East Asian Miracle

AImost four decades ago in 1960, Sri Lanka enjoyed the same per capita in come of US$150 as South Korea and Taiwan which are today known and admired as two of the four Tiger Nations. By 1983, Taiwan had risen to US$2,670 and South Korea to US$2,010, while Sri Lanka had risen to only US$330. Unfortunately Sri Lanka opted to turn to import substitution while these two countries adopted export oriented strategies in keeping with the massive growth in international trade. They took advantage and capitalized on the global situation while Sri Lanka failed to see what was taking place around her and opted to follow her own path.

Over the years heavy concentration on agricultural exports did not pave the way for export diversification into the manufacturing sector until recent times. In addition to this, the heavy expenditure on social welfare prevented Sri Lanka from achieving the same level of GDP growth rate that South Korea and Taiwan were able to achieve.

Today when Sri Lanka is fully geared to promote and enhance exports, the growth in the international market is not as accelerated as what it was at the time South Korea and Taiwan adopted export oriented strategies. The timing of Sri Lanka’s export drive has come at a stage when most other countries have also realized the necessity of this strategy. As such, Sri Lanka is compelled to compete with many other countries in the international market.

What lessons can Sri Lanka learn from the East Asian miracle? Replicating them might not be possible, but identifying and understanding would be prudent, if Sri Lanka is to learn something from the experience. Taiwan and South Korea had very strong agricultural sectors which were able to finance the industrial sectors. In fact agriculture formed the foundation for manufacturing to take off in those countries. This is sadly lacking in Sri Lanka.

No agricultural economy has ever achieved a per capita income above US8500 for any significant period of time, '(Kahn, World Economic Development, West View Press, Boulder 1979:118). Thus, industrialization is seen as the vehicle for creating extensive employment opportunities to absorb the excess labor which leaves the rural sector. It also speeds the process of capital formation, modernization of the economy and, of course, increasing the living standards and level of output per head of the population.

In the 1970's and early 80's the general thinking perceived the East Asian miracle as a result of the World Bank policies being implemented. But now, it is generally acknowledged that these countries actually subsidized their exports, linked their subsidies to export performance and practiced selective intervention in the manufacturing industrial programs; promoting those exports in which they had a comparative advantage.

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In addition to bringing the budget deficit down, they devalued their currency and saw to the macro economic policies of the country. As to why they were successful is because they had a skilled non-political bureaucracy which was able to implement policies without being weighed down by political allegiance.

Being prepared to capitalize on global situations is the key to a country's success. South Korea's and Taiwan's economies were properly poised with their export promotion drives to take full ad- vantage of the void Japan was leaving behind when it shifted from primary to secondary export substitution.

Like the theory of the flying geese, when Japan took off into higher value added production, the Koreans took over the void created by Japan. Similarly when the Koreans moved out the Malaysians stepped in. When the Malaysians move out, Sri Lanka hopes to step into that position. But we must be aware that many countries are eyeing that position, and if Sri Lanka is to secure it she should have the initial investment, a skilled labor force, technology, infrastructure etc. in place, as did the South Koreans and the Taiwanese.

One of the biggest obstacles to Sri Lanka's industrialization is training. We do not have the sort of skills development that should be in place, if the country is to move into light engineering manufacturing and higher value added industrial goods. Skills training is a must if Sri Lanka is to attract Foreign Direct Investment (FDI) into assembly type operations and higher value added manufacturing and move away from garments.

Technology too plays an important role. But this type of technology cannot be expected to pour into the country without the required promotion of it. With that, the labor force should be trained and geared to handle such technology as and when it does come into the country.

Infrastructure is yet another important ingredient in attracting FDI. In comparison to the South Asian region, Sri Lanka is quite well placed when it comes to infra- structure, though its telecommunications and highways need to be improved further. As to an educated labor force, Sri Lanka is on a better footing than Bangladesh or the Maldives, but India can boast of a technically skilled labor force.

