

THE IMPACT OF LIBERALIZATION POLICIES ON THE EXPORT SECTOR

(A Comparative Study of Sri Lanka and South Korea)

Sriyani Hulugalle Assistant Director

Economic Policy & Planning Division, Sri Lanka Export Development Board

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INTRODUCTION

Sri Lanka's economy has been dependent on the export-import trade since the colonial era. Consequently, heavy emphasis has been placed on the traditional tree crop sector as the main source of foreign exchange earnings. In spite of the drastic policy changes introduced by every government since independence in 1948, Sri Lanka seems not to have been successful in undermining the dominant role played by the popularly known "tripod", Tea, Rubber and Coconut in the economy.

Exogenous factors such as adverse weather conditions, global economic conditions (specially those of industrial countries) and severe competition for Sri Lankan exports, still tend to influence the economy to a greater extent which portrays the vulnerability of the Sri Lankan economy, to the vagaries of external elements.

Despite the introduction of liberalization policies the expected export expansion and diversification of the export base may not have taken place, partially due to the global recession in early 80s and the deteriorating commodity prices in the international market. In addition, the unprecedented level of defence expenditure, collapse of the tourist trade and dwindling worker remittances further aggravated the situation.

South Korea has always been repeatedly quoted as a country which has achieved economic success through liberalization. If we closely examine the policies related to export development in Sri Lanka, it reveals that attempts have been made to emulate the Korean model. It is worthwhile investigating, whether it was liberalization policies per se or whether it was direction and guidance of the South Korean Government that effected this spectacular performance of their economic growth.

The objective of this paper is to verify the reasons why emulation of the Kore-

an model since 1977 had not resulted in a rapid growth of the export sector in Sri Lanka and to identify the major external factors that would have intensified the effects of policy reforms implemented by South Korea and nullified the effects in Sri Lanka.

In this paper attempts have therefore been made to trace the similarities and dissimilarities in policies that had been operative under the liberalized regimes in South Korea and Sri Lanka. The initial period of the liberalized regime in South Korea i.e. 1963-73, has been discussed in this paper as it will serve as a comparison to Sri Lanka's post 1977 situation.

HISTORICAL OVERVIEW

To begin with the similarities, both countries situated in Asia are significantly small in size. They share a common past of colonization and have inherited economic systems in which foreign trade, specially export of primary products was "the key element in their economic structure" at the time of independence. (Singh : P 283) Furthermore, both countries are poor in natural resource endowments which entail high reliance on imported raw materials in the manufacturing sector. Yet, both possessed an excess supply of labour with inadequate employment opportunities, which provided a non-militant and mobile labour force at a comparatively lower wage rate.

Sri Lanka

At the commencement of the post independent era, the external reserve position was favourable in Sri Lanka. This situation was further strengthened by the export boom in the early 1950's. This trend was reversed in the late 50's with the adoption of import substitution as the development strategy in Sri Lanka.

With the dual exchange rate policy, land reforms, and nationalization the

attempts at industrialization resulted in strengthening the role of the Government in all economic activities. Furthermore, due to the high level of investment in the capital goods industry, the reliance on imports escalated.

The year 1977 can be considered a landmark in the history of development economics in Sri Lanka. Wide ranging policy reforms were introduced specially in foreign trade, dismantling a rigid system of direct controls.

The unification of the exchange rate with a 47% initial devaluation in 1977 was with a view to ensure a more realistic exchange rate policy. Quantitative import controls were replaced by a tariff system retaining high import tariffs on a selective basis to protect domestic production. With the establishment of Free Trade Zones foreign investments were encouraged removing institutional constraints of capital transfers. A specific export development policy package was implemented extending concessional finance, cash grants for better performance, and fiscal incentives in the form of tax exemptions.

Exporters were granted the facility of obtaining imported inputs at international prices through a Duty Rebate Scheme. The Government's stated policy was to limit the role of the State in economic activities and increase the participation of the private sector. The existing institutional structure was further strengthened with the expansion of prevalent incentive schemes and the introduction of new ones.

South Korea

Under colonial rule, from 1910-45, the Korean economy had become highly dependent on Japan for technology and management. As a consequence, the sudden separation from Japan crippled the Korean economy in 1940.

