

Impact of globalization on international trade in sri lanka



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Globalization is a phenomenon referred to by the World Bank as the Growing Interdependence of countries resulting from the increasing integration of trade, finance, people, and ideas in one global marketplace. International trade and cross-border investment flows are referred to as the main elements of this integration. Whilst the definition remains an enigma given varying interpretations by a multitude of sources this paper attempts to assess the impact both positive and negative it has had on International Trade in Sri Lanka with special emphasis on the ' 2nd Era of Globalization which began in 1989 at the end of the cold war period.

Globalization and International Trade in Sri Lanka

Sri Lanka's economic liberalization policies in the late 1970's in the midst of the cold war era gave it a head start against the regional economies for better integration and reap the benefits of the ' Second Era of Globalization' which was primarily driven by the revolution of technology and communications.

Drivers of Globalization through its current course globally are Technology, and Liberalization of Trade. As stated above Sri Lanka's Liberalization policies made it possible for inflow of Technology to attain readiness for the 2nd era as it were.

Whether Sri Lanka did reap the benefits or not remains debatable, though from a trade openness perspective amongst the South Asian Regional Economies Sri Lanka stood 2nd only to Maldives in terms of Trade as a percentage of GDP at 63% in 2008 (<http://databank.worldbank.org/>) the common indicator used to gauge openness in trade. However, it should also

be noted that Sri Lanka's Trade Openness over the period 1989 to 2008 has fluctuated to the extent that in 1989 it stood at 64% peaking out at 89% in 2000 before coming down to its current level. The peak is significant to the degree that it was in 2000 that Sri Lanka showed an increase of 21% in its export earnings which is one of highest during the decade (Table 1. 1 & 1. 2).

Global Financial Crisis

Globalization leads to interdependency of nations, and Sri Lanka to some extent was a victim of such interdependency leading to its vulnerability during the recent Global Financial crisis. So much so that three months of foreign reserves that prevailed at around September 2008 depleted down to extremely low levels driven by withdrawal of FDI's and decline in its export prices. However, austerity measures flavored with controls and barriers to trade such as strict foreign exchange controls adopted by the country adequately aided by an IMF Loan and the conclusion of the war mid 2009 allowed the country to sustain itself through the crisis.

Sri Lanka's War

The growth in strength of the Liberation Tigers of Tamil Ealam which wreaked havoc in Sri Lanka for over three decades was a movement fostered by Sri Lanka's neighbor India. This was a direct result of cold war era of globalization when in 1977 Sri Lanka aligned itself to the western sphere of influence whilst India followed a completely opposite policy. The LTTE further benefitted from the 2nd Era allowing it to manage it's funding through globally integrated financial systems, and then progressed further with countries liberalizing shipping via flags of convenience for it to acquire ships

for transport of its procured arms. Much has been written about the complex web of LTTE's funding network and need not be re-iterated.

Until the 'Globalization of Terror' the negative globalization phenomena post 9/11 successive governments of Sri Lanka had to bow down to international pressure in staying away from a military solution to the LTTE issue which as evident at the conclusion of the war seems the only way Sri Lanka could have resolved the LTTE issue. Essentially, impositions brought about other nations leveraging the interdependency Sri Lanka has on such countries was the key in Sri Lanka not pursuing a military solution for a long period of time.

Benefits of Globalization

Opens new markets and allows countries to gain from their 'Comparative Advantages'

Greater Choice at a lower cost to Consumers

Contributes to Eradicating poverty

Enables Reaping of benefits from Specialization

Disseminates Technology Benefits

Opens new markets and allows countries to gain from their 'Comparative Advantages'

Looking at Export Data from Central Bank of Sri Lanka (Table 1. 2) it is evident that during the period 1989 to 2008 there has been definitive growth except in 2001 where a decline in Trade as a percentage of GDP showed its roots. There are two produces that Sri Lanka can lay claim to having a

comparative advantage The Apparel Industry which is a recent advent and historically Tea. This paper will discuss in detail impact of Globalization and Trade Liberalization on the Apparel Industry, however from a pure statistical perspective both produces during the ' 2nd Era' has shown growth in value terms.

Greater Choice at a lower cost to Consumers

The increase in choice for the Sri Lankan consumer in all spheres over the period of liberalization has increased to a great degree and need not be reiterated. However, on the down side the Consumer Price Index (CPI) as a factor has continued to rise.

To be noted is that percentage; increase in CPI in 2008 Y-o-Y outweighed the percentage growth of Per Capita GNP (Table 1. 3). At the same time Trade as a % of GDP reached its lowest level since 2000 in 2008 as well (Table 1. 1).

The key factor that govern Sri Lanka's official CPI worked out by the Department of Census and Statistics as of 2008, is where Food, Beverages and Tobacco has a 71. 2 % weightage. Food essentially an agricultural commodity has protectionist measures as government policy, though tariff measures are still within the WTO bounds. Also to be noted is that successive governments have used lowering of tariff in order to bring down inflation as an when political expediency required it to do so. An example is the imposition / de-imposition of tariffs on rice imports based on cropping seasons suggesting that the Sri Lankan consumer on the longer run could have benefitted more if protectionist policies in Agriculture was not practiced.

