

## **INDUSTRIALISATION IN SRI LANKA IN A GLOBALIZING WORLD**

**N.D. SAMARAWICKRAME**

*Department of Economics, Faculty of Arts, University of Peradeniya, Peradeniya*

Globalization has become the new economic order of the 'modified capitalism'. It is a dynamic and powerful process, which produces economic benefits as well as costs depending upon the degree of preparedness of a country. The necessary ingredients for preparedness are 'institutional deepening', 'resource mobility', 'innovativeness' and factor productivity that foster 'industrial competitiveness'. China is a case in point; its preparedness is relatively high as evident by changes. Sri Lanka's preparedness is relatively low though it has been adopting different strategies of control, semi-control and competitive economics.

Transition requires change in the institutional structure. The institutions referred to here are the State, the private sector, and the labour force. The changes should ensure the coexistence of the private sector and the labour force as partners and the State as the facilitator to build an alliance among them. Such an alliance would intensify openness and competitiveness, thereby facilitating integration. The above changes can be painful and time consuming for most South Asian countries because of rigidities in their socio-politico-economic orders.

The Sri Lankan State is apparently not prepared for a quick change. Its activities seriously interfere with macroeconomic variables. At micro level, the firms find it difficult to adjust costs, revenue, and hence profit, on a competitive basis. Prices of inputs, intermediate and primary, are influenced by economic policies of the State. The labour force shows little dynamism, the total factor productivity is relatively low and, consequently, firms secure only low profit margins. These result in a family-based, oligopolistic and small industrial structure. Thus, the firms sector too is not prepared for change. It continues with its conventional and static production functions. Firms face a major crisis as their market shares at local as well as foreign markets are declining sharply. Only the foreign industrialists find it comfortable to take advantage of globalization as it operates in a different institutional environment. The domestic industrialists certainly have potential for growth. The growing services sector provides necessary support for that. A favorable investment climate, improved infrastructure and good R&D facilities are the requisites. As in China, Thailand and India, the Sri Lankan State should take the lead in fulfilling these prerequisites for industrialization favored by globalization.