In addition, the partition in 1950 had devastating effects on the South Korean economy. She was saddled with 66% of the population while the power generating plants and mineral resources were based in the North. The North had the major share of heavy industries. (Westphal 75 : 6-7)

Up to 1963, there was political instabi-

lity, with political upheavals twice in 1960. South Korea till then had been following stringent controls specially with regard to trade and foreign exchange.

Liberalization policies were introduced after 1963, and these were stated to have triggered off "a phenomenal economic performance". (Westphal 75: 42) The elements of the policy reforms were the flexible exchange rate, access to imported inputs and machinery at international prices, interest rate reforms, effective stabilization programmes with strengthening of the tax base, curtailment of Government expenditure and intensification of the export incentive schemes.

The flexible exchange rate policy has been an effective policy instrument which was utilized by the South Korean Government to motivate exporters and also to maintain the level of imports at controllable levels.

Since 1963, a comparatively more liberalized policy towards imports was adopted in order to ensure the provision of imported raw materials and capital goods. The government successfully linked imported goods to exports, so that it could have a better control over the volume of imports. This measure was one of the key factors for the success of economic development in South Korea.

Concessionary credit facilities were made available to exporters while maintaining a high level of interest rates to motivate savings. These measures to mobilize domestic savings could effectively mitigate the adverse impact of declining foreign aid.

Furthermore, the export sector was granted tax exemptions and monopoly

rights for selected exports. In order to encourage backward linkages the incentives were extended to indirect exporters. Moreover, the strong commitment of the government to economic development and export oriented industrialization inevitably contributed to the South Korean success.

EXPANSION AND DIVERSIFICATION OF THE EXPORT SECTOR

In this paper, attention will be focused on specific aspects of export expansion and diversification in South Korea. The trend during the initial period of liberalization policies in Korea i.e. 1963-73, will be compared with the trends in Sri Lanka during 1978-85 after the adoption of the liberalized policies. The value of exports in South Korea is in US \$ while the value of exports in Sri Lanka is in current SDRs.

Export Expansion

It could be observed that the value of exports in South Korea had grown in enormous proportions in absolute terms and the annual growth rate too had reflected a continuous positive trend though subject to fluctuations. (Tables 1 & 2). The positive trend of growth had actually commenced in 1959, but since 1963 the growth rate had been more stable with the exception of 1973. The proceeds from exports had accelerated from US \$ 87 mn. in 1963 to US \$ 3271 mn. in 1973, with an annual average growth rate of 50 percent. This could easily be termed a phenomenal increase. Yet, with the introduction of the liberalized policies in Sri Lanka, the growth rate had been 11 percent for the 1978-85 period and in absolute terms the increase had been a little less than two-fold, 675 SDR mn. in 1978 to

1312.7 SDR mn. in 1985. Contrary to general observations, US procurements for Vietnam during 1967-73 did not have much of a significant impact on the total export earnings of South Korea. (Westphal : 75:14)

In absolute terms, the exports in the primary products sector had increased from US \$ 40.8 mn. in 1963 to US \$ 381.0 mn. in 1973 in South Korea; but the growth rate in the total export earnings corresponds mainly to the escalation of the earnings in the manufacturing sector from US \$ 43.6 mn. in 1963 to US \$ 2872.8 mn. in 1973.

The observed development in the export trade was due to the emphasis on the industrial exports by the government in cognition of the limited potential in the expansion of primary agricultural products.

The type of industry and industrial development in South Korea was characterized by light, labour-intensive industries such as plywood, footwear, electrical equipment etc. exploiting the comparative advantage of the availability of cheap, abundant, unskilled and semi-skilled labour. The growth rate of the manufacturing sector had commenced at a low base with the major manufacturing products contributing less than US \$ 10 mn. by each product, in 1962; whereas products like wigs and human hair were nonexistent. But within a short period of time, these industries had grown in large proportions, almost all earning more than US \$ 100 mn. per year by early 70s.

