

GLOBALIZATION AND ITS IMPACTS OF ECONOMIC GROWTH IN SRI LANKA – EMPIRICAL STUDY (1987-2016)

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Abstract: The current wave of the globalization has opened up new opportunities along with threats for the countries all over the world. After the liberalization Sri Lanka has experienced major policy changes. It bought new opportunities for the international trade and investment to increase their own productive potential to meet the global competition during the second half of the 20th century in Sri Lanka. Even though it create massive opportunities for the trade and transaction, still Sri Lanka facing economical challenges day by day. This study seek to analyse the positive as well as the nagative impact of the globalization in Sri Lanka's economic growth through descriptive analysis and regression analysis. Also, as influencing factors in Gross Domestic product this study use Export (EX), Import (IM), Foreign Direct Investment (FDI), Tourism receipts (TR) and Workers' Remittances (WR) between the periods of 1987-2016. This study proves that the estimated coefficient value shows there is a positive relationship between Import (IM), Tourism receipts (TR), Workers' Remittances (WR) with Gross domestic product (GDP). At the same time the exports (EX) and FDI have negative relationship with gross domestic product (GDP). This findings brought a conclusion that the globalization have a significant positive and negative impacts on gross domestic product.

Keywords: Globalization, Gross Domestic Product, Liberalization and Regression Analysis

1. INTRODUCTION

World dependency increasing day by day and international trade can touch every corner of the world while the restriction, rules and regulation for the moments of the community, goods and services are facilitated. As a result global has come under one roof. It forces us to think the people to go wherever they want, and buy whatever they want. Globalization era disgracing the concept of distance. Despite trade transaction, foreign direct investment, capital flow and technology transition increased significantly. Simply, advanced technology brought the nation together.

Globalization refers to different people, society, culture, region integrate through increasing trend of transection, transportation and advanced technology which create a network worldwide. It is a kind of modern capitalism. As people started to travel across the world. They started to communicate with others. It led to the intermingling of the language and cultural interchange. In modern era after indusrialaization on 19th century production of the world increased, it led to transact between the countries. After world war the dependency between countries further increased. And also factor endowments is one of the reason for this trade and transaction. At the same time the Asian countries like India, Sri Lanka and Indonesia got freedom from their colonies. So they started to trade among rest of the world. Also the world wars and economic crisis was a threat to the world prosperity. So to create the peace and stabilize the world economy, world wild institutions built up by all the nations. Like

WTO (World Trade Organization), UN (United Nations), and IMF (International Monetary Fund). Those create unique platform to universal trade.

Globalization effect the production as well as consumption. And have significance influence on economy, culture, environment, society and security. Main reasons for the speed growth of the globalizations are free trade activities, emerging advance technology and worldwide market. In economic view, the key of the globalization is open economy system which made the countries to the trade and transaction. Moreover negotiations of the barriers increased further trade and travelling. Foreign direct investment became major investment which helped to seek markets and resource transaction. Such reasons made the economic globalization.

Sri Lanka economy was one of the most inward oriented economies outside the communist block which operated around 1960 to 1977. After that it has experienced major policy changes. The new economic reform known as liberalization which were popularly explain as open economy. It was brought new opportunities for international trade and investment to increasing their own productive potential to meet the global competition during the second half of the 20th century in Sri Lanka. Even though this liberalization and other policy implementations has made many challenges to the country (Central Bank of Sri Lanka, 1995)

Previous papers have examined the effects of globalization on South Asian countries, especially about SriLanka and the challenges to survive and prosper in the new world. Also some of the studies have focused on the areas in which the Sri Lankan society experienced a significant impact of globalization such as entertainment, information technology and sexuality and investigates the impact of globalization on economic development in a developing country like Sri Lanka. (Silva & Kariyakarawana, 2004) Therefore With the present economic position in Sri Lanka we suggest this paper to fill the research gap. This study seek to analyse the positive as well as the negative ecomic impact of the globalization in Sri Lanka's economic growth through regression analysis.

2. METHODOLOGY

The study completely based on institutional quantitative secondary data source. The data collected for the period 1987-2016. It first include the descriptive analysis to explain trend of the variables. And then moves to regression analysis to proof the economic impact of the globalization in Sri Lanka context. Only the national level secondary data required for this study. Data were collected from central bank of Sri Lanka and world development indicator reports.

