

Made in Sri Lanka, Taxed in America, and Failed by the IMF

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On 2 April 2025, U.S. President Donald Trump announced the 'Liberation Day' tariffs, imposing trade measures on partners across the globe. The policy included a baseline 10% tariff on all imports, along with strict, country-specific 'reciprocal tariffs' aimed at reciprocating tariffs the countries have placed on American exports. Sri Lanka, a nation heavily reliant on apparel exports to the U.S., was hit with a staggering 44% tariff. The move has sent shockwaves through the island nation's ready-made garment (RMG) industry, a sector that employs 15% of the country's total industrial workforce, many of them women, and contributes significantly to export revenue and GDP (*Sri Lanka Export Development Board 2025*). Beyond the garment sector, the economic ripple effects could be wide and deep. A decline in apparel exports would strain Sri Lanka's foreign exchange earnings, widen its trade deficit, and put downward pressure on the rupee. A weaker currency, in turn, raises the cost of imports, leading to higher inflation and pushing up the cost of living. The combined effect of job losses, declining export earnings, and rising costs could push Sri Lanka from an already fragile position into an even deeper economic and financial crisis.

'America first' or economic fallout? Unpacking Trump's tariff war

Trump's decision to impose sweeping tariffs, even on 'friendly countries' like Sri Lanka, is best understood through the lens of right-wing populism and the structural crisis of U.S. capitalism. His political strategy has consistently relied on right-wing populism, which thrives on nationalist rhetoric, economic protectionism, and portraying foreign nations, whether allies or rivals, as economic threats to American workers. By imposing tariffs indiscriminately, Trump reinforces his image as a defender of U.S. manufacturing and jobs in the face of globalisation. He has capitalised on popular anger, particularly among his working-class voter base, while

conveniently ignoring the role played by powerful American businesses/companies in exploiting free trade rules to offshore their operations in pursuit of higher profits, a practice that is a direct result of capitalist incentives and the neoliberal economic policies that have encouraged such behaviours (O'Connor 2020). Moreover, Trump has distorted the public's understanding of the issue by framing it as if other countries were 'taking advantage of' and 'ripping off' the United States (Dillon 2018). This tariff war allows Trump to maintain political legitimacy by demonstrating his commitment to 'America First' policies, even if they disrupt long-standing economic relationships (The White House 2025).

From a systemic perspective, the tariff war can also be understood within the logic of capital, particularly the tendency of the rate of profit to fall, a key contradiction in capitalism identified by Marxist economists (Harvey 2010). Over the past several decades, U.S. capitalism has faced profitability crises as results of outsourcing manufacturing to cheaper labour markets, technological advancement, etc., and the country has continued to rely increasingly on financial speculation, debt-driven growth, and geopolitical strategies to sustain profits (Foster and McChesney 2012). In this context, protectionist tariffs function as an attempt to reconfigure global trade in favour of U.S. capital by extracting better trade terms through economic coercion. Even tariffs on friendly nations serve this broader strategy: they pressure foreign exporters to absorb costs or negotiate concessions that ultimately benefit U.S. capital.

When neoliberal dreams meet Trump's tariff nightmare

Trump's tariff war, especially the harsh 44% tariff on Sri Lanka's exports, vindicates left-wing criticisms of the National People's Power (NPP) government's reliance on IMF-backed neoliberal prescriptions and an export-led growth model. The NPP government's 2025 Budget forecast depends heavily on a recovery in

export revenues, especially from the apparel sector, to support fiscal consolidation and fund essential public services. According to Sri Lanka's latest trade and export policy, the government aims to achieve an annual export revenue of 18.2 billion USD by 2025, with the apparel sector projected to be the main driver, targeting 5.2 billion USD in earnings (Rizkiya 2025). However, with Sri Lanka's biggest apparel market now effectively closed off by a 44% tariff, those export projections are rapidly becoming unrealistic. This confirms what the Left has long argued: that an economy tied to external demand and global capital flows is inherently unstable, particularly when it is subjected to imperialist trade policies and the whims of powerful countries like the U.S. (Chang 2002; Rodrik 2007). Instead of insulating the country from external shocks, the IMF's neoliberal export-driven framework has made Sri Lanka more dependent and vulnerable.

Moreover, the IMF programme is predicated on restructuring Sri Lanka's sovereign debt, largely held by foreign creditors. To gain their confidence, the government has been forced to commit to ambitious fiscal targets through increased revenues from exports (Fitch Wire 2025). However, with those revenues now threatened, Sri Lanka risks failing to meet its budgetary and debt servicing goals, jeopardising the restructuring process and risking more instability or even default. This highlights another core left-wing critique: the loss of sovereignty under IMF-led restructuring, where domestic priorities are subordinated to the demands of creditors and global markets (Stiglitz 2002).

Conclusion

Trump's tariff war does more than cause damage to Sri Lanka's export economy. It exposes the deep, structural flaws of IMF-led neoliberalism. As Ha-Joon Chang (2002) argues, wealthy countries like Britain and the United States industrialised through heavy use of protectionist policies and state intervention, only to later 'kick away the ladder' and put pressure on developing countries to adopt free trade. Chang rejects the neoliberal claim that 'There Is No Alternative', stressing instead that globalisation and economic development are shaped more by policy decisions than by technological inevitability (Chang 2007).

The Left builds on this critique by arguing that successful development stories have not emerged from free-market orthodoxy, but from a pragmatic mix of protectionism, state-owned enterprises, and strategic flexibility. For instance, South Korea's rapid development involved strong government direction, industrial policy, and a selective approach to globalisation (Chang 2002).

They also reject trickle-down economics, which Thomas Piketty (2014) has shown to deepen inequality rather than promote shared prosperity. Dani Rodrik (2007) similarly demonstrates that countries that opened their economies gradually and on their own terms experienced more stable and equitable development than those that followed full-blown liberalisation under IMF or World Bank pressure.

Critics like Stiglitz (2002) and Chang (2007) warn that free trade, in its current form, tends to prioritise short-term gains in consumption while undermining the structural foundations of long-term development. It often exacerbates inequality and erodes domestic industries. At the same time, international financial institutions such as the IMF apply a double standard: while advanced economies deploy fiscal stimulus and monetary expansion during economic downturns, developing countries are pressured into austerity. These measures, such as raising interest rates and cutting down on public spending would directly suppress investment, growth, and employment (Stiglitz 2002; Weisbrot *et al.* 2009).

In this light, the 'Liberation Day' tariffs on Sri Lanka are not just an economic occurrence but a political turning point. They lay bare how externally dictated and vulnerable the current neoliberal model truly is. It is a wake-up call for the National People's Power government. The Left's long-standing argument now resonates more urgently than ever: real recovery cannot come from chasing volatile export markets or depending on foreign loans. Instead, it requires rebuilding economic sovereignty through domestic production, food and energy security, and democratic control over fiscal policy.

In a world increasingly shaped by protectionism and economic nationalism, Sri Lanka must rethink its path. The pursuit of export-led growth at the expense of national resilience is no longer defensible. A development model rooted in equity, sustainability, and autonomy is not just possible, it is crucial.

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