One of the reasons that could be attributed to this spectacular performance in the export sector in South Korea had been the government's total commitment. Furthermore, analysing the ex-

TABLE 1

VALUE OF SRI LANKA EXPORTS - 1978-86
(In current SDR mn)

	1978	1979	1980	1981	1982	1983	1984	1985	1986
1. Tea	326.8	284.4	286.8	284.3	276.0	329.8	605.0	434.0	281.0
2. Rubber	103.2	123.8	120.4	127.5	101.1	113.4	127.0	93.0	80.0
3. Coconut	64.9	84.4	57.3	63.4	65.1	76.4	81.0	112.0	73.0
Total Traditional crops	494.9	492.6	464.5	475.2	442.2	518.7	813.0	639.0	434.0
4. Minor Agri	36.9	44.1	40.8	61.7	65.1	59.1	53.0	49.0	46.0
5. Industrial	96.6	183.9	270.2	321.9	360.0	350.7	495.0	517.0	483.0
5.1. Textile	24.6	55.5	84.9	133.3	152.4	188.3	290.0	288.0	293.0
5.2. Petroleum	48.2	95.8	145.1	148.9	142.8	106.6	126.0	140.0	72.0
TOTAL	673.6	759.5	817.7	928.3	933.7	997.7	1432.0	1311.0	1036

Source: Annual Review of the Central Bank (1978-86)

TABLE 2 STRUCTURE AND GROWTH RATE OF EXPORTS IN SOUTH KOREA - 1961-73

YEAR	TOTAL EXPORT TRANSACTIONS		PRIMARY PRODUCT EXPORTS			MANUFACTURED EXPORTS		
	AMOUNT \$ MN.	ANNUAL GROWTH RATE AS %	AMOUNT \$ MN.	% OF TOTAL	ANNUAL GROWTH %	AMOUNT \$ MN.	% OF TOTAL	ANNUAL GROWTH %
1961	42.9	32.5	33.5	78.0	-	9.4	22.0	60.8
1962	56.7	32.2	41.4	73.0	23.6	15.3	27.0	62.2
1963	84.4	48.8	40.8	48.3	-1.4	43.6	51.7	184.8
1964	120.9	43.2	58.6	48.4	43.6	62.3	51.6	42.9
1965	180.5	49.3	68.1	37.7	16.2	112.4	62.3	80.3
1966	225.8	41.7	96.1	37.6	26.4	159.7	62.4	42.1
1967	358.6	40.2	107.4	29.9	11.8	251.2	70.1	55.4
1968	500.4	39.5	113.5	22.7	5.7	386.9	77.3	54.1
1969	702.8	40.4	147.7	21.0	30.1	555.1	79.0	43.4
1970	1003.8	42.8	164.4	16.4	11.3	839.4	83.6	51.2
1971	1352.0	34.7	189.1	14.0	15.0	1162.9	86.0	38.5
1972	1807.0	33.7	222.7	12.3	14.1	1584.3	87.7	36.2
1973	3254.2	80.2	381.0	11.8	71.1	2872.8	88.2	81.3

Source: (WESTPHAL 75 : 79 - Table 6.2)

change rate policy of both countries in spite of the reforms in the exchange rate during this period, it could be discerned that the exchange rate had been clearly manoeuvred in South Korea. These developments were the consequences of the conducive investment climate that had been created by the government with tax exemptions and preferential credit, coupled with the entrepreneurial skill of the South Koreans. The industrial base could be diversified with easy access to the imported industrial inputs and machinery with the import entitlement scheme for exporters through an import-export link system. Investors could have been highly motivated by the import entitlements considering the import control system that was in existence throughout 1963-73.

The exchange rate policy was highly oriented towards the promotion of exports and the effective exchange rate was always higher than the nominal rate throughout the period under review. Conversely, the real effective exchange rate in Sri Lanka had been appreciating against almost all trading partners and competitors. Since 1978, the real effective exchange rate index in respect to exports had been declining, and this drastically reduced the competitiveness of Sri Lankan exports and also reduced the profitability of the producers and exporters. In South Korea, the multiple exchange rate was operated upto 1963, and from 1963 intensification of export incentives had been utilized for export promotion.

