Globalization's Challenges for South Asia: The Case of Sri Lanka

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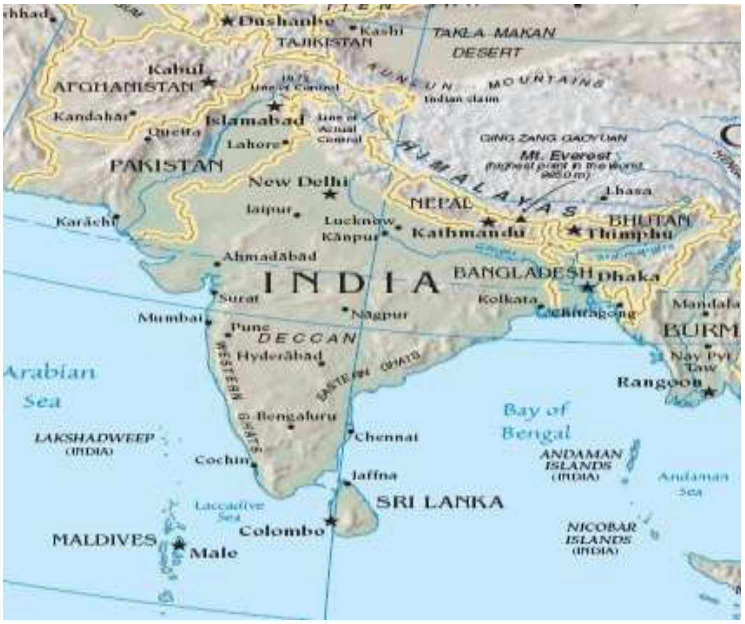
ABSTRACT

South Asian countries are unique due to their shared history and distinct geographies. And both have played important roles in shaping their cultures and economies. After gaining their independence from the British Empire during the early 20 th Century many of these countries struggled, under various forms of governments, to pursue the objectives of self-sufficiency using various forms of tariff and trade barriers to protect their domestic markets from foreign competition. However, finally convinced of the inefficacy of such policies, by the end of the 20th century, they opened their markets for free trade and joined the global economy.

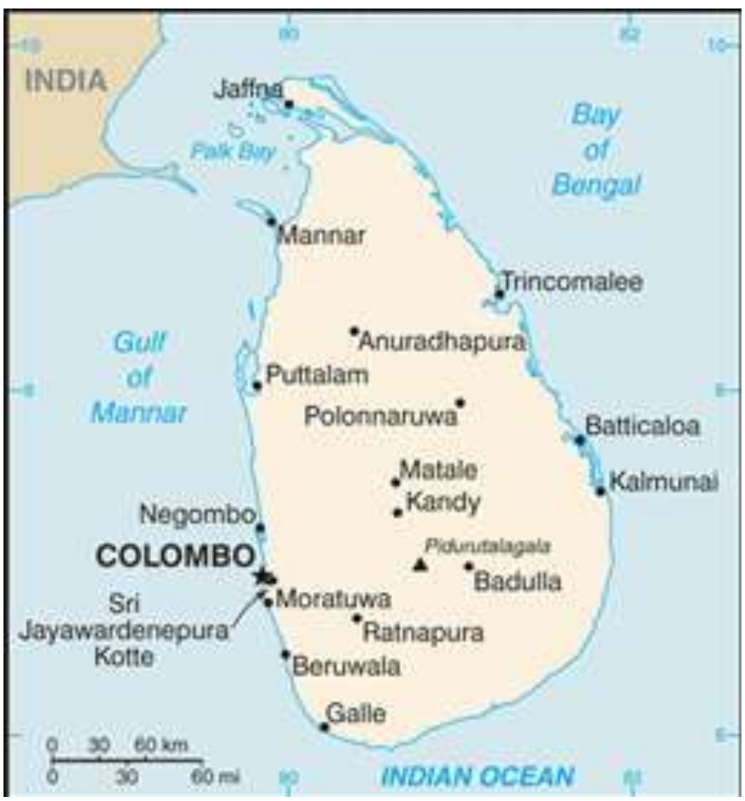
This paper presents the case of Sri Lanka—a relatively small island country located South East of India in the Indian Ocean. With all characteristics typical of the subcontinent, Sri Lanka is a microcosm of south Asia and is an ideal country to examine the effects of globalization on South Asian countries and their challenges to survive and prosper in the new world.

