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South Asia

# New creditors and new forms of debt peonage

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**The seventh CADTM South Asia regional workshop was successfully held in Colombo (Sri Lanka) from April 6 to April 8, 2018, with participants from Sri Lanka, but also from India, Pakistan, Bangladesh, Nepal, as well as from Japan, France and Belgium (for the CADTM International Secretariat). Around forty delegates, most of them being representatives of social movements (peasants' movements, feminism, trade unionism, etc.), came together for this three-day long programme.**

This workshop was not just a CADTM workshop: it would not have been made possible without the active participation and financial support of the Sri Lankan Law & Society Trust (LST) and Movement for Land and Agricultural Reform (MONLAR). As participants came mostly from Sri Lanka and the two main national groups – Sinhalese and Tamil – were represented, the whole meeting could be held in three languages (Sinhala, Tamil, English) thanks to a hard-working team of simultaneous interpreters.

## Sri Lanka in a political crisis

The meeting took place amidst a political crisis which has been unfolding in Sri Lanka since February 2018, as the liberal coalition made of the Sri Lanka Freedom Party (SLFP) and the United National Party (UNP), which is currently holding office in the national government, was largely defeated in the local elections. The right-wing Sinhalese nationalist Sri Lanka Podujana Peramuna (SLPP) was able to win a majority in 249 local councils out of 340, allowing former president and strongman of SLPP Mahinda Rajapaksa to come back to the forefront of national politics in the country while staying in the national parliamentary opposition.

After ten years in power, Mahinda Rajapaksa was defeated in the 2015 presidential election as his regime was taking an increasingly authoritarian turn after the final crushing (drawing on war crimes) of the insurrection led by the Liberation Tigers of Tamil Eelam (LTTE or Tamil Tigers) and against a backdrop of nepotism and corruption. Since then, his former ally Maithripala Sirisena has been holding the presidential office. While he was elected as he had promised to implement democratic reforms and to put an end to corruption, he did neither the former nor the latter. Rather, he continued implementing a neoliberal agenda which mainly took the shape of developing public-private partnerships – a common ground between the SLFP (which has a social-democratic façade) and the UNP (which is aggressively neoliberal), where both camps can claim to have secured their respective ideologies.

President Maithripala Sirisena now has to cope with a weakened government alliance as the SLFP and the UNP shift the blame on each other for their failure. In the meanwhile, far right groups organised around Buddhist fundamentalism felt encouraged enough by the SLPP victory to organise targeted attacks against Muslim communities.

## Sri Lanka's public debt policies

The workshop started with a presentation of some outlines of Sri Lanka's public debt policies. [1] Sri Lanka's total public debt now represents 81.6% of its GDP and amounts to around 7 trillion rupees (or US\$ 47 bn.), forcing the country to spend most of its revenue for debt servicing. The external public debt amounts to 36% of the country's GDP, with multilateral and bilateral debt representing almost two third of it. With the private external debt (mostly

owed by private corporations), the total external debt amounts to 57% of GDP, causing concern over the capacity to repay it given the relatively low income of Sri Lanka and its regular currency depreciation.

As far as multilateral creditors are concerned, Sri Lanka is a member of the IMF, the World Bank and the Asian Development Bank, thus accepting to contract loans in exchange for implementing the structural adjustment required by the IMF. In accordance with the IMF requirements, Sri Lanka developed an export-led economic model and is pushed to privatise its state-owned enterprises. Implementing public-private partnerships is part of the privatisation process. Despite these measures, Sri Lanka has highly negative balances of trade and payments and is hence being caught in a debt trap. Sri Lanka has been unable to attract enough investments to develop its economy and cope with its high level of public debt. So far, the main element which keeps the economy floating is the remittances sent by Sri Lankan nationals working abroad, which now exceed yearly US\$ 7 bn.

The IMF signed a first loan agreement with Sri Lanka in 2009. The Mahinda Rajapaksa government initially did not want to take a loan with the IMF because of the conditions attached to it. Not because he was against these conditions at such, but because implementing them would have shrunk the state sector, hence diminishing the corrupt government's ability to fund and support its followers. Eventually, the Mahinda Rajapaksa government accepted the loan as it needed some funds for the military expenditure to finally crush the Tamil Tigers' resistance in 2009 – the IMF loan may not have been used directly to fund the military expenditure, but it allowed the Rajapaksa government to at least use its other sources of income for military expenditure. Such debt policies were not only led by the precedent regime – in 2016, Maithripala Sirisena's government signed another loan contract with the IMF for nearly US\$ 1.5 bn.