This compares with the Sri Lankan si-

tuation where the real effective exchange rate index in terms of total imports had depreciated since 1978 (1978=100) reaching 161 in 1984. It had appreciated with regard to imports of consumer goods while it depreciated at an accelerating speed for intermediate goods reaching 171 in 1984. This had a demotivating effect on the production sector, while consumer demand in terms of imports was encouraged. The exchange rate which was artificially kept at an appreciated level aggravated the deterioration in the development of the export sector. The appreciated exchange rate not only favoured imports but was instrumental in causing an escalation in costs of production. Confronted with volatile fluctuations in the international market, the producer margins were discouragingly low and kept investments at low levels. The implementation of the liberalized policies in Sri Lanka were contradictory to the stated objectives. (Lakshman 1986)

This could have been more due to a deliberate policy followed by the government of Sri Lanka in containing inflation trying to satisfy the consumer demand by expanding imports; and while in South Korea inflation was contained by demand management policies such as curtailing government expenditure. Import prices too were comparatively low during the 1960s as the rate of inflation was low in the industrial countries; which indicates that the external environment too was conducive to the development of the South Korean industrial sector. Even in terms of devaluation, the South Korean government had

been consistent with policies, not allowing an expansionary impact on the economy by imposing special tariffs in order to absorb excessive profits. The exchange rate and tariff reforms were constantly used, in order to guide the direction of export development in South Korea.

This situation contrasts with the policy implementation of Sri Lanka during the comparable period 1978-85. Although the average growth rate in the traditional agricultural sector was 6 percent the annual growth rate was negative, with the exception of 1983 and 1984. The level of earnings was sustained due to the favourable international prices. The continuation of the high level of government participation in the industries and agricultural sectors in Sri Lanka eliminated the efficiency requirement in these sectors, as profitability need not be the main objective of the public sector organizations.

The Government of Sri Lanka through institutions such as the Export Development Board, the Sri Lanka Export Credit Insurance Corporation and the National Development Bank provided preferential credit facilities, yet the targets set out for export development were more at a macro level; whereas in South Korea the achievement of targets were at a firm level and with an equal commitment by the private sector. In South Korea, the targets were on product level as well as firm-level and the government ensured that the impediments encountered by exporters in achieving these targets were eliminated. The deteriorating balance of Payments

in Sri Lanka was adequately supplemented by the availability of foreign finance in the latter part of the 1970's which did not reveal the grave situation the economy was confronted with till the early 1980s.

With the acclaimed import liberalization in South Korea, imports had been used as an incentive for exporters through the export-import link system and imports were directed towards the improvement of the productivity levels of exports. In times of Balance of Payments problems a more restrictive policy was adopted towards imports as is substantiated by the experience of 1968/69.

The manufacturing sector in Sri Lanka recorded an average rate of 30% growth during the period but the concentration was on two product sectors, textiles and petroleum. These characteristics, no doubt, represent the implementation that was biased towards domestic industrialization. The industrial sector was more directed towards the domestic market with high protection and monopolistic public sector activities. Furthermore, the domestic industries or the indirect exporters did not have access to imported machinery and equipment which demoralized the industrial sector.

With the import liberalization in 1977 the domestic producers in the manufacturing sector were subject to excessive competition. The domestic market was not conducive for domestic industrialization, especially with the preference for imported goods by locals even inspite of the quality; a legacy inherited from the colonial era.

The export sector was more biased towards agriculture. The inability to respond favourably to international prices due to the lagged effect in supply in the agricultural sector and also due to the risk element involved in the export trade, made the import trade more preferred with its quick returns.

In both countries the government had played a dominant role in the development process, especially towards export orientation. It may be perceived that while in South Korea the government had been actually guiding the development of the export sector through fiscal and monetary policies, in Sri Lanka, the government had played a more passive role. In South Korea, the consistency in the policies adopted towards export trade had contributed significantly towards its remarkable performance; while in Sri Lanka some of the policies had been contradictory with regard to the

expressed liberalized policies and social welfare objectives.

