

Globalisation and Sri Lanka

Prasanna Perera

Lecturer, Dept. of Economics, University of Peradeniya.

Everybody talks about globalisation. What does it mean? How does it differ from old system of international economic relations, or what is called internationalisation? How would globalisation affect Sri Lanka? The objective of this article is to provide an answer to the above questions. It is difficult to give a commonly accepted definition to globalisation. The word 'global' is 400 years old. But the common usage of words as "globalisation", and "globalising" begins only in the 1960s. Waters has defined globalisation as "A social process in which the constraints of geography on social and cultural arrangements recede and in which people become increasingly aware that they are receding." (1995, p. 3) Globalisation can also be defined as a process or a set of processes which embodies a transformation in the spatial organisation of social relations and transactions - assessed in terms of their extensity, intensity, velocity and impact - generating transcontinental or interregional flows and networks of activity, interaction and the exercise of power. (Held et al., 1999, p. 16) In this process, national economies are arranged around a centre within a hierarchical system, which is to a large extent characterised by the old system of international division of labour. In this arrangement, an integration of nation-states as well as a growth of their inter-dependency can be seen.

Dependency school argues that under globalisation the developing countries orbit around the metropolitan centre. The globalisation process can simply be identified as a novel arrangement of capital-hungry

developing countries around the capital-rich developed countries within the global economy. Friedman (1999) argues that it is an unstoppable process and, on balance, a positive force. Those who criticise globalisation, posit that this is a novel method whereby the western capitalistic countries attempt to strengthen their monopoly capitalism in a global setting maintaining the imperialist hegemony. These views, together with the current nature of globalisation, can correctly lead to the conclusion that it is the process where the world economy arranges itself around the economy of the United States of America, a unipolar system.

Fidel Castro, the Cuban leader, addressing the Havana summit in January 1998, accused the United States of America, for not allowing the US multinational companies to operate in Cuba. He also stressed that the USA uses 'Helmus Burton' law to prevent Swiss, Italian and companies of other countries, getting involved in trade with Cuba.

However, the today's economy seems to depend on the flow of capital. In a world in which capital has become the deciding factor of growth and development. It also assumes the role of dynamic force in the process of globalisation. Under globalisation, a capital flow continues from the developed centre to the developing periphery. But this kind of capital flow is not a new. As Sutcliffe and Glyn have revealed, "[t]he best measures suggest that globalisation is neither new nor so great as is often supposed" (1999), Globalisation is essentially an outcome of a lengthy and a long-term process. However, what is new is that globalisation is more extensive as it

embodies all aspects of contemporary social, economic and political life, from the cultural to the criminal and the financial to spiritual.

In spite of the fact that there is a capital flow from developed to developing world under globalisation, the gap between the centre and periphery has not reduced due to the behaviour of capital markets and the development of technology. But inter-dependency generated by globalisation will continue to grow day by day, and an alternative to breaking away from this global economic system seems to be an illusion. So even the participants of the Havana summit also accepted that the process of globalisation is irreversible.

Wang Huigiong, in 1993, provides a comprehensive classification of globalisation. He identifies four sub-processes of globalisation. (Wang Huigiong, 1993)

1. Globalisation of Biosphere
 2. Globalisation of Econosphere
 3. Globalisation of Technosphere
 4. Globalisation of Sociosphere
- Wang Huigiong argues that long established and deep-rooted cultural values and life styles may undergo a complete metamorphosis as a result of increasing global integration. He opines:

"Although culture and life style are deep rooted in and shaped by history, they are Subject to change in an evolutionary world. With the intensive circulation of products and growth of tourism and the rapid strides made by direct satellite television broadcasting the world became a totally open field. (Wang Huigiong, 1993, p.32)

On the one hand, the revolution in communication and the development of information technology made the world a global village, while on the other, international corporations were established enabling the economic activity to expand beyond the national boundaries. 1990s saw the growth of international corporations as the driving force of the global economic process. International capital market as well as the product market depends on the mobility of capital associated with these corporations. Their operation has become a crucial factor in directing the social and economic process of today.