2.1. Descriptive Analysis

This study use the indicators which influence the economy of a country through globalization. So to examine the effect of the globalization in the economy the Gross Domestic product used as a represent variable to the economy. Also, as influencing factors to represent the globalization are Export (EX), Import (IM), Foreign Direct Investment (FDI) and Tourism receipts (TR). Moreover this part will perform by MS Excel, for simple graphs, tables and calculations.

2.2. Regression Analysis

To examine the relationship between globalization and economic Growth, the above specified indicators has been analyzed by employing the method of Ordinary Least Squares (OLS). The SPSS Software use to this multiple regression to estimate and

find the results. In this multiple regression model, GDP is dependent variable while other indicators are independent variables.

1. Export (EX)
2. Import (IM)
3. Tourism receipts (TR)
4. Foreign Direct Investment (FDI)
5. Workers' Remittances (WR)

$$Y = \beta_0 + \beta_1 (EX) + \beta_2 (IM) + \beta_3 (TR) + \beta_4 (FDI) + \beta_5 (FE) + \beta_6 (WR) + U$$

3. DISCUSSION AND RESULTS

There is a door step connection between the emergence of the globalization and the progress in the Sri Lankan economy. Regarding to the political history of Sri Lanka people have changed the government several times since the post-independence period. As a result government not continued the policy to a long period to promote the countries development on the economy and its infrastructure. When the self-sufficiency in food became a major trust in all over the world after two world wars, many emergence economies followed different policies to build up there nations. Sri Lanka also adopted policies of import substitution under high import tariffs with higher government intervention in the state regulation activities to promote the industry and agriculture sector from 1950's until 1977 except for a partial liberalization attempt in the second half of the 1960's. But the government continued to pressure on the external and the internal political intimidations and the problems transpire on the foreign exchange led the economy to open up the transaction between the global economy.

1977 is a milestone of the economic history of the Sri Lanka. Far reaching policy reforms were introduced in this year to shift the focus from the state-led economy growth and move on free market economy to achieve the outward looking development strategies. In 1977, the United National Party came into power with a five-sixths majority in Parliament. Hon. J. R. Jayewardene became the Prime Minister, pledging to establish a market economy. Therefore country involved in to major policy alterations, which finally brings opening up of private sectors. The reforms process introduced were reducing tariff and non-tariff barriers, relaxation of FDI rules, exchange rate and banking reforms. The policy since the early 1960's that restricted foreign banks from opening branches in Sri Lanka was changed in 1977 and 10 new foreign banks opened branches in 1979 and 1980 alone. The decision to open up its economy and integrate it to the international economy would always remain the sound basis for the success behind Sri Lankan economy. (Central Bank of Sri Lanka, 1995)

During 1951 – 1977 average economic growth was 3.8 with that higher growth recorded 1966 to 1970 period when attempt to achieve the partial economic liberalization. In 1970 to 1977 the economic growth lose speed to 2.9 percent due to unfavorable external environment. Meanwhile public investment rose in 1978-1980 averagely 17.8 percent of GDP compare to 1970-1977 averagely 5.7 percent of GDP. This investment climate and the 5 percent of the average economic growth remained uncertain in particularly second half of 1980s due to the civil disturbance through the arm conflict beginning of an intermittent insurgency against the Sri Lankan Government by the Liberation Tigers of Tamil Eelam (LTTE). In this period Sri Lanka has miss the opportunity of the establishment of the multinational companies. Civil war made collapse in the external sector investment also slow in the growth of economy. In 2009. Civil war has many influence on the export import as well as FDI (Foreign direct investment) also there is a significant impact on the global crisis in 2007. So interrelate to the Sri Lankan economy

with the global market result to the globalization through the trade flows and FDI give significant impact in economy. (Central Bank of Sri Lanka, 1995)