Historically, Sri Lanka took loans mostly from the World Bank, from Britain and from the Netherlands. In the last ten years, there has been a shift from the traditional creditors towards new ones. Sri Lanka started to borrow funds from the financial markets and corporate banks. This entails risks as the interest rates are higher and the repayment periods are shorter. China, India and Russia became bilateral creditors of Sri Lanka under the Mahinda Rajapaksa government. Not only do these emerging powers not impose the conditions of macroeconomic adjustment that are being pushed by powers from the Global North in accordance with the IMF criteria, but they were also less demanding than Britain or the Netherlands regarding Sri Lankan accountability for human rights' violations (however purely esthetical such demands may be). Within ten years, China became the top bilateral creditor of the country. This dependency enables China to get a foothold in the Sri Lankan economy in order to push forward its own strategic interests.

The new loans are mostly used to repay previous ones. As far as investments are concerned, the government mostly uses the public debt to develop infrastructure, which allows for high returns to the top bureaucrats through the payment of commissions – something a school or a hospital can't do. The repayment of Sri Lanka's public debt and the implementation of IMF-backed policies cause serious damage to the Sri Lankan economy and population as it prevents the state to invest in the productive sectors in order to develop an import substitution model and modernise the country's economy (where 80% of the population is rural, yet agriculture accounts for 8% of the GDP). It also prevents the state from funding correctly the public education and health sectors. Hence these sectors rely more and more on private funds from the service users.

## Chinese loans and investments in South Asia

The participants in the workshop discussed the aggressive lending policies and foreign direct investments of China in South Asia (Pakistan, Sri Lanka, Bangladesh and Nepal, with India being less affected by such predatory policies because of the cautious aspect of its relations with China, which is its major rival as an emerging power in the region

and former enemy). On the contrary to the lending policies of the international financial institutions such as the IMF or the World Bank, the Chinese loans do not entail conditions of structural adjustment policies. However, they generally come with Chinese direct investments in the debtor countries. These investments, targeting in priority the sectors of energy and natural resources, are often criticised because of the labour rights violations and negative environmental consequences they imply. Chinese companies use a Chinese labour force organised in a barracks-like workplace, hence these investments do not benefit much the recipient countries. What's more, the loans are more than often backed to national assets such as natural resources, which would enable China to grab even more sovereign resources of debtor countries if the latter declare a default of payment.

China's current development strategy reaches far beyond South Asia as it is being implemented in the broad framework of the One Belt, One Road project (OBOR, also called Belt and Road initiative). Hong-Kong based social activist Robin Lee describes OBOR in the following way: "OBOR comprises the Silk Road Economic Belt (SREB), linking China and Europe through Central Asia and the Middle East, and the 21st Century Maritime Silk Road (MSR) to Africa and the Pacific. The aim is to build trade and infrastructure networks, taking advantage of international transport routes, core cities and ports." Robin Lee adds: "Key areas of construction and investment are in ports, power stations, oil and gas pipelines, railway lines, roads, bridges, internet networks and agriculture." [\[2\]](#)

China is aggressively exporting capitals on a global scale with the objectives of building and/or controlling major trade routes and gaining strong footholds in as many domestic markets as possible. This raises concerns over the social and environmental impacts of the project as well as over the relations of domination that this will create over less developed countries.

Within the South Asian region, Pakistan is the country where the OBOR framework has been the most developed until now, because the China-Pakistan Economic Corridor (CPEC), which is part of the OBOR framework, predates the latter. The CPEC is one of the six economic corridors (all six of them running through Asia and Europe) included in the OBOR project and "runs for 3,000 kilometres from Kashgar in western China to the port of Gwadar in Pakistan. Along the corridor huge infrastructure projects, including roads, railways, and power plants and an optical fibre network are either being built or planned to be built, and are largely funded by Chinese capital and loans." [\[3\]](#) Gwadar is a deep water sea port with direct access to the Arabian-Persian Gulf, whose access to and control represents a geostrategic asset in order to gain an easy access towards the Arabic peninsula and Africa. The port is now operated by a Chinese state-owned enterprise. The CPEC is heavily burdening Pakistan with external debt from China, at a time when Pakistan's public debt is causing high concern – the country recently had to mortgage national assets such as highways and airports to raise loans from various international financial institutions. [\[4\]](#) Chinese companies working on the CPEC project do not team up with Pakistani companies and bring their labour force from China. At the same time, they benefit from tax exemptions and from violations of market procurement rules, with China blackmailing Pakistan over the latter's liabilities towards China in order for Chinese companies to get contracts.