Diversification of the Export Base

In South Korea since 1963 the diversification of exports was visible, when comparing the change in shares of primary products and manufactured products. In 1962, primary products contributed 73% of the total exports but the decline had been gradual since 1963 reaching 11.8% in 1973 while the manufactured sector escalated from 27% in 1962 to 88.2% in 1973. Even in absolute terms, the growth had been spectacular from US\$ 15.3 mn in 1962 to US\$ 2872.8mn in 1973 (Table 2).

In the manufactured sector analysing the diversification trends in a disaggregated form; clothing had been dominant, accounting for 23% in 1973 of the total exports and almost 50% of the manufacturing sector.

The strongest spread effects were most clearly found in the production and export of textiles and wearing apparel. In the case of these production processes, clear hierarchy of sector can be established leading from intermediate to finished products. The relatively extensive backward linkages of textile and clothing production contribute to a broadening of the industrial base as a

TABLE 3

SRI LANKA								
COMPOSITION OF EXPORTS - 1978-85 (MAJOR CATEGORIES AS A PERCENTAGE OF THE TOTAL)								
	1978	1979	1980	1981	1982	1983	1984	1985
Tea	48	37	35	31	30	33	42	33
Rubber	15	16	14	14	11	11	9	7
Coconut	10	11	7	7	7	8	6	9
- Oil	(25)	(30)	(4)	(14)	(24)	(23)	(14)	(31)
- Dessiccated	(50)	(46)	(57)	(53)	(41)	(47)	(55)	(43)
Total traditionals	73	64	56	52	48	52	57	49
Minor agriculture	5	6	5	7	7	6	4	4
-coffee	(12)	(12)	(5)	(5)	(7)	(11)	(17)	(21)
-cinnamon	(23)	(23)	(25)	(30)	(19)	(14)	(21)	(23)
-cloves	(5)	(11)	(22)	(18)	(14)	(25)	(14)	(3)
-sesame	(21)	(17)	(15)	(9)	(16)	(5)	(17)	(2)
-cashew	(13)	(1)	(4)	(5)	(4)	(6)	(5)	(3)
Total agr:	78	70	61	59	55	58	61	53
Gem & jewellery	4	3	4	3	3	4	2	2
Manufacturing industries	14	24	31	34	38	35	34	39
-marine	(2)	(9)	(5)	(5)	(5)	(5)	(5)	(3)
-textile	(26)	(31)	(33)	(42)	(42)	(53)	(59)	(56)
-petroleum	(53)	(53)	(57)	(53)	(40)	(31)	(26)	(27)
-leather	(.6)	(.3)	(.4)	(.2)	(.6)	(.9)	(2)	(2)
-rubber	(.2)	(.1)	(.4)	(.2)	(2)	(.6)	(.8)	(1)
-ceramic	(4)	(3)	(2)	(2)	(2)	(2)	(1)	(2)
-machinery	(9)	(150)	(15)	(5)	(2)	(2)	(2)	(2)

N.B. - (Breakdown of the major categories are given in parenthesis).

Source: Computed on the basis of basic data obtained from the annual reports published by the Central Bank of Sri Lanka 1978 - 86.

result of the government's selective efforts to support the import substitution of some of the intermediate products. (Verbruggen : 85:185)

South Korea followed a flexible industrial policy and was quick in response to the dynamic changes in the external environment. With import quotas coming into effect under the Multi-Fibre Agreement, to avoid discrimination, they followed a "strategy of branching into a wide range of products from low-priced, low-quality, to export of expensive high-quality, textiles." Intra-industry adjustments averted the freezing of the industry by "protectionist coalitions". (Singh :296)

The quantitative restrictions of the West had its positive effects on South East Asia. It compelled reduction in costs, improvement in productivity levels and helped in moving into diversified markets, namely the, East European countries and African countries. Such adjustments require late comers like Sri Lanka to achieve a high level of efficiency in the industrial sector in order to be competitive.

In South Korea the share of total manufactured exports continued to increase at a higher rate from 27.0% in 1962 to 88.2% in 1973. In the latter part of the 1960s the contribution from the major products tend to be more stable, reflecting the diversification effect. This factor reveals that the share of the other manufactured products had been increasing at a greater speed.