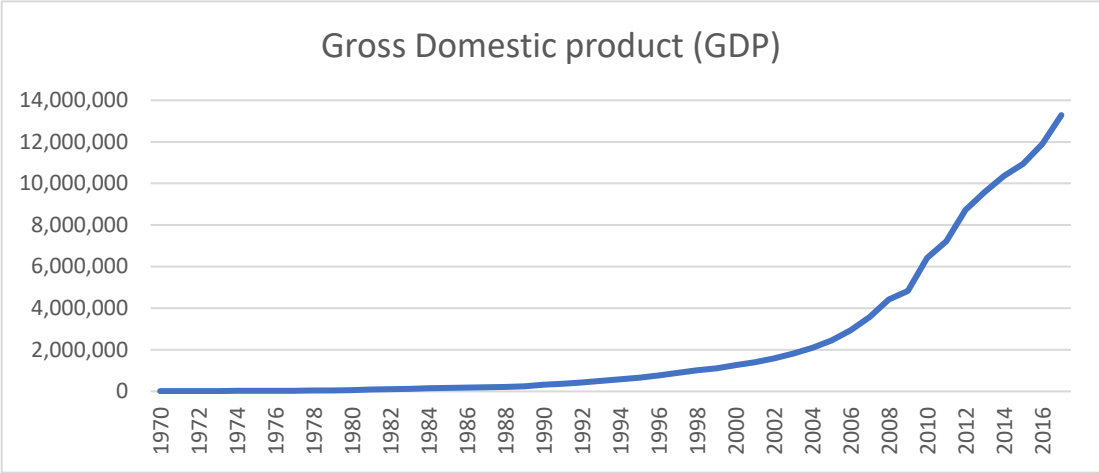


Figure 1. Gross Domestic product of Sri Lanka Rs.mn 1970-2016
Source: Central Bank of Sri Lanka

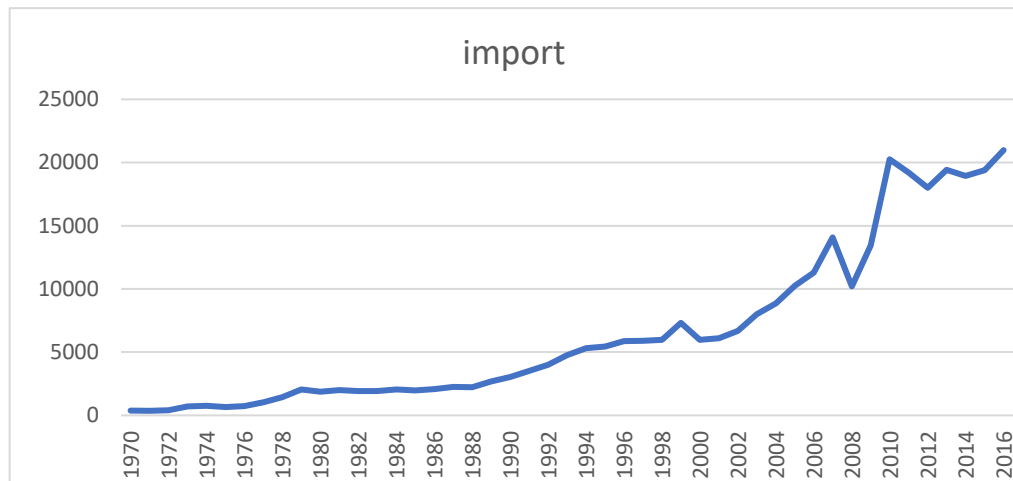


Figure 1. Import of Sri Lanka US \$ million 1970-2016
Source: Central Bank of Sri Lanka

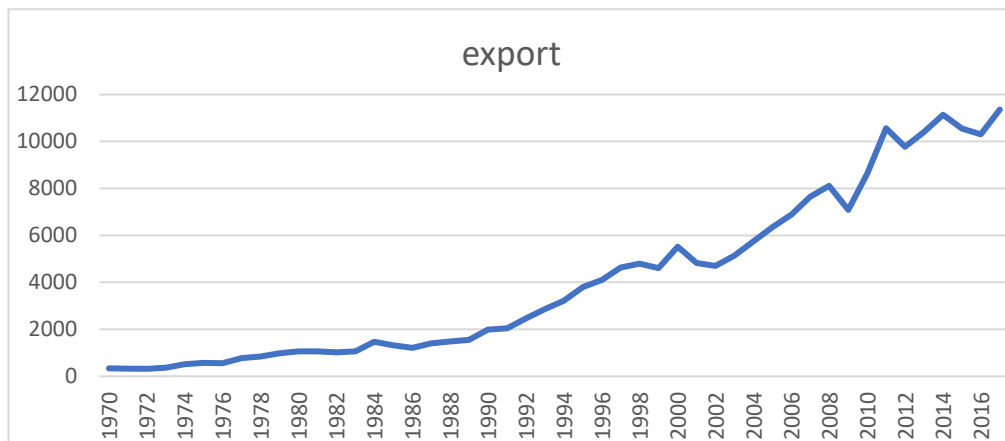


Figure 2. Export of Sri Lanka US \$ million 1970-2016
Source: Central Bank of Sri Lanka

The above figure 1 and figure 2 shows the conditions of the imports and the exports of Sri Lanka which manipulated through the foreign trade. Eventough Sri Lanka exporting to many countries still face the BOP deficit because of the excess import

