EXPORT ORIENTED INDUSTRIALISATION

by
Godfrey Gunatilleke

Our relationship with the world, depends to a great extent on the kind of economic imperatives which we have to face in the 90's. The first priority for Sri Lanka is how it can absorb it's work force. This has been really the problem, right through the 60's and even into the 80's. We have an unemployed rate estimated at around 18 to 20 percent of the total work force.

How can the economy grow in order to be able to both absorb this backlog as well as absorb the new entrants to the work force? Annually the new entrants to the work force is in the region of about say 150,000. If we want to develop in the manner which is socio-politically stable, economically sustainable, we would first have to follow a strategy which will get our young work force productively employed and reduce unemployment to tolerable limits. What the tolerable limits are can be disputed.

We might have to estimate that for instance by the end of the 90's that we will have reduced our unemployment rate, to say about 5 percent which is a fairly tolerable limit from the present 20 percent. To do so, we have to grow at about 7 to 8 percent. We can't grow at less, and produce the strategy which absorbs the workforce.

What type of growth will get us there? Here I think there are only very few answers and these answers come out inevitably from the nature of our economy, the way in which we have links with the world outside. This growth must come essentially out of industry because we have come more or less to the limits of our agricultural growth. We have developed our lands to the maximum. We have very little land left to be developed. We certainly can increase the productivity of agriculture, but if we increase productivity we will be increasing the income of those who are already employed more than creating new employment. Thus the capacity of agriculture to give you the employment that is needed is very limited. It will certainly provide one-third to half the employment that is needed. But the rest of it has come from industry and services and this means that industry must grow very rapidly. We have been growing at about 5 to 6 percent in the past, we have to grow at about 12 percent. There is no question that we have to be outward looking. Our economy has to produce largely for the world markets, our industrialisation has to be based on a strategy which makes it competitive in world markets.

We have no alternative if we want to really grow, and solve our problems but to maximise our interaction with the market outside. That doesn't mean that our development strategy should be one which is capitalist in the sense of concentrating wealth in the hands of a few or creating inequalities. The open economy need not go together with either inequality or concentration of wealth. We know that may economies have grown which are open, like South Korea and Taiwan. Income distrubution is very much better in these countries than in Sri Lanka. On the other hand our experience with an "Open economy" did result in increase in inequality. I wouldn't say that it resulted in increases in poverty though. The two are different things. I think the proportion to those who are absolutely poor in the pre '77 period is more than those in 85/86. So, I don't think poverty itself increased, but certainly inequality increased.

There is no reason why inequality should increase with an open economy. It all depends on the type of industry that grows. For instance if you have labour intensive industry which is employment intensive you find that the returns of that industry will go more towards labour. In South Korea a distribution of income did not go in the direction of high inequality. The reason that it was a very employment intensive industrialization. It became employment intensive because it was outward looking. It was for the reason that the comparative advantage lay in labour that South Korea was able to compete in world markets. So unemployment fell the unemployed were employed. As a result you got a better distribution of income. So I don't think an open economy should in any way be associated with inequality or growing concentrations. That would depend on the planning and the way the whole development process works. What I am saying is that there is no inevitable outcome of

inequality coming out of an open economy.

Eastern Europe

Many of these projections of growth and the trends in the 90's which were made about two – three years ago have been thrown out of focus by the changes that are taking place in Eastern Europe. The changes that are taking place in the world economy will have very profound implications for Sri Lanka and also South Asia.

South Asia seems to be in a sense suspended without special relations. Why is that? There are a number of factors. One of the things about South Asia is that it can still beareservoir of cheap labour, the whole of South East Asia is moving in the direction of high wages. South Asia is in fact increasing its educated human capital. We are in a very advantageous position. We have the most educated human capital not only in this region, but also in other regions and the developing countries as a whole. Therefore we have an attractive base from which to start to meet this increasing demand in the rest of the world.

The opening of the Eastern European economy will have two types of consequences. Eastern Europe will attract the capital surplus of the surplus economies, more than developing countries. That would mean that Eastern Europe would grow fast. In fact one sees a scenario where the whole of Europe may grow faster than already predicted, because you are going to have a linking of Eastern Europe as economy with other more developed economies. This will result in an economic upsurge which must necessarily mean that world demand will go up and the southern hemisphere will benefit from that.

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So I see different trends, I see basic changes in the world economy which can have very positive consequences. We shouldn't be unhappy about the fact that Eastern Europe is going to attract more capital. Most of the capital circulated in the North. Most of the surplus capital went to the States. The surplus capital will now go to Eastern Europe and Eastern European economies will generate demand which may in fact open up markets for us.

Structural Reform

Development strategies must look at basic structural changes. I dont think market forces by themselves are adequate. So it means that policy makers and political elites must be able to idenify the problems in their societies and address those problems directly. In Sri Lanka for instance, first the economic structure, of having a major industrialisation programme. And then examining the bottlenecks for that. The bottlenecks are both economic and social. It means that the whole work force has to be trained for success of such a programme. It means the eradication of abject poverty. I think that poverty alieviation programmes are a must in developing countries. You must have growth, you must have equity. But in each context, the whole question of what are we going to produce, how are we going to distribute, how are we going to grow must be part of that particular society. We have come to this huge crisis, as a result of 40 years of certain types of development. I don't think that essentially is to be seen entirely as a negative thing. We have generated imbalances which make it compulsory for us to get to a higher equilibrium.

The question is ultimately how you adjust to the realities. If a family has certain resources and wants to live beyond those resources, it must necessarily come a cropper sooner or later. It can borrow, but ultimately it has to adjust to the level of resources it has. Now I think the country can't avoid that. The country has to adjust ultimately to the level of resources it has and within that see how equitable that adjustment is going to be. I grant you that there are harsh adjustments to

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