INTRODUCTION

During the last two decades of the 20 th Century, the world economies opened themselves to free trade at an accelerated pace; and as a result, economic globalization became a reality (Kahler 2004). The complete freedom of movement for the factors of production—goods, services, capital, and labor—across national borders under globalization through elimination of various trade and investment barriers, and the resultant global interdependence, homogenization of needs and resources, and universalization of business strategies brought about a complete transformation of the marketplace. In a sense, these changes leveled the playing field and affected everyone, countries that enthusiastically participated in them, as well as those who tried to insulate themselves. Globalization created new opportunities for those who did not have them before. At the same time, it took away special privileges granted to the select few, who were now exposed to the competition of the free, but not always kind and fair world. This paper analyzes the opportunities and challenges of globalization for South Asia, and their efforts to deal with them, with special focus on the illustrative case of Sri Lanka.



Map of the South Asia (Wikipedia: Accessed May 15, 2012)



Map of the Sri Lanka (CIA World Factbook: Accessed May 15, 2012)

SOUTH ASIA'S HISTORY AND GEOGRAPHY

South Asian countries are unique due to their shared history and distinct geographies. And both have played important roles in shaping their cultures and economies. In the 19th century, Britain became the dominant political power in the subcontinent. Since then, all these countries either became a part of or came under heavy influence of the British Empire. One by one, they gained their independence from the British Empire during the early 20 th Century. However, they were permanently influenced by the British culture, language, laws, and form of government.

However, these countries are very different from one another in their geographic size, populations, terrain, weather, climate, and natural resources. India dominates the subcontinent by its sheer size. Its landmass and population are many times bigger than all the other countries, taken singularly or collectively. It also has the most varied climate, resources, and the largest economy in the region. Pakistan is the second largest country in the region. Next, Bangladesh, Nepal, Bhutan, and Sri Lanka are more comparable to one another in size. Maldives is the smallest country of them all, a group of atolls in the Indian Ocean, South Southwest of India.

SOUTH ASIAN ECONOMIES

After gaining their independence from the British Empire during the early 20 th Century, many South Asian countries struggled, under various forms of governments, to pursue the objectives of self-sufficiency using different combinations of tariff and trade barriers to protect their domestic markets from foreign competition. However, such socialistic policies only created mediocre growth at best and stagnation otherwise. Finally convinced of the inefficacy of such policies, by the end of the 20th century, they opened their markets for free trade and joined the global economy.

During the years of protectionist policies and resultant slow economic growth and hardships, many of these countries continued to make significant progress in the fields of scientific and technical education. As a result, when they finally opened their markets and joined the global economy, they had a large pool of educated and skilled workforce of engineers, doctors, and technicians ready to take on any kind of skilled jobs the world wanted done. Thus, when globalization finally reached them, they were in a fairly strong position to take full advantage of it.

GLOBALIZATION AND THE SOUTH ASIA

Despite their geographic differences, agriculture, industry, and tourism constitute important sectors of the south Asian economies.

During the initial few years since their independence from the British rule, many south Asian countries enjoyed preferential access to the British markets as their ex-colonies and members of the British Commonwealth. However, as a result of the enormous size, problems, and challenges of the subcontinent, the limited ability of Britain to help its ex-colonies materially, and the changed focus of Britain toward being a more active part of Europe, these privileges had diminished to levels of insignificance, if not terminated altogether, by the later part of the 20 th century.

During the second half of the 20 th century, south Asian countries, by virtue of being categorized as developing countries, had also enjoyed preferential access to the US and European markets. The textile quotas were a very important such benefit that had created and sustained a prosperous apparels industries in these countries. They also enjoyed preferential treatment for their agricultural products.

Thus, as globalization leveled the playing field created new opportunities for south Asian countries, it also eliminated such privileges and created new challenges and crises in related sectors of their economies. Free trade also meant the good old law of the jungle, “the survival of only the fittest” was back in force. Globalization only promised equal opportunity, but did not guarantee equal prosperity for all. It thus created unique opportunities as well as challenges for each south Asian country, and also placed them in competition against each other for the share of world prosperity.