“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” (Shreekant, 2012)

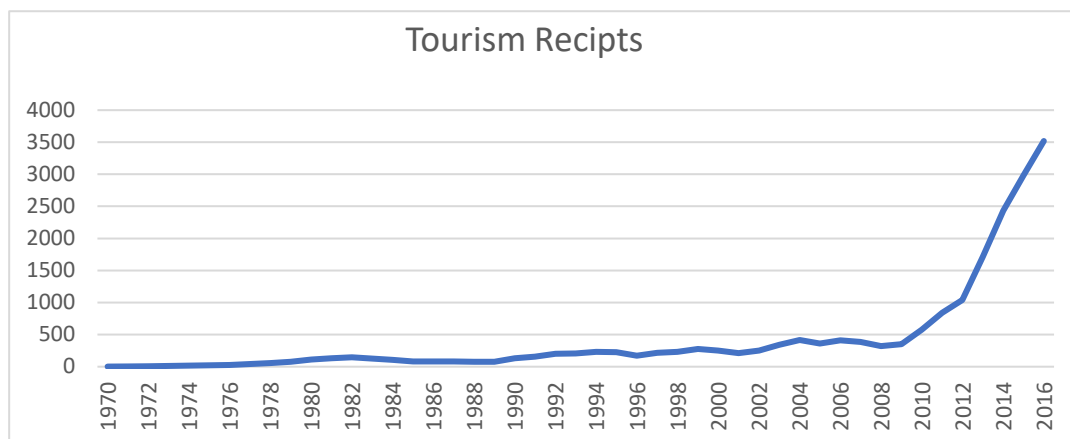


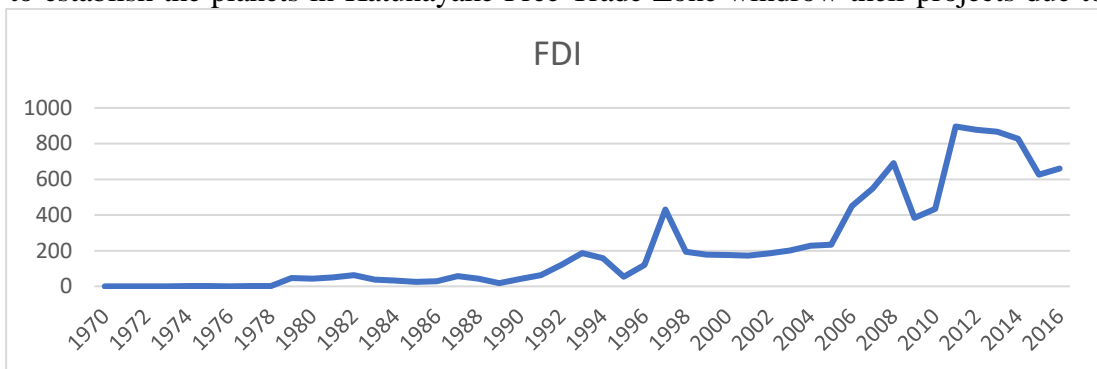
Figure 3. Tourism receipts of Sri Lanka US \$ million 1970-2016
Source: Central Bank of Sri Lanka

According to that in Sri Lanka the globalization foot print to tourism industry. The Sri Lankan tourism industry has been experiencing a rapid expansion and diversification, to become one of the largest and fastest-growing economic sectors of the post conflict economy, despite many issues and challenges. Tourist arrivals to Sri Lanka have increased from 448,000 in 2009, to 1.8 million in 2015. The earnings from tourism also have surged from US dollars 349 million in 2009, to US dollars 2,981 million in 2015, becoming the third largest foreign exchange earner in the country, acceding only to workers' remittances and income from garment exports. (Central bank of Sri Lanka, 2009) (Central bank of Sri Lanka, 2015)

Figure 3 explore the tendency of tourism receipts of Sri Lanka between the periods of 1970 to 2016. In 2016, the tourism sector continued to perform well and was able to retain its rank in the third level as one of the main sources of Foreign Exchange Earners of the national economy. Foreign Remittances (Rs. 1,054.48 billion) and Textiles and Garments (Rs.710.76 billion) were the first two highest sources of foreign exchange. The portion of tourism's contribution to total FE earnings in 2016 amounted to 14.2 per cent. The foreign exchange earnings increased by 18.05 per cent from Rs. 405,492 million (US 2980.6 million) in 2015 to Rs. 512,293 million (US \$ 3,518.5 million) in 2016. Foreign Exchange (FE) Receipts per tourist per day recorded an increase of US\$ 4.1, from US\$ 164.1 to US\$ 168.2 in 2016. The per capita tourist receipts increased up to US\$ 1,715.6 recording an increase of 3.5 per cent compared to US\$ 1,657.4 in 2015. The per capita tourist receipts per day amounted to US\$ 168.2, showing an increase of 2.5 percent as compared to US\$ 164.1 in 2015. (Central bank of Sri Lanka, 2016)