One of the recent infamous cases of China's predatory policies in South Asia was related to Sri Lankan infrastructures in Hambantota, a town in the South of Sri Lanka. Chinese state-owned enterprises built a deep water sea port in this town and renovated an airport nearby. As both have been barely used until now, they have provided heavy losses for the Sri Lankan authorities running these infrastructures, as they had to repay the debt they owe for the constructions. In 2017, China and Sri Lanka signed an US\$ 8 bn. debt-to-equity swap, giving a Chinese state-owned enterprise a share of 70% in the harbour to operate it on a 99-year lease! When announced in 2016, this debt conversion sparked a wave of protests in Sri Lanka over China impinging on the island's sovereignty. However, the protests only succeeded in making the Chinese stake in the port operating lower than the initial 80% share which was planned. There is no doubt that China will be able to develop the port in order to use it as much as possible in its OBOR strategy... without much benefit for Sri Lanka.

# Corporate debt and the banking sector

Before the participants went on to discuss the issue of private debts, the – not so positive – prospects about the global financial situation of corporate debt – and the risks it entails for the real economy – were discussed. [5] Since 2010, the policies of low interest rates implemented by the central banks have allowed the big corporations to strongly increase their borrowings from the financial markets through the issuance of corporate bonds. In the United States, the debt of non-financial corporations has increased by US\$ 7,800 bn. (this represents around seven times the total Indian public debt)! These huge debts do not create any real value as they are not invested in productive activities. The big companies use this borrowed money to buy back their own shares. In this way, they can remunerate their shareholders without them being taxed on an income. This also helps increase the price of these companies' shares.

Thus the companies' value on the stock markets increases artificially, without any relation to their situation in the real economy. A huge stock market bubble has been developing over the recent years. What's more, these big corporations also use the borrowed money to buy the debt bonds issued by other actors (other corporate bonds, derivative products such as asset-backed and mortgage-backed securities, public actors' bonds such as municipalities') on a very large scale: the thirty main US non-financial corporations that act on the debt markets hold a total of US\$ 423 bn. of corporate debt and commercial paper securities, US\$ 369 bn. in public debt and US\$ 40 bn. in structured products such as asset-backed and mortgage-backed securities. Big corporations are seeking high returns and thus have a tendency to invest in fragile companies' debts. If these smaller companies were to default, this could easily create a chain reaction leading some big corporations to default as well. This corporate bond market bubble could explode quickly if the central banks decide to increase their interest rates.

The case of India illustrated the risks linked to the big corporations' debt. [6] The recent Punjab National Bank scam, where a diamond tycoon, Nirav Modi, in collusion with bank officials, was able to defraud India's second largest bank of US\$ 1.77 bn. This highlighted the lack of control exerted by the governmental regulatory agencies. This scam was not an isolated case, and the current situation of non-performing loans (NPLs, also known as non-performing assets) in Indian banks is revealing of the abusive behaviour of big corporations. The NPLs now stand at US\$ 145.6 bn. or 12.6% of the total loans. These NPLs are largely due from large business conglomerates. In India, the public banking sector dominates the banking industry, and it is the most concerned with these NPLs. The top capitalists and central government right-wing leaders use this opportunity to denounce the supposed inefficiency of the public banks and advocate for the privatisation of these public banks. In truth, these NPLs are largely due to crony capitalism in the country, where important loans were distributed unabatedly to politicians and business conglomerates supported by those in power.

Some of the big borrowing corporations are now willingly defaulting because they know they can get away with it and the government, which supports these wilful defaulters, will recapitalise the banks with public money, hence socialising private losses. The way forward is not the privatisation of these public banks, but their transformation from private-like managed banks into real public banks taking upon themselves the delivery of a service given to the public. The controls and regulatory powers of the public authorities should be increased and respected. Furthermore, we should struggle towards the socialisation of the banking sector, where the citizens, public authorities and the banks' employees would decide together on the banks' policies.