Benefits of Globalization is evident though in food production itself, there has been attempts successfully at that in bringing in high yield varieties of food crops, and technology innovations in optimizing the diminishing labor force in agriculture a distinct result of the industrialization of the nation due to the globalization by use of tools. CIC Agri Foods as a private enterprise and large scale farming of fruit crops are examples of which has brought about an increase in quality of food products to consumer.

However, the most visibility arising out of Liberalization in towards greater choice at a lower cost in Sri Lanka has been in the services sector, particularly in telecommunications where the only fixed line operator permitted was government owned Sri Lanka Telecom, liberalization increased the consumers choice to five operators today, at the beginning of the 2nd era in 1989 there were only two mobile operators which has increased to four quite a number for a country which is geographically small and a population of only 20 million.

Contribution to Eradicating poverty

Sri Lanka today ranks highest amongst the South Asian countries in terms of Social Indicators (ADB Fact Sheet Sri Lanka). As it is in Trade as a % of GDP, Sri Lanka's ranking in Human Development Index (HDI), as well as in the Human Poverty Index (HPI) is second only to Maldives amongst the South Asian Nations when considering 2007 Data. A co-relation of these indicators is evident (Table 1. 4).

Reaping Benefits of Specialization – Sri Lanka's Apparel Industry

Sri Lanka as a country benefitted tremendously from the Multi Fibre Agreement (MFA), making use of a comparative advantage in terms of the quota system that prevailed under the MFA, Sri Lanka went into a process of specialization in Apparel Manufacture. This specialization stood in good stead at the time of liberalization with the sunset of MFA end 2004. At the completion of the Uruguay round where it was agreed to phase out the quota restrictions by end 2004, Sri Lanka went into top gear in making sure the advantages of its specialization in the Apparel industry is reaped, by moving ahead in Innovations in Marketing, Product, Processes and Organizational Methods to be ready for the liberalization coming in at the end of the MFA era.

Increasingly the Global Consumer has shown awareness and want to understand the conditions under which goods they consume are made in, specific to labor utilized to manufacture these goods and the impact to the environment. Sri Lanka boasts of stringent laws governing child labor, discrimination, and protection of the environment. Originally, looked at as a negative by most investors the Apparel industry leveraged these by marketing itself globally to position products from Sri Lanka as ' Garments Without Guilt'.

In fact in recognition of its protection towards workers rights and environment Sri Lanka benefited from European Union's (EU) liberalization of its tariff's via the GSP + scheme in 2005 which allows Duty Free access to the EU market place.

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With exposure to global markets derived out of the Apparel Industry, the Apparel Industry adopted Corporate Social Responsibility (CSR) efforts, which has helped itself in terms of image building within Sri Lanka itself thereby ensuring that local labor views its employment in the industry positively, and on the other side of the coin, global buyers itself has begun to partner local manufacturers in such CSR programs benefitting the society as a whole in Sri Lanka. One of the leading manufacturers in Sri Lanka MAS whose 'MAS Women go Beyond' program has in fact won accolades winning the UN Global Compact award as an exemplar of best practices in labor management.

Given, lapse of the MFA Sri Lanka was no longer protected by the quota system, as such rising costs of production meant it needed to move up the value chain and diversify its markets. In order to move up the value chain by passing the 'Buying Offices' the manufacturers sought to establish direct links with the buyers and some of the larger manufacturers opened offices in the US and further, established its own design centres. This resulted in further specialization of the industry with design innovations coming to brand owners from the Sri Lankan manufactures in partnership. A classic example is the development of the Nike's revolutionary Sports Bra developed by MAS in partnership with Nike and the Hydrodynamic swimsuit worn at the 2004 Athens Olympics which was developed in partnership with Speedo.

MFA sunset has also resulted in diversification from Sri Lanka's traditional markets, in year 2000 US accounted for 63% of Sri Lanka's apparel exports,

by 2008 it has dropped to 50% and EU's share had increased to 40%, showing liberalizations impact in opening up new markets.

Additionally, manufacturers from Sri Lanka leveraging its specialization advantage and has innovated themselves to develop its own brands into newer markets competing with Global brands. ' Amante' is an example of a Sri Lankan manufacturer competing itself with a global brand such as ' Triumph' in the intimate apparels market in India.

One of the major impacts of globalization on the Apparel Industry in Sri Lanka is its quest to become a Total Service Provider, from design to development, sourcing to manufacturing. Such vertical integration has led to manufacture of product components in Sri Lanka itself thereby increasing flexibility and speed in product delivery to its customers. However, in this sphere of activity progress has been poor except in few areas such as Elastics and accessories. The major component of apparel manufacture, Fabric to a large part remains sourced outside, despite government incentives in terms of Tax Holidays and Duty Free facilities for setting up of such ventures. A key benefit of liberalization that has impacted the garment industry positively is the liberalization of textile imports despite domestic pressure to safe guard local industry. Given this the industry has had access to top quality fabric from any markets in the world for its production.