Foreign direct investment is one of the essential benefit from the globalization which is mainly contributed to the export diversification and economy growth. There is increasing competition between developing countries to attract the FDI because it is an alternative source of the capital financing except to loans. Also FDI are risk free to fill the investment saving gap when domestic resources are not enough. FDI brings many advantages to the economy foreign capital, advanced technology, managerial expertise, and market access. Also its improving the work countries must follow the favorable investment climate through the policy implementations.

In case of Sri Lanka FDI is mainly focused to improve the export oriented manufacturing sector. Before independence the major source of the FDI is UK, they were mainly consider to develop the infrastructure. Even though between the period of 1948 to 1997 government implement distinguish policies result to closed economy scenario FDI is only 0.5 million. But after 1977 economy open up the transaction cause to increase the FDI. According to the central bank reports during 1978-1982 FDI was 4.2% of gross domestic capital formation compare to 0.2% of gross domestic capital formation in 1970-1977. Reason for this upsurge is policy changes of the government. It reduce the taxation, impose some tax holidays to exporters, and zero tax for raw materials and machineries and establishment of foreign bank. Major contribution of the FDI in Sri Lanka Export Processing Zones. There are many institution establish to develop the external sector such as, greater Colombo commission (1977) to Export Processing Zone, Foreign Investment Advisory Committee and Board of Investment. This expansion no longer continued, civil war insurgency against the Sri Lankan Government by the Liberation Tigers of Tamil Eelam (LTTE) led to both political and economic destabilization turn the investment opportunities to other countries for instance, in 1982 Harris and Motorola electronic manufacturing cooperation which obtained BOI approve to establish the planets in Katunayake Free Trade Zone windrow their projects due to



the uncertainty created by civil war. This situation showed the diffident decline to US\$ 35.4 million compare to US\$ 50.8 million in 1978 during 1983-1989. Figure 4 explore the tendency of the FDI from the liberalization periods onward

Figure 4 foreign direct investment of Sri Lanka US \$ million 1970-2016
Source: Central Bank of Sri Lanka

However until civil end at 2009 there was a misalliance in the FDI in speacially 1995, 2001, and 2009. Except to this in 2008 there were considerable growth was identify as US\$ 691 million due to the reinvestment in retained earnings of foreign investors. The decline in 2009 have the partial effect of impact of global financial crisis and the security challenges. After 2009 there were considerable increase in the FDI of Sri Lanka but compare to other countries we are having a small benefit from FDI. (Central Bank of Sri Lanka, 1995)

The Sri Lankan record of the FDI has been far below excepted level and low in comparison in many other Asian countries such as Honk Kong, Malaysia, Singapore and Thailand which attracted 68.9, 38.6, 5.8 and 9.1 billion respectively

3.1. Results

This results provide impact of globalization in economy through the quantitative approach. How the imports, exports, tourism receipts and foreign direct investment are influence the economic growth in Sri Lanka from the time series of 1987-2017. All the findings are calculated by using the SPSS software. The

findings are discussed below along with their critical explanations above model variables used in Log format including GDP

Table 1. Descriptive Statistics

Descriptive Statistics			
	Mean	Std. Deviation	N
LGGDP	4.3359	.35680	30
LGIM	3.8560	.30721	30
LGFDI	2.3397	.45534	30
LGWR	5.0489	.63353	30
LGEX	3.6856	.27409	30
LGTR	2.5379	.43558	30

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.994	.989	.987	.04131	.915

Table 2. Model Summary

Table 3. Significance level or F value

ANOVA a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.651	5	.730	427.834	.000b
	Residual	.041	24	.002		
	Total	3.692	29			

a. Dependent Variable: LGGDP

b. Predictors: (Constant), LGTR, LGFDI, LGEX, LGWR, LGIM

Table. 4 Coefficient Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.360	.289		4.711	.000
	LGIM	1.127	.222	.970	5.080	.000
	LGFDI	-.002	.047	-.003	-.045	.964
	LGWR	.375	.076	.665	4.910	.000
	LGEX	-.915	.189	-.703	-4.852	.000
	LGTR	.046	.048	.056	.964	.345

