, banking, tourism and services, it certainly cannot be considered synonymous with 'balanced growth' that is capable of laying the foundation for self-sustained growth and development" (1980: 5-6). What was written in 1980 can be applied to today's situation. Even within export manufacturing, for example, garments have consistently composed over half of exports.

We must further contextualise contemporary developments in Sri Lanka in the restructuring of the global economy. As others have begun to point out, the crisis triggered by the COVID19 pandemic is merely a harbinger of massive changes, including the long-term unsustainability of a rapidly expanding capitalist global economy. These emerging trends are beginning to dramatically shift the world away from the neoliberal era toward alternatives that still only appear hazy. Yet rather than finding themselves discredited, neoliberals in Sri Lanka who are increasingly disenchanted with the regime are doubling down on the same arguments. The simplistic dichotomy between closed and open economies distorts the real nature of the problem.

Meanwhile, elements within the political Opposition echo the neoliberal approach. The simplest reason for this could be that the Opposition is looking for any stick it can use to attack the regime. The obvious choice appears to involve doing the opposite of whatever the regime is doing. If the regime claims to promote import substitution, for example, that is bad; and reaffirming the open economy is good. But any Opposition that seriously claims to want to move into government must demonstrate a far deeper understanding of our moment and its implications for policy.

At least in this regard, political pushback against this utopian style of neoliberal thinking may be slowly emerging. But we still need a stronger critique of the general paradigm of the open economy. We must identify clearly what has changed between now and the previous inflection point of 1977.

Accordingly, rather than comparing the current regime to Sirimavo Bandaranaike's government because of its nominal shift back to the closed economy of the 1970s, the better analogy is this: like Mrs. Bandaranaike's government, the current regime recognises that the global moment is rapidly changing, but it is unable to embrace the full consequences of a solution that it (along with the rest of the neoliberal

policy making elite) has opposed. Like the shift from the 1970s—when Mrs. Bandaranaike, who previously opposed liberalising measures, such as Free Trade Zones, eventually swung around to them because of the deep nature of the crisis she faced—in a parallel way the current regime is implicitly forced to acknowledge the end of the free market globalising paradigm without being able to offer the people a concrete alternative.

### **Re-Examining the Transition to the Open Economy**

We must clarify the appropriate historical analogy if we are to avoid making the same mistakes. For those who are inclined to reassert the opposition between the closed versus open economy, it helps to review early critical reflections on what J.R. Jayewardene did when he came to power. Mr. Jayewardene's policy in fact demonstrated continuity with what Mrs. Bandaranaike had attempted in the latter stages of her government.

Or as Mervyn De Silva wrote at the time: "While Mr. Felix Bandaranaike was drafting the Foreign Investment Guarantee Law, Dr. Seevali Ratwatte, then Director Export Promotion was working on the blueprint of the Free Trade Zone... These little ironies, seen in today's perspective, further reinforces the impression of logical extension and continuity between 1976-78" (1978: 5-6).

On the other hand, as Mrs. Bandaranaike shifted Right, the Left attempted to radicalise its approach. But the electoral coalition with the Sri Lanka Freedom Party constrained the majority faction of the Left. Because of its political choices, it found it difficult to present itself to the masses as a genuine independent alternative, capable of establishing a new type of economy, precisely when the "the complex of policies in place at the time, and the political forces associated with them, were inescapably delegitimised in popular perception" (Herring 1987: 327).

At the core of the effort was the Left's belated realisation that the country's problems could not be solved through industrialisation alone. Instead, the growing urgency to achieve self-sufficiency engendered a deeper appreciation of the need to engage in agrarian mobilisation. Mr. Jayewardene, however, was able to propose neoliberalism as the alternative solution because of the historic demobilisation of the Left, in addition to the problematic consequences of its previous identification with the government in power.

The parallel with today is that the Right, rather than the Left, has shaped the dominant economic consensus. It too does not see that it is increasingly isolated from the broader society. Unlike the Left of the 1970s, however,

the neoliberal right today is not even close to engaging in the type of self-critique that would enable it to propose a viable basis for a new regime of accumulation sustained by a class bloc. Like the earlier majority faction of Left intellectuals, neoliberal intellectuals became comfortable with power, confident that their prescriptions would be accepted by whichever was the government of the day. Suddenly they find themselves out of step; not, however, because of the regime, but because of tectonic shifts in the global economy.

In contrast, the task of the Opposition is relatively straightforward, in terms of the need to bring together socially diverse elements. In addition to the fact that the middle class is increasingly alienated, the Opposition's success or failure hinges on the way in which it articulates their grievances with the demands of a much broader mass base. Accordingly, a genuine attempt by the opposition to hold the regime accountable must not be premised on the mistaken belief that the regime is carrying out a 'left-wing' economic policy.