To enhance its specialization another key areas of focus has been in process improvement, collaboration of investors / buyers has resulted in the development of lean manufacturing methods which are unique to the needs

of the industry. MAS Operating System (MOS) based on the Toyota production system adopted by MAS is one such example.

From a technology standpoint Sri Lanka's Apparel Manufacturers are second to none, from CAD / CAM systems to implementation of ERP systems has enabled them to enhance supply chain management.

Spillover effects of technology adoption and process improvements where Foreign Direct Investment has played a key role is the transformation of the apparel industry into a knowledge based industry. Today, most regional manufacturing efforts in apparel are managed and guided by Sri Lankan experts. Bangladesh is an example of such Sri Lankan expertise, the 6th largest exporter of apparel to the US and EU benefits from Lankan Clothing Management Institute in Bangladesh a Sri Lanka Bangladesh collaboration to develop skills in management and manufacturing.

In conclusion it is evident that Sri Lanka's Apparel Industry has benefited from Trade Liberalization, arising out of the Globalization phenomena, where lapsing of MFA which originally brought about fears of death knell to an industry has in fact brought about a positive impact which is evident from the growth of Apparel exports from Sri Lanka in value terms (Table 1. 2).

Dissemination of Technology Benefits – Sri Lanka's Software Development Industry

Technology benefits arising out of Trade Liberalization is a process that started for Sri Lanka since 1977, at which point the only presence of Technology in the country was by means of mid range systems present at the University of Peradeniya an archaic system based on punch card

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technology, and a couple of IBM based systems at key Government departments and an ICL midrange system at State Engineering Corporation. As for mercantile establishments who had technology implementations, it was limited to a few of the Banks and two organizations providing third party Bureau services to the rest of the community.

However, liberalization of varying sectors of the economy including telecommunications in 1996 and the expansion of FDI's into the country has brought about a complete transformation to what it is today. With liberalization it became a necessity for almost all sectors specially trade-in-services in Sri Lanka to embrace technology to stay competitive from a qualitative and cost perspective, and an overflow of this was the expansion of the ICT industry itself focusing the government to identify areas in ICT such a BPO and Software Development as key drivers for export earnings, so much so from modest export earnings of \$166 Million in 2006(<http://databank.worldbank.org/>), the target set from the sector for 2012 is \$ 2 Billion (Board of Investment Sri Lanka Investor Services Brochures).

Some random indicators of technology adaptation which to a great extent is an overflow from liberalization could be seen in the following table (Table 1. 5).

As stated above one of the key developments from the technology spill over is Sri Lanka's entry in to the Software Development and exports of Software Services. Incentives offered by the government in terms of lifting of trade barriers such as tariff on computers, and liberalization of tertiary education

to some extent where foreign institutes are able to setup centers of learning with accreditation to overseas institutes has spurred on the industry so much so that comparison of periods between 1992 to 2000 (1st Period) and 2001 to 2009 (2nd Period) by Board of Investment approved ICT companies makes interesting reading. FDI in ICT companies during the first period amounted to LKR 1, 004 million whilst for the second period it was a whopping LKR 8, 214 million (Table 1. 6).

Some of the success stories of Sri Lanka's Software Industry saga may not be as mind boggling as it is in a country such as India, but one which is can be directly attributed to Capital Market Liberalization in 1991. Millennium IT a local software outfit entrusted in development of the Stock Market application for the Colombo bourse, pursued its specialization to an extent that it became one of the key suppliers to Stock Exchanges around the world specially in the developing nations. Today, it is owned by the London Stock Exchange a buy out deal which is reported to have been around UK Pounds 18 Million, with investment into the company amounting to around UK Pounds 50 Million (Computerworld UK Sep 16, 2009).

Conclusion

Benefits of Globalization and Liberalization arising out of same to Sri Lanka have been many. It has given rise to development of trade specific to exports, growth of Per Capita moving Sri Lanka to the status of a middle income earner and evolution of new industries be it in goods or services such as the Apparel and ICT Services industries widening its spectrum of assets, whilst opening up new markets.

Whilst one could argue that without its three decades of war Sri Lanka would have benefitted a lot more from the Globalization phenomena, a counter argument in this instance is that the war itself was a product fostered by Globalization and interdependency of nations arising out of it.

Sri Lanka's war certainly stemmed the anticipated growth of a country through liberalization. To a great extent the mitigation of benefits from Globalization due to the war seem to have driven Sri Lanka to take the middle path of liberalization which in turn helped it survive the Global Financial crisis.

As such Sri Lanka like most nations is delving in the dichotomy that globalization brings about, and more than ever it is evident is that a mixed approach to Globalization and managed liberalization would help the nation through its next phase of development minus the war.