## Microcredit in Sri Lanka

The situation related to the microfinance in Sri Lanka is extremely alarming, displaying the most perverse effects of microcredit loans. In the North and East of the country (Tamil-majority areas which were the most affected by the long civil war), microfinance did not exist until the end of the war in 2009. In these areas where many households'

breadwinners died and where people lost their homes and lands because of forced displacement and destructions, microfinance developed rapidly after the end of the war (while it continued its development in the rest of the country), making its effects particularly felt and visible. Similar to the rest of the world and in particular the Global South, microcredit loans were introduced as the best solution for resilience and development. And as in the rest of the world, microcredit loans actually brought more despair and marginalisation.

While microcredit loans were advertised for as small loans enabling poor people to become entrepreneurs, manage some small businesses and get out of poverty, it is clear that microcredit borrowers in Sri Lanka take the loans to finance basic needs such as consumption necessities, health and education expenditure, or paying their rent. As in the rest of the world, the outstanding majority of the borrowers are women who work in the informal sector, thus having little or no revenue. Many of them did not have access to the terms and conditions of the loans when they signed the contracts; most of them do not know what are the interest rates of their loans, and are only aware of the amounts they are supposed to pay back on a regular basis. Even when they are told about the interests they are supposed to pay, the microfinance agencies tell them about the official interest rates, which stand around 20 to 28%. Such rates are abusive, but the real interest rates are even much higher.

Average real interest rates are clearly abusive as they stand around 60 to 70% (the rate can be more than 100% in some cases). This can only lead to borrowers being caught in a debt trap, even more so given their lack of income. In order to repay their debts, the victims of microcredit have to contract numerous additional loans from other microfinance agencies, from neighbours or from usurious money-lenders ("loan sharks"). One argument which was used to promote microcredit was that it would put an end to the existence of such loan sharks. In fact, it gave birth to whole networks of these.

Given the harassment of the creditors and the social pressure of the borrowers' families, friends and neighbours, default rates are very low. In order not to default, the victims make huge sacrifices which endanger their lives and their families' lives, such as mortgaging or selling their houses or their lands (on which vegetables can be cultivated) when they have some, or not feeding themselves.

In Jaffna, the main city in the North of Sri Lanka, women victims of the microcredit scam organised a demonstration which gathered more than 2,000 protesters. They demanded the implementation of a moratorium over their loans, or even their cancellation, as well as the introduction and expansion of other forms of just and regulated credit. Some of the victims try to build alternatives to microcredit through the creation of cooperatives. The microcredit resistance movement does not yet have an important momentum, but it brings hopes for the future as the discredit of microfinance seems to be more and more widespread in Sri Lanka.

## Perspectives for debt resistance in the region

Other themes were presented and discussed during this workshop, such as the precarious situation in which peasants from Sri Lanka, India, Pakistan find themselves because of neoliberal policies which led to their indebtedness; the concerns caused by current multilateral development banks and the shape that a real development bank could take; or the issue of student debt in Japan.

Perspectives of concrete actions against illegitimate debts were brought out. On the scale of Sri Lanka, a network is going to be set up to work on these issues, and in particular against microcredit. CADTM members highlighted the perspective of victims of the debt scam and of activists coming together to audit public and private debts, including microcredit, in order to suspend the payment and repudiate illegitimate debts. This would require strong organising in

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order to face the creditors and the public authorities, and we hope this workshop was a step towards this objective.

The fact that multiple activists, coming from different countries and engaged in various struggles towards peoples' emancipation, came together to discuss debt policies during three days, is a success in itself. Capitalism and the debt system it entails know no borders – it is therefore necessary to unite on an international level to fight them!

This text is mostly based on inputs made by various participants – in particular Sushovan Dhar, Niyanthini Kadirgamar, Abdul Khaliq, B. Skanthakumar, Éric Toussaint – to the 7th CADTM South Asia workshop from April 6 to April 8, 2018, as well as on discussions we had with Sri Lankan women victims of microcredit on April 11, 2018. Many thanks to all of them.

17 April 2018

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[1] <http://www.cadtm.org/Sri-Lanka-IFI-s-External-debt-and>

[2] [China's overseas expansion – An introduction to its One Belt, One Road and BRICS strategies. URL: http://www.cadtm.org/China-s-Overseas-Expansion-An](#)

[3] Ibid

[4] <http://www.cadtm.org/Is-Pakistan-falling-into-China-s>

[5] <http://www.cadtm.org/The-mountain-of-corporate-debt>

[6] <http://www.cadtm.org/Crony-capitalism-looms-large-on>