Amin's View

In today's global economic system, the developing countries are involved in an unequal competition. It is now becoming an economic, political and social competition. But the developed countries, through their capital monopoly, are creating a set of new global economic values. In particular, according to Samir Amin (1997), on peripheral countries these developed countries have imposed a five-fold monopoly.

1. Technological Monopoly

Since modern technology required a large amount of capital at the beginning such a monopoly power of technology use may be limited only to the countries in the centre. The third world countries have faced a great difficulty in finding large scale capital requirements.

2. Financial Control of world-wide financial markets

It is said that the metropolitan centres control the international monetary institutions. International Monetary Fund, which is primarily responsible in regulating the financial market, is under control of the

USA and the other metropolitan centres. But these institutions suggest economic liberalisation for developing countries. We live in an era where the United States Dollar, British Sterling and European Community Euro are treated as international currencies. In a 'globalise' world the attitude of humans is such that, just like the Ceylonese treated the Sterling Pound prior to independence, s/he prefers the US Dollar to Sri Lankan Rupee today. This situation may sterilise the effect of foreign exchange policies employed by any third world country. Therefore it is not wrong to say that the centre holds a monopoly at a world scale to regulate the finances in the international market.

3. Monopolistic access to the Planet's natural resources

The existing global economy assumes features of a competitive system. In a market-oriented economy, the most characteristic feature is the rationality of the economic agents. Only then the consumer attempts to maximise his utility and producer, his profit. Here, the extraction of natural resources is done, not humanely and ethically, but only aiming at profit maximisation. Surveys already done show the following sta-

Country	Annual deforestation as a percentage (1981-1985)
Bangladesh	0.9
India	0.3
Nepal	4.0
Pakistan	0.4
Sri Lanka	3.5
Indonesia	0.5
Laos	1.0
Malaysia	1.2
Thailand	2.4

Source: United Nations Data Sheet, 1998

tistics with regard to deforestation between the years 1981-1985, in selected countries.

The table shows that among Asian countries, Nepal, Sri Lanka and Thailand have very high rates of deforestation. United Nations Organisations suggests that these countries should take immediate measures in forest conservation. Therefore it is apparent that even where there is no globalisation process natural resources deplete at a rapid pace. With globalisation this has become more rapid. Especially with the expansion of multinational companies in the third world, a monopolistic exploitation of natural resources can be identified. Likewise natural resources are exploited effortlessly. But the nature of the global economic system seems to have given the right of exploitation of natural resources, to the countries in the centre.

4. Media & Communication Monopolies

Until recently international trade was a decisive factor in determining the inter-dependence of the world. However, today media and communication have become more important in shaping the global culture.

Since the 1970s, television channels and satellites (Star T-V, BBC, Reuters... Internet) telecast programmes, organised in western countries showing their cultural practices. Even at this moment western culture continues to expand throughout the world, while western liberal democratic thinking encapsulated the whole world. Socialisation of computers has prevented any country being cut-off from the rest of the world. Media and communication also have increased the level of inter-dependence between countries in the centre.

5. Monopolies over Weapons of Mass Destruction

Modern warfare and nuclear is centralised around the developed countries. Developing countries do not have necessary capital to produce such arms and nuclear power. On the other hand elongated research in these fields proved futile. However, the United Nations organisation has entered to the field of disarming the world community, but still, even the countries in the centre, fear of war. For example, in India, Where one third of people lack purchasing power, there seems to be a tendency towards nuclear testing. However, the world community was against it while they justified Iraqi crisis involving the USA and attacks on Yugoslavia through NATO. This signifies that even the moral right to modern

warfare and nuclear power lies in the hands of the countries in the centre.

