

BOOK REVIEW

Sirimal Abeyratne, 1993, *Anti-Export Bias in the 'Export-Oriented' Economy of Sri Lanka*, Amsterdam: VU University Press, pp. 205.

The present book is one of several recent studies on Sri Lanka's attempt to emulate the export success in East Asia through a change in economic policy. Its purpose is to examine the influence of an outward-oriented trade strategy on Sri Lanka's industrial performance since 1977, focusing on the net incentive effect of the trade regime on import substitution and exports (i.e. the anti-export bias). In the process, it also seeks to identify policies that would further improve the country's industrial performance. In accordance with this objective, the study analyses the extent of anti-export bias in the manufacturing sector, the determinants of anti-export bias and the effectiveness of previous tariff reforms in reducing of such bias.

The book consists of eight chapters. Following a brief introduction, chapter 2 discusses the issue of anti-export bias in Sri Lanka in the context of an empirical analysis of trade strategy and industrial performance in the country and the four East Asian tigers (Korea, Taiwan, Hong Kong and Singapore) during 1965-90. Chapter 3 surveys the literature on the debate over the choice of trade strategy between import substitution and export promotion while chapter 4 sets out a framework for the analysis of anti-export bias in Sri Lanka based on Corden's concept of effective protection. This framework is applied to the Sri Lanka's post-1977 experience in chapters 5, 6 and 7. The empirical analysis of effective protection and anti-export bias uses data for 1988 from a survey of manufacturing firms located outside Sri Lanka's export processing zones geared to export-oriented foreign investment. Chapter 8 concludes with a summary of the main findings and some policy recommendations.

The main findings of the book can be summarised as follows: (1) compared to the industrial achievements of the East Asian NICs, Sri Lanka has failed to ensure a sustainable growth momentum and manufacturing development in the open economy period; (2) despite a decade of trade liberalisation, previous efforts at tariff reform have failed to eliminate the anti-export bias in the manufacturing sector; and (3) the current trade regime is highly anti-export biased given that the net incentive effect of trade strategy on import substitution is much stronger than that on export promotion. It concludes by recommending a combination of import liberalisation and export subsidization to achieve a neutral trade regime and improve the country's industrial performance. The book does not make any new contributions to the existing theory of effective protection nor does it provide new methods of estimating anti-export bias in LDCs. Instead, it strictly adheres to the assumptions suggested by the existing theory of effective protection and the standard procedure of estimating anti-export bias pioneered by Corden, both of which

have been questioned in the trade theory literature. Its main contribution lies in a critical survey of the trade strategy literature on Sri Lanka, a competent empirical application of effective protection analysis in Sri Lanka and the production of the latest industry-level estimates of anti-export bias in the manufacturing sector (1988).

At the same time, however, the book suffers from several weaknesses. First, its assertion that Sri Lanka's industrial performance since 1977 has been disappointing is inadequately supported. The comparison of Sri Lanka's performance with the NICs during 1960-1990 neglects the fact that the latter had a much longer experience of outward-oriented trade strategies. More suitable comparisons are: Sri Lanka's industrial performance in 1977-90 with that of its inward-oriented period (1961-1977) or that of the NICs during 1960-1977 (i.e. in the initial phase of industrial expansion). Such comparisons would have shown that the growth rate of manufactured exports (31% per year in 1977-93) was quite impressive even by NIC standards. By 1993, the country's manufactured exports reached US\$ 2.0 billion (up from US\$ 14.7 million in 1977).

Second, the book fails to explain why Sri Lanka's manufactured exports (driven by low skill items like garments and diamonds and jewellery) grew so fast in spite of an "anti-export bias" in the trade regime. One plausible explanation is that the incentive structure for manufacturing after 1977 may have in fact become more conducive to exports and the realisation of static comparative advantage (i.e., a "neutral" or "pro-export bias" may have resulted from the 1977 policy reforms). The combination of a good base of skilled labour, low wages and the availability of Multi-Fibre Agreement quotas probably allowed Sri Lanka to expand its low skill exports. In this regard, foreign investment may have also played a major role in transferring technologies and boosting these exports.

Third, the book's recommendations for policy in Sri Lanka seem limited in the light of recent reappraisals of the East Asian experience. Several recent studies argue that the adoption of an outward-oriented trade strategy was a necessary but not sufficient condition for export success in East Asia. More important, they argue, was the formulation of a coherent industrial strategy directed at remedying market failures in technological development. Such a strategy involved outward-orientation combined with limited infant industry protection, targeted credit, ample supplies of technical manpower, supportive technical services, an efficient infrastructure and sound macro-economic management. In the light of this evidence, it is likely that Sri Lanka would also require a more complex approach if it is to achieve its ambition of emulating East Asia.

The book will interest academics specialising in Sri Lanka's liberalisation experience and those studying the industrial performance of other outward-oriented LDCs. It is somewhat hampered by a lumbering writing style which makes laborious reading, but the material, which is quite technical in nature, is well selected and organised within a narrow empirical framework.

Ganeshan Wignaraja. ■