This encouraging feature was not evident in the structure of the export sector in Sri Lanka. While the traditional tree crop sector continued to contribute the major share, it had declined significantly from 73% in 1978 to 49% in 1985. The manufacturing sector had improved its share from 14% in 1978 to 39% in 1985. This does not mean a satisfactory structural change within the manufacturing sector as products, namely, petroleum and textiles, in combination, contributed 79% - 95% of the total manufacturing exports during this period (Table 3);

In both countries the import content had been at a high level. According to the Korean productivity centre, estimates (Westphal 75:82) of direct import intensity of exports in 1969 was 41.7% for all commodities while for manufac-

tured exports its was 53.8%. In Sri Lanka too, the import content was very high, considering the heavy reliance on petroleum and textiles, where the import content was around 85% and 70% respectively. This portrays the enclave nature of the export sector specially with regard to Sri Lanka.

The greater spread effect of the expansion of the manufacturing export sector in South Korea could partially be attributed to the fact that domestic suppliers of intermediate goods to the export sector had access to incentives such as credit facilities at concessionary rates, and duty and tax exemptions. According to Balassa (1981 : 12) "an outward oriented strategy should not be interpreted to mean favouring exports over import substitution. Rather it is characterised by the provision of similar incentives to production for domestic and for export markets". This has been more applicable in the case of South Korea, rather than in Sri Lanka where domestic industries were more monopolized by the public sector under high protection though, since recent times, attempts have been made towards denationalization.

The improvement in the intermediate sector in South Korea helps in reducing the cost of production as well as enhancing the backward linkage effect in the economy. In Sri Lanka, the adverse exchange rate policy towards intermediate imports reflected a discriminatory policy towards local industrialization. The bias towards export-oriented industries led to a high reliance on imported inputs in the production sector combined with a high degree of concentration on a few products.

Finally, the history of industrialization goes back to the 1910-1945 period in South Korea, the era of Japanese occupation. The technological and management skills of the Japanese too would have indirectly contributed towards the phenomenal performance of the industrial sector in later years. Even though the Korean War caused considerable destruction to the infrastructural facilities, namely, transport and communications, the success of the industrial development in South Korea was partially due to the accumulated industrial experience, technical skills and entrepreneurship

developed under Japanese regime in the 1920s and 40s. (Schmitz 84)

The same cannot be applied to Sri Lanka where the agricultural economy had been dominant till 1960. Industrial development commenced with the Public Sector playing a dominant role under a protectionist regime, with a captive market which did not stimulate improvements in productivity or quality. This factor too should have been considered by the Sri Lankan government before embarking on its liberalized policies.

THE IMPACT OF EXTERNAL FACTORS ON EXPORT PERFORMANCE OF SOUTH KOREA AND SRI LANKA

Countries such as South Korea and Sri Lanka which have poor natural resource endowments and which do not wield power in the international market with regard to supply or demand (i.e. price takers) are exceedingly susceptible to the fluctuations in global economic conditions. This exacerbates the situation more, when the degree of dependence on imports for production and export for foreign exchange earnings, is at a high level. The dynamic external environment has a significant impact on the economic development of these countries. Consequently, it is attempted in this section to identify some of the major external factors which would have enhanced or nullified the effects of various reforms.

The performance of South Korea in terms of GDP (in constant market prices) or in terms of real rate of growth in the manufacturing sector is impressive.

During 1963-73 South Korea recorded a high rate of growth, very much above the world average of industrial countries. Even though South Korea's success has been attributed to the liberalization of imports, the realistic exchange rate, provision of incentives to the exporters, Schmitz argues that (Schmitz 84:9) it could also be viewed as "a response to a set of international circumstances which at one and the same time produced favourable access to markets of advanced countries, dramatically increased access to international finance and relocation of production by TNCs to the

periphery". Furthermore, "the existence of a strong (repressive) internationally reliable regime, ... the existence of technological infrastructure resulting from IS (Import Substitution) policies, ... State control over industrial development" are "held to be extensive and decisive in bringing about the dynamic growth"

The open door policy of the NICs, including South Korea, was indeed opportune when TNCs were "confronted with high cost and militant labour problems" in the West. (Singh 84:291) Rising costs in industries in Europe and USA confronted with competition from Japan facilitated the relocation of industries in South East Asia, which provided unskilled labour at low wage rates and generous incentives in the form of tax exemptions, credit facilities etc.