New Economic Order

In a situation where a five-fold monopolistic system gets established in the global economy, the behaviour of the modern economies and its deciding factors can be classified as follows;

The Western model of globalisation seems to be based on its theoretical framework of structural adjustment. It is also treated as the new definition for development. The new international role of the globalisation involves marketisation, Foreign Direct Investment and international capital markets. With the collapse of state Socialism in the Soviet Union, i.e., with the end of the cold war, globalisation has been identified with market orientation.

Therefore, each country is pushed towards market system, through market and property relations, political decentralisation and competitiveness.

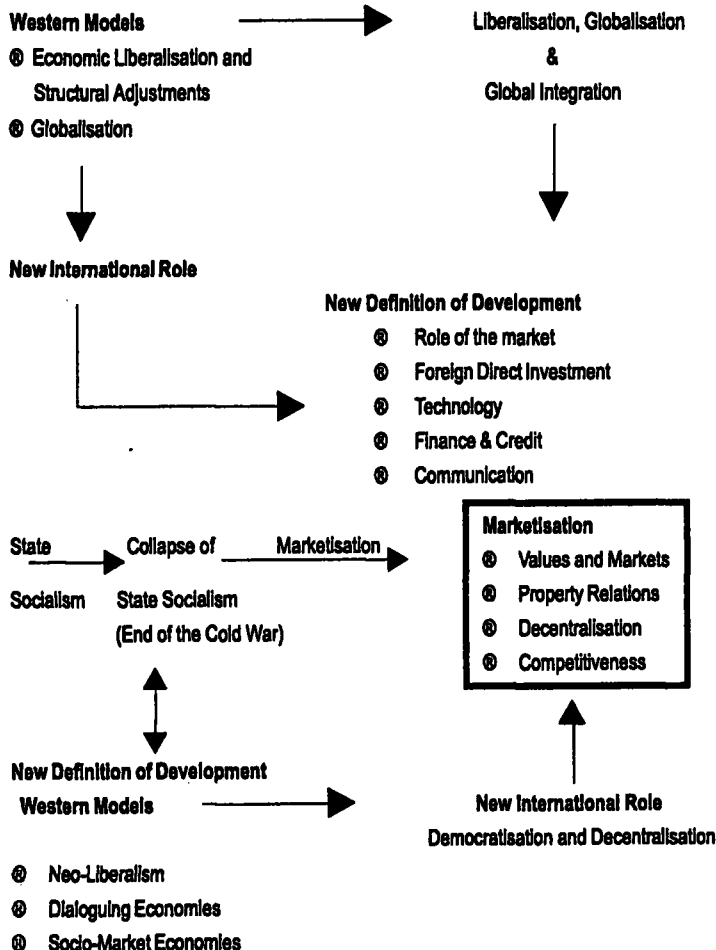
Thus the new approach to development, can be identified as Marketisation, in this context, the Western capitalist model includes targeting neo-liberalism, dialoguing economies and socio-market economies. This new Western model associated with maketisation has also given a new political role to democratisation and decentralisation.

Implications on Sri Lanka

In 1977, Sri Lanka adopted open economy policy strategy with close links with the international market. Sri Lankan society is in the process of rapid entanglement with the modern information technology. By the end of 1992, 55 out of thousand Sri Lankans owned television sets while 200 out of every thousand possessed radios. The end of 1995 saw 14 cut of every thousand enjoying telephone facilities. Currently 200,000 people out of the total population of 18 million own mobile phones. By 1996, 4110 subscribers enjoyed Internet and e-mail facilities while this number increased to 9045 by 1997. This is a growth of 120 percent annually. Telephone/Employee ratio at the Sri Lanka telecom stands at 55 while four private mobile service providers operate in the Sri Lankan economy, marking the liberalisation of econosphere.

World Development Report 1998/99, sees this as follows;

"Even a market as small as Sri Lanka's, has shown that it can support four cellular operating companies offering globally competitive prices. That country now has some



of the lowest cellular telephone tariff in the world-added 56,000 cellular lines between 1993 and 1996."

