TAKEAWAYS

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Has Globalisation Gone Too Far—or Not Far Enough?

An LKI Roundtable with Dr. Shanta Devarajan
Professor, Georgetown University and former Senior Director for Development Economics, World Bank

Discussants: Hon. (Dr.) Harsha De Silva Gunatilake, Non-Cabinet Minister, Economic Reforms and Public Distribution; and Dr. Indrajit Coomaraswamy, Governor, Central Bank of Sri Lanka

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Three key takeaways from the roundtable discussion with Dr. Shanta Devarajan -

1. **A key benefit of globalisation is that it opened up sectors and forced monopolistic firms to face competition.**
2. **However, globalisation has not gone far enough in most countries as the non-tradable sector remains heavily restricted.**
3. **By liberalising, Sri Lanka can stand to gain from new opportunities that could arise, such as from the US-China trade war.**

Introduction

- Dr. Shanta Devarajan, Professor at Georgetown University and former Senior Director for Development Economics at the World Bank, addressed a Foreign Policy Round Table (supported by The Asia Foundation) entitled 'Has Globalisation Gone Too Far—or Not Far Enough?' on 6 August 2019, at the Lakshman Kadirgamar Institute (LKI).
- The discussion was moderated by Dr. Ganeshan Wignaraja, the Executive Director and Chair of the Global Economy Programme at LKI.
- The round table was attended by Hon. (Dr.) Harsha De Silva, Non Cabinet Minister of Economic Reforms and Public Distribution; Dr. Indrajit Coomaraswamy, Governor of the Central Bank of Sri Lanka; LKI Board members, senior members of the diplomatic corps, academics, government officials, and representatives of the media, think tanks and the private sector.

Takeaways from Dr. Devarajan's Presentation:

The Impact of Globalisation

- Globalisation is facing a growing backlash around the world. The rapid growth in trade, financial and labour flows over recent decades has been blamed for many of the world's most pressing problems. What's more, the empirical evidence on the impacts of globalisation is mixed.
- Empirical research has found that trade liberalisation associated with the spread of globalisation is, on average, followed by a two percentage point increase in per capita GDP growth. Similarly, it is also associated with an average of four to five percentage point increase in investment to GDP ratio.
- Globalisation has had a similarly significant effect on poverty. Developing countries that liberalised their economies in the 1980s and 1990s had a poverty rate that was one-fifth of the level in countries that had not done so.
- However, at the country level, empirical evidence shows a much-varied impact. Some countries have seen an acceleration in economic growth and significant reductions in poverty as a result of liberalisation, while others have seen little acceleration in growth, and in some cases even seen a slowdown. It has also been followed by an increase in inequality in some countries.

The Role of Monopolies

- As evidence suggests, the impact of globalisation has been mixed. One reason for this could be because the forces of globalisation have not reached the non-tradable sectors of the economy, limiting the potential benefits of liberalisation.
- The main argument follows that, trade tariffs, quotas and trade restrictions create negative distortions in an economy, making it less efficient. The direct impact of removing these distortions in models of a competitive economy was marginal. However, if the possibility that the trade restrictions created domestic monopolies was taken into account, the effects of removing trade barriers was much larger.
- While trade liberalisation broke down monopolies in the tradable sectors (especially, manufacturing), the non-tradable sector (infrastructure and services) was not touched and, therefore, the monopolies in this sector remained (and possibly, increased).
- These monopolies can manifest through different means, such as through political intervention as in the case in Tunisia in the telecoms, banking and transport sectors, or through legal barriers to entry found in the trucking sector in most African countries. These monopolies create a bigger distortion in the economy as they are able to restrict domestic supply as well as charge higher prices.
- As a result of the higher prices, input products that are part of supply chains are adversely affected, ultimately creating a less competitive economy. While globalisation deregulated and addressed these issues in the tradable sector, the non-tradable sector remained closed and restricted.
- The services provided by the non-tradable sector, such as insurance and transport are essential, especially when exporting. As such, when a country begins to compete in global markets, the net benefit to the economy is far lower due to the partial deregulation of the economy.
- The big benefit of globalisation was that it forced monopolistic firms to face competition; but in many developing nations, the focus was only on the tradable sector. In this sense, globalisation may have, in fact, not gone far enough.

Takeaways from the Discussion:

- Sri Lanka must open up services more and deregulate monopolies in the non-tradable sectors to integrate into world markets. However, this may be difficult to execute as it is widely opposed by sceptics who argue that opening up the economy and inviting foreign labourers will reduce job opportunities for locals. Greater political will and a strong consensus is needed in order to move forward.
- Countries like Sri Lanka can benefit from the US-China trade war by exploiting opportunities created by the diversion of trade between the warring parties. One way that Sri Lanka can leverage this particular scenario is to lower trade tariffs to take advantage of the openings created by the trade dispute.
- Sri Lanka has been classified as an upper-middle-income country as of last month, however, the quality of infrastructure remains below par. Sri Lanka ranked 65th on the World Economic Forum's 2018 Global Competitiveness Rankings. The big agenda for

2020 should be handling domestic reforms and placing a greater emphasis on debt management, to boost Sri Lanka's competitiveness in the global marketplace.

Suggested Readings:

Devarajan, S et al. (2018). *Traders' Dilemma: Developing Countries' Response to Trade Disputes. World Bank Policy Research Working Paper 8640*. [online] Available at: https://www.gtap.agecon.purdue.edu/resources/download/9267.pdf [Accessed 27 August 2019].

Devarajan, S. and Khemani, S. (2018). *If Politics is The Problem, How can External Actors be a Part of the Solution?* in Basu, K. and Cordella, T., eds., Institutions, Governance and the Control of Corruption. Springer. [online] Available at: https://link.springer.com/chapter/10.1007/978-3-319-65684-7_8 [Accessed 27 August 2019].

Wignaraja, G. and Collins, A. (2018). *The Future of Globalisation in Sri Lanka. Lakshman Kadirgamar Institute*. [online] Available at: https://link.springer.com/chapter/10.1007/978-3-319-65684-7_8 [Accessed 27 August 2019].

Lakshman Kadirgamar Institute. (2018*). Spotlight on Globalisation and the Global South with Dr. Indra De Soysa*. [online] Available at: https://www.lki.lk/publication/globalisation-and-the-global-south-an-interview-with-dr-indra-de-soysa/ [Accessed 27 August 2019].