With 20 years of experience with a liberalized economy, which the others in the region do not have, there is definite potential for investors to locate their plants in Sri Lanka and make the South Asian region their export market base. South Korea and Malaysia laid great emphasis on intensive skills development programs. These skills were geared to handle the technology introduced to those countries by the Japanese investors.

Another characteristic of the East Asian countries was that all without exception had very authoritarian type of governments which had great control over the trade unions which averted labor unrest. All these features were conducive in attracting FDI to

those countries. Malaysia, South Korea and Taiwan did not depend solely on FDI but generated their own domestic savings. Whatever FDI was attracted to the country was an added bonus to its industrial development. And whatever profits were generated were ploughed back into the economy.

Sri Lanka's domestic savings rate has never been more than 15% to 16% of GDP. Whereas Malaysia has a savings rate of approximately 30% of GDP. So they did not heavily depend on FDI unlike in the case of Sri Lanka. They had their economy in balance and in a much stronger position to generate high savings.

In Sri Lanka, we are running into fiscal deficits. The government has to borrow and is utilizing the savings which should have been used for production. So it was not only those countries' drive to export growth, but they also had their macro variables in place, such as control over inflation, control over budget deficits and a strong external balance.

The generous welfare schemes which are operational in Sri Lanka cannot be seen in the Newly Industrialized Countries. One cannot underestimate the impact of these welfare schemes on the Sri Lankan public, but at the same time it is a matter of efficient targeting of such welfare schemes that is needed in a country like Sri Lanka which is fighting to control its budget deficits. The cultural links between Japan and the East Asian countries. naturally turned Japan's investors in that direction. Not only did Japan invest in those countries but exported those goods back to Japan. Since South Korean investment is high in Sri Lanka, this country should seek to export back into the South Korean market and even to the South Asian region which has a large market base.

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Many of the development strategies of Japan's sucessful East Asian neighbors were patterned after Japan's industrial strategy which was based on selective intervention and semi-protected markets. 'With SAFTA being activated, the practicality of modeling Sri Lanka's strategies on these same lines are quite limited. What worked a few decades ago cannot be followed now. We have to compete globally on a liberalized footing,' says Dushni Weerakoon, Research Fellow of the Institute of Policy Studies.

In addition to the protected markets the East Asian countries provided export subsidies which were linked to export performance, subsidized rates of interest, at times over valued exchange rates to make their exports more competitive.

Subsidizing exports calls for a very strong budgetary position. In Sri Lanka too, exports are subsidized, but one needs to have fore- sight in selecting those export products which would have a comparative advantage in the future, and nurture those industries to be fully geared to take advantage of market trends. Sri Lanka is definitely not in a position to indefinitely subsidize such exports.

Even though political instability might have been present in Thailand which is considered a second tier NIC, its high level of policy continuity helped to attract FDI. Sri Lanka has seen a continuity of policy only in the last two decades. Prior to that, policies changed with each change of government which seldom lasted even a decade. The commitment to policy continuity which is sadly lacking in Sri Lanka, is vital in order to encourage and coax FDI into the country.

If Sri Lanka is successful in attracting a number of fortune 500 companies, the natural herd instinct would certainly fall into place. Just as some of these companies which were on the verge of coming to Sri Lanka decided to move over to places like Malaysia in the 80's, and with that many other smaller foreign investors following suit, the same principle would apply in attracting these companies to Sri Lanka.

NIC status for Sri Lanka is not an illusive goal. Sri Lanka can definitely get there, but there will be many others who might get there before Sri Lanka does! If we look at the past five years, even with the war, Sri Lanka has been able to achieve a growth rate of 5% of GDP. What is needed is a sustained growth rate of at least 7% to 8% of GDP for five to six years if Sri Lanka is to come close to Malaysia, Indonesia or the Phillipines.

In the early 1990's Sri Lanka reached a growth rate of 6.9%. This is an indication of the country's potential, but the political situation is the biggest draw-back to the country's progress.