(World Development Report, pp. 65, 1998/99)

For "Millennium Bug" which is expected to play havoc in the year 2000, Sri Lanka obtained a grant of US \$ 100,000 under the "Infordev" plan of the World Bank. In addition US \$ 29 million was obtained as a soft loan during this year. All this provides nothing but evidence that Sri Lanka's entanglement in the world communication web.

Since 1990s Sri Lanka has been in the process of borrowing from the International Monetary Fund, an amount of US \$ 620 million annually on a concessionary basis for economic programmes aimed at markatisation. Structural adjustment process in Sri Lanka target reducing the budget deficit in the long run, achieving more realistic exchange rate policy and adopting market friendly policies to widening the activity of the private sector. Thus, it is expected to achieve high value of growth, one digit inflation rate, increasing in foreign reserves, strengthening the balance of payments situation. This shows that Sri Lanka is also in the process of markatisation.

Advantages and disadvantages

Beyond the debated issue of globalisation, it is very difficult to identify any sort of compartmentalisation in the world economy. Impact of globalisation is such that it is deep rooted in the global economy while affecting the economic political and cultural sources. But this process also has become favourable, to a certain extent to the third world. Let us examine some of these advantages with special reference to Sri Lanka.

1. It has been argued that an increased volume of trade through market promotion would result in increased production and may pave way for more employment opportunities, thereby reducing the burden of the third world unemployment problem.

But as a percentage of Gross Domestic Production, share of trade in 1980 was 87 per cent while in the same year, 19 per cent was recorded as exports. By 1996 share of trade as a per cent of Gross Domestic Production was 79 per cent while exports amounted to 73 per cent. However, between 1980 and 1990 gross domestic production grew at an annual average rate of 4.2 per cent. The period between 1990 and 1997 also marked a growth rate of 4.9 per cent per annum on average. Unemployment rate also stands at a level of 12 per cent in 1998.

An increase in trade has succeeded neither in increasing productivity, nor decreasing unemployment in Sri Lanka. On the other hand, employment in the manufacturing sector was only 13.3 per cent in 1990. This may not exceed 20 per cent by the end this century. 38 per cent of its employed persons still work in the agricultural sector. Thus this advantage of globalisation is minimum.

2. Developing countries may have increased their savings as well as the opportunities borrowing.

Especially in the third world, savings amount to less than 20 per cent of Gross Domestic Production. Likewise the existing limitations for borrowing will be abolished by the new-economic order caused by globalisation. This process will promote production and consequently domestic savings can be expected to increase. New international relations created by globalisation may also open new-opportunities of credit facilities. Therefore the process of

globalisation may heal capital scarcity in the third world.

In Sri Lanka, domestic savings as a share of gross domestic production is only 15 per cent in 1998. Therefore, Savings-Investment gap remains at -5 to -6. In practise the environment supposed to be created by globalisation, in foreign borrowing is not being seen. A social cost has to be born in fulfilling the conditions imposed by the international monetary fund and the World Bank while concurring trade facilities, in particular. It is no surprise that a social cost has to be born when following "Set Packages" of the world bank, such as structural adjustment programmes. By 1990, Gini index had become 30 per cent. Similarly, there is a vast inequality in income distribution. 80 per cent of total income is being distributed among 20 per cent of the population. Like wise, although there is increased investment in adapting to globalisation, Sri Lankan economy seems to create problems in the new economic environment.

3. There is an opportunity for increased foreign direct investment. In particular, globalisation leads to reduce risk in capital mobility and the market signals may cause private capital to move into developing countries.

The setting up of Multinationals Insurance Company has reduced the risk of international capital flow. A study by the World Bank involving 130 countries shows that foreign direct investment leads to increased exports, thereby increasing gross domestic production. Singapore and Korea provide better examples for this. In Sri Lanka, foreign direct investment, which was only Rs. 1727 million in 1987, exceeded Rs. 7000 million by the end of 1998. However, the recent situation in East Asia