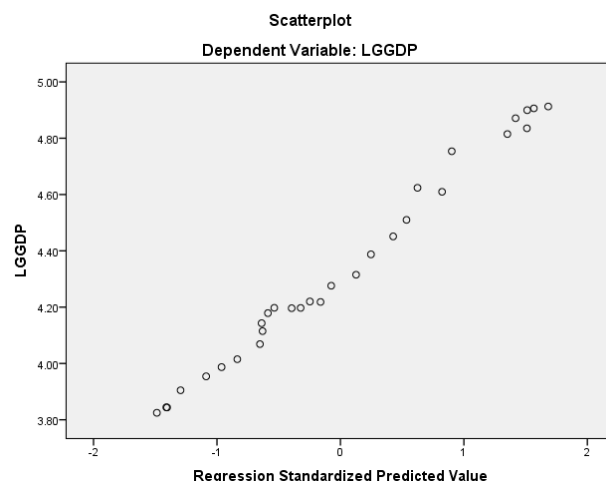


Figure 5. Scatter plot

In table 1 Descriptive statistic is use to analyze data and to describe and summarize it in a systematic way. The standard Deviation shows the volatile of the variables. The table 2 explain about the model fitness of the gross domestic product and the other variables. It tells us that how much variation is explained due to the dependent variable for independent variable. The above data shows the value of R square is 98% which means that 98% variation is occurred in GDP during the time period of 1987-2017 due to the changes in the globalization indicators. R square value results by taking the square of the R value. According to the above results, R value is 98 percent of correlation between observed and predicted values of GDP is explained by the model and this value also shows that the model is good and strength. Also the Durbin-Watson statics Estimated d value is falling in $0 < d < d_L$ and also there is no positive auto correlation. Opposite to this there is high VIF so the multicollinearity problem exist. Table 3 shows the F value or significance level it tells us about the goodness of fit of the model. According to the above results, the P-value is 0.000 which means that the model is good fit. Also figure 5 used to determine that whether the relationship is linear, detect outliers and graphically shows the relationship. it shows the positive association between the variables.

The estimated coefficient value shows in table 4, that there is a positive relationship between Import (IM), Tourism receipts (TR), Workers' Remittances (WR) with Gross domestic product (GDP). And the same time the exports (EX) and FDI have negative relationship with gross domestic product (GDP). This findings brought a conclusion that globalization have a significant positive and negative impact on gross domestic product. The FDI Shows the lower significant value it is emphasize that in Sri Lanka foreign direct investment not influence the economic growth of the country.

4. CONCLUSION

Empirical studies have shown repeatedly that globalization impact in Sri Lanka since 1987 to 2016 had taken place in different ways. Sri Lanka economy was one of the most inward oriented economies outside the communist block which operated around 1960 to 1977. After that it has experienced major policy changes. It brought up many opportunities to Sri Lanka in various ways. But the war became a major threat to the country after 1987. It led to close some doors of those opportunities. Also during this period SriLanka has missed the opportunity of the establishment of the multinational companies. Civil war made collapse in the external sector investment also slow in the growth of economy. Civil war influenced on the export import as well as FDI (Foreign direct investment) also there is a significant impact on the global crisis in 2007.

So the total economic benefit of globalization had not been accumulated so far in Sri Lanka. According to the finding of the above study export as well as FDI (Foreign direct investment) should be improved for the economic growth Sri Lanka. The Sri Lankan record of the FDI has been far below expected level and low in comparison in many other Asian countries such as Honk Kong, Malaysia, Singapore and Thailand which attracted 68.9, 38.6, 5.8 and 9.1 billion respectively. So there are requirements to attract the foreign direct investment. Therefore the government need to be develop the investment climate.

Also the declining share of Sri Lankan exports in the world's total exports, shows how Sri Lanka has lost its competitiveness in world trade over the past years. This clearly proves that the reasons for Sri Lanka's poor export performance should exist within the domestic economy rather than in the global economy. Also according to the finding country's export not sufficiently participated to the economic growth. The lack of product diversification is identified as a major concern for this challenge. So the government should focus on the export diversification. Here are some suggestions to full fill these holes

- a. Facilitating private sector participation
- b. Improve the product diversification
- c. Greater trade openness
- d. Encourage Research and Development (R&D)
- e. Improve the efficiency of the external sector
- f. Develop the tourism industry to increase the earnings
- g. Increase the outflows of FDI

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