The market controls were minimal in the West in the 1960s for manufactured exports as the economic growth rates were at satisfactory levels. The growth rate in the manufacturing sector in real terms was around 6%-7%, with the exception of 1969. These healthy economic conditions brought about a higher economic activity in the industrial countries which did not require restrictionary policies. The rapid expansion in the world trade reached an exceptional level of growth, 18% a year, between 1967-73.

Another factor that may have contributed to the success was the buoyant transnational banking market, that is, Euro-dollar and Petro-dollar markets, developed in 1960s and 70s. The NICs turned to commercial borrowing, in order to avoid stringent conditionalities of the IMF, which in turn provided more flexibility in the formation of national policies towards development.

It has also been pointed out that the idle capacity, a highlight feature for the failure of IS policies would have helped the economies such as Korea, to expand production responding to the increased market demand by the industrial countries. (Schmitz 84:13) Moreover, the competition from the other LDCs was less during the 1960s which is quite contrary to the scenario under which Sri Lanka adopted the liberalized policies.

Since the late 1970s global economic

conditions had taken a reverse trend. The protectionism due to increasing unemployment in USA and Europe was surging forward, creating a hostile environment in international trade. In the West, during the past few decades, labour groups in textiles and apparel industries, steel, footwear etc. responded to the international competition, arguing that low profits, unemployment and plant closures were due to imports. From their point of view the solution was protection for domestic industries.

According to some views, adjustment policies due to the "oil shock" in 1970s were used more in the nature of "a scapegoat" for protectionist actions by the West (Hughes and Waelbroeck 81:129) to camouflage the inefficiencies in the domestic industries.

These ever increasing protectionist

tendencies would not be reduced in the immediate future specially considering the diversion of imports of restricted items, through Voluntary Export Restraints under the Multifibre Agreement, from the major importers to other LDCs with low cost products. The share of imports from LDCs to industrial countries had been on an upward trend during the 70s. For clothing, textiles and leather, the overall growth of imports was 7.8%, while from LDCs it was 14.8%. For non-metallic minerals the growth in LDC imports was 13.2%, far above the average growth rate of 5%. For machinery and equipment the average growth rate was 8% while for LDC imports it was 21.8%.

The total growth rate for imports in the manufacturing sector in DCs was 5.1%, but from LDCs it was 8.1% during

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the 1970-79 period. (Hughes and Waelbroek :81:135) Therefore, it had been reiterated that following the NICs model by all LDCs would not result in an impressive growth rate but might trigger off further protectionist resistance. (Cline :82)

"International trade itself transmits attitudes to protection. In a healthy world economy, trade leads to growth, adjustment to change becomes easier and liberal tendencies predominant; in an ailing global environment, trade is often perceived as a cause for unemployment or under employment of factors of production; it appears to create difficulty in adjustment and so it leads to protections". (Hugh & Waelbroek : 81:139)

The NICs had already acquired a high level of efficiency in industries such as textiles, machinery and leather. Therefore, for Sri Lanka to be competitive, she had to reach a high level of efficiency. The advancement in micro-electronic based technology tends to undermine the comparative advantage of LDCs low-wage-unskilled labour.

Moreover, high indebtedness and the high interest rates for commercial loans leads countries towards the IMF which restricts the flexibility of adopting national economic policies such as in the case of South Korea. Due to Balance of Payments problems the deflationary policies adopted by both developed countries and LDCs tend to slow down the tempo of their economies which in turn provides less opportunities for the growth of world trade.

South Korea's experience with export oriented growth is "certainly not one of the classical laissez-faire type" as "the economy operates under a highly centralized guidance". (Verbruggen :85: 174) Some of the major assets of the country have been recognized as "The well educated, industrious, mobile, non-militant labour force and entrepreneurial class that associates individual objectives with national economic aspirations". (ibid) These internal factors combined with the buoyant global economic development experienced in the 1960s and 70s helped in the spectacular growth performance in South Korea.