The realities of the new global market place for south Asia can be summarized thusly:

- The rapid opening of other world markets
- The entry of new and major competitors
- The increasing enforcement of free competition principles through the World Trade Organization (WTO) that eroded the special privileges enjoyed by the developing countries form the US and the Europe in the past

Sri Lanka, with its rather small and relatively less complicated economy, offers an excellent case to understand what these challenges mean to the South Asian countries and how they must deal with them to survive and prosper in the new world

THE COUNTRY OF SRI LANKA

Sri Lanka is a relatively located in the Indian Ocean south east of Indian peninsula. With an area of 65,610 Sq Km, it is slightly larger than West Virginia with a coastline of 1,340 km. It has tropical climate, with northeast monsoons from December to March and southwest monsoons from June to October bringing a heavy rainfall. Its terrain is mostly low, flat to rolling plain with mountains in south-central interior rising to the highest point at Pidurutalagala at 2,524 m. Its natural resources include limestone, graphite, mineral sands, gems, phosphates, clay, and hydropower. Its natural hazards include occasional cyclones and tornadoes. Current environmental issues include deforestation; soil erosion; wildlife populations threatened by poaching and urbanization; coastal degradation from mining activities and increased pollution; freshwater resources being polluted by industrial wastes and sewage runoff; waste disposal; air pollution in Colombo.

Sri Lanka has a population of 21.48 million as of July 2012 estimate. 17 births, 6 deaths, and -2 migrations result into a net increase of 9 per 1000 per year. Major ethnic groups are Sinhalese 73.8%, Tamils 8.3% and Sri Lankan Moors 7.2%. Two major languages spoken are Sinhala (74%) and Tamil (18%). Major religions are Buddhist 69.1%, Muslim 7.6%, Hindu 7.1%, Christians 6.2%.

Sri Lanka's literacy rate is 90.7%. Its nominal per capita GDP in 2010 was $2,290 which on Purchasing Power Parity basis equaled $5,070. In other words, its currency is undervalued in the international markets at approximately 45% of its true buying power within the country.

The country had a labor force of 8.31million with unemployment rate of 4.2%. 8.9% of its population lived below poverty line as per 2009 estimate (CIA: The World Factbook, 2012).

GLOBALIZATION'S CHALLENGES FOR SRI LANKA'S TEXTILES AND READYMADE GARMENTS EXPORTS

The Multi-Fiber Arrangement (MFA) had governed international trade in textiles and clothing from 1974 to 1995. It enabled developed nations, mainly the USA, European Union and Canada to restrict imports from developing countries through a system of quotas primarily to protect their domestic textile industries (Bharat Textile 2012).

However, the MFA, created to protect domestic producers in Europe and America, also created the country quota system that offered guaranteed protected export markets to the developing countries of South Asia that hitherto did not have any other natural strengths to sustain competitive garment industries. (Kelegama 2005)

Sri Lanka did not have either a well-developed export-quality textile industry or a base for garment industry accessories. However, when the country liberalized its economy in 1977, it created a confluence of many favorable factors that resulted into the birth and phenomenal expansion of the garment industry in the country. On the one hand, the liberal trade regime made importation of fabric easy. On the other hand, the garment quotas of the country guaranteed market for garment producers located in Sri Lanka. Consequently, the quota-hungry East Asian garment exporters eager to increase their business were immediately attracted to the Sri Lanka and they expanded their existing garment businesses to Sri Lanka. Later, the situation for the producers became even better when in 1992, the newly created Board of Investment offered many additional incentives to garment producers to locate their businesses in rural areas.

By about the early 1980s, garment exports were growing rapidly and by 1986 garments accounted for the largest share of all exports (27 per cent). During the 1990s, the garment industry grew at 18.5 per cent per annum. By 1992, the garment industry employed 1.2 million people and had replaced the tea industry as the country's largest foreign exchange earner (US$ 400 million).

Thus, from the very beginning, the feasibility of Sri Lanka's garment industry was based not on any natural strength, but the quota-based guaranteed markets under the quota regime, and easy importation of inputs assured by the liberal trade policies of the government. As such, the value added remained low – close to 30 per cent. By the late 1980s, garment industry in Sri Lanka was referred to as "glorified tailor shops" because, despite a decade of growth, its links with other industries remained low and the value added remained low as before.

In the early 1990s, the government made concerted efforts to create a domestic textile industry to support the garment business. However, development of local textile industry was very slow for many reasons (Kelegama and Foley, 1999). In 1997, when the East Asian crisis triggered currency depreciation in Indonesia and the Philippines – two of Sri Lanka's competitors in garment exports, the garment exporters tried unsuccessfully to persuade the government to devalue Sri Lankan currency. Instead, they were able to persuade the government to allow duty-free imports of textiles to bring down the costs. However, this had serious repercussions on the domestic textile industry and the industry virtually collapsed when no relief came from the government. In fact, three of the privatized textile factories (Veyangoda, Pugoda and Mattegoda) that were gradually switching to manufacture textiles to meet the needs of the export-oriented garment producers had to be closed down.