Attacking 'undeserving' public sector employees, for example, profoundly distorts our understanding of what could in fact be growing resentment and opposition to the likely cuts that will further radicalise struggles within the State sector, as evidenced by the most recent protests against the Kotelawala Defence University bill and the teachers' strike. The urgent need is to unify, not to divide this potentially wider social opposition, which is undergirded by the working people.

On the other side of the battle, rather than suddenly having discovered its anti-imperialist core, the regime has attempted to confront the changing reality with the inadequate tools at its disposal. Its overwhelming emphasis, for example, remains private sector-led investment to build a 'production economy.' But these tepid attempts to incentivise capital do not even begin to approach the scale of the crisis. In this regard, only an Opposition that can propose a much deeper transformation can win. Put another way, the Opposition must highlight and frame working people's grievances in a concrete attempt to identify these needs within an explicit vision grounded in the perspective of self-sufficiency.

### **Looking Back to Look Forward**

We must further clarify what we mean by self-sufficiency. This is not merely a question of trade and heterodox tools such as import restrictions. Instead, improving self-sufficiency requires a fundamental restructuring of the economy from top to bottom to address people's needs by using different mechanisms.

Whether this means redistributing land, including state-owned land, expanding the fiscal capacity of the state to guarantee loans to cooperatives and other local associations, rebuilding public distribution, and so on, depends on the concrete form of engagement between intellectuals and masses.

All these and other experiments with new modes of collective organisation represent critical attempts to think through the consequences of economic crisis. Similarly, the ‘New Deal’ in the United States of America (USA) during the 1930s, for example, represented a fundamental break with the prevailing economic orthodoxy. It shifted away from the perception of a self-regulating market to explicitly identify the ways in which markets require institutions.

This manoeuvre in theory created space for policy makers to envision a range of practical alternatives, some of which failed, but some of which still exist, such as social security. A similar project is again occurring today in places such as the US, as heterodox economists attempt to systematically draw out the implications of fiscal stimulus in response to the COVID19 pandemic. These efforts coincide with implicit and explicit worker resistance, along with legislative battles over the budget.

Of course, the economic measures of states cannot be divorced from geopolitics. In the case of the transatlantic alliance led by the USA and the United Kingdom during the 1930s and 1940s, it eventually became the basis for the Bretton Woods institutions. US geopolitical interests subordinated the International Monetary Fund and the World Bank to competition with the Soviet Union and the COMECON economies.

There is a danger that the contemporary shift in economic thinking in the USA could be similarly swamped by what human rights scholar Samuel Moyn calls the “reformism of fear”. Thus, there is a critical need to maintain an anti-war consciousness when embarking on a domestic reform agenda. These are problems for Left movements within their respective Western countries to consider; specifically, the intrinsic connection between domestic and foreign policy.

The possibility, however, is that if Sri Lanka can arrive at its own genuine solutions to its domestic problems, it may be able to help widen the field for bolder experiments within other similarly aligned Third World countries. Many countries are facing the prospect of an extremely unequal recovery from the current crisis. In this sense, Sri Lanka’s own attempts could be deeper and more far reaching than even those experiments within the West.

There has never truly been a structural transformation of the global condition of dependency since it was first introduced by European colonialism. In this regard, even countries predominantly in East Asia, which have improved their relative position within the capitalist world system have not transcended it. We must discover the alternative model ourselves, beyond whatever inspiration we may obtain from diverse sources. The model itself cannot be given to us by hegemonic actors. It requires a fundamental reappraisal of the choices that have led us to this point.

### Imagined and Real Alternatives

In the case of Sri Lanka, neoliberal ideology itself is not the cause of the problem. The driving force is the underlying decisions made by capital. But the prescriptions local neoliberals continue to offer could make the condition worse if they are taken seriously as the basis for constructing a political platform. Although neoliberalism is on the back foot globally, locally it still appears to have traction among sections of the Opposition. To this extent, it distorts engagement with the core challenge facing Sri Lanka. Analogies such as the meaning and significance of the transition of 1977 matter. It is extremely crucial we get the implications right.

Accordingly, this is not an abstract intellectual exercise. Carefully considering what the most appropriate analogy is, could lead to an Opposition that is either vigorous or hamstrung. Moreover, on a fundamental level, self-sufficiency is the only portal to a new, liveable order that can maintain its structural integrity under the enormous pressure of the current crisis. Self-sufficiency doesn’t mean Sri Lanka must close itself off from the world. Instead, it means that its leaders must confront the network of capitalist interests that dominates the country and prevents it from freely choosing the appropriate policies that work best for the people. In this deeper, more holistic sense, self-sufficiency is not about becoming autarkic or ‘closed off’. In fact, it requires confronting what the late sociologist Richard Lachmann called ‘autarkic elites’: those whose interests are so entrenched that they are unwilling to sacrifice even the smallest measure of power to save society as a whole. In this context, only by imposing a new compromise on the recalcitrant powers that be can Sri Lanka recover from economic depression. The alternative is either the ‘peace of the graveyard’ or a far more malevolent regime. In either case, both are disastrous for Sri Lanka.

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