However, the Agreement on Textiles and Clothing (ATC) to abolish MFA quotas and integrate textiles and clothing into the multilateral trading system within 10 years from 1995 to 2004, changed the global textile trade in a fundamental way (Bharat Textile 2012).

Regional trading blocs and bilateral free trade agreements now governed nearly 33 per cent of global trade, China emerged as a major supplier of garments at very competitive rates, and the boom period for Sri Lankan garment industry came to an end.

The consequences were as disastrous as could be expected. Sri Lanka's textile exports trade declined dramatically from 2005-2009 and as of 2009, it had virtually no significant market presence in most important markets of the world: Canada, USA, Mexico, European Union, China, and Japan (WTO 2010).

From here on, the industry must rely on its natural and more permanent competitive strengths: literate, high quality, yet cheap labor force and its investment-friendly government, and its location on the strategic shipping lanes. At the same time, it must also live with its competitive disadvantages and constraints: long lead times due to lack of accessory and fabric base (90-150 days compared to competitors' 60 days), weak marketing, and outdated technology affecting product quality and already low labor productivity.

SRI LANKA'S TOURISM BUSINESS

As a relatively small island country, Sri Lanka has always depended on international trade for the tourism sector of its economy. Therefore, globalization was not really new for this sector. Yet globalization of the rest of the world has changed the market place in a dramatic manner and created unique challenges of competition for Sri Lanka.

However, the most serious challenge for Sri Lanka's tourism industry came from its internal strife and civil war. Tensions between the Sinhalese majority and Tamil separatists erupted into war in 1983. After two decades of fighting, the government and Liberation Tigers of Tamil Eelam (LTTE) formalized a cease-fire in February 2002 with

Norway brokering peace negotiations. Yet once again, violence between the LTTE and government forces intensified in 2006, but the government regained control of the Eastern Province in 2007. By May 2009, the government announced that its military had defeated the remnants of the LTTE. These developments had seriously affected the tourism business in the country for the past several years. However, the end of hostilities gave a new life to the tourism business in 2010.

In 2010, world tourist arrivals grew 6.7% to 935 million over the previous year. South Asia reported an increase of 14% to 11 million. India posted a 9% increase to 5.6 million. Sri Lanka experienced an increase of 46% to 654,000 tourist arrivals in that year due to the end of conflict and new peace in the country.

(Sri Lanka Tourism Development Authority, 2010; Global Travel Industry News 2010)

SRI LANKA'S EXPORTS OF TEA, RUBBER, AND SPICES

Tea, natural rubber, and spices have been traditional agricultural export products of Sri Lanka that are gift of nature. They exist because of the blessings of unique tropical climate, heavy monsoon rains, mountainous terrain, and fertile soil. However, their production is also subject to vagaries of nature: droughts, storms, and other natural calamities. Sri Lanka also faces competition from other large South Asian and Asian countries for marketing these products.

SRI LANKA'S TEA EXPORTS

Tea plantations require tropical warm climate, mountainous region, and heavy rain fall. Being naturally blessed with these conditions, Sri Lanka has been one of the major producers and exporters of tea in the world. However, as is true with all agricultural products, tea production too is subject to and at the mercy of vagaries of climate, and adverse weather conditions. For example, in 2009, Sri Lanka's tea exports fell 9% due to unusually dry weather hurting production (World Bank 2010).

Sri Lanka had also received preferential treatment in the European market which essentially provided it with a protected market demand. However, in February 2010, the European Union (EU) formally notified the Sri Lankan government of the temporary suspension of its access-to-trade privileges under the Generalized System of Preferences Plus (GSP+) program, effective August 15. This development would negatively affect Sri Lankan exporters' price-competitiveness in the EU market (World Bank 2010).

SRI LANKA'S SPICE AND RUBBER EXPORTS

Not much has changed for Sri Lanka's spice trade through the wave of globalization. Like tea, natural rubber has also been traditional export of Sri Lanka. However, it not only faces competition from other Asian producers of natural rubber, but also faces competition from synthetic rubber.

CONCLUSION

Globalizations has leveled the playing field in international trade, created equal opportunity for all, and brought unexpected prosperity to many poor countries. However, it is only an opportunity for new prosperity—not a guarantee. It requires astute planning, determined action, and a bit of luck for a country to find its unique offering to the world. Only then would it be able to exchange its unique goods, services, and talents to buy the necessities and luxuries it needs to better the lives of its citizens. The case of Sri Lanka illustrates the challenges of globalization for industries that based their feasibility and prosperity on artificial protections and privileges afforded to them by past trade regimes in contrast with those based on their natural distinctive strengths—a situation typical of many Asian countries.

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