

*The Late Convergence Stall and Sri Lankan
Economic Development*

*Arvind Subramanian
Chief Economic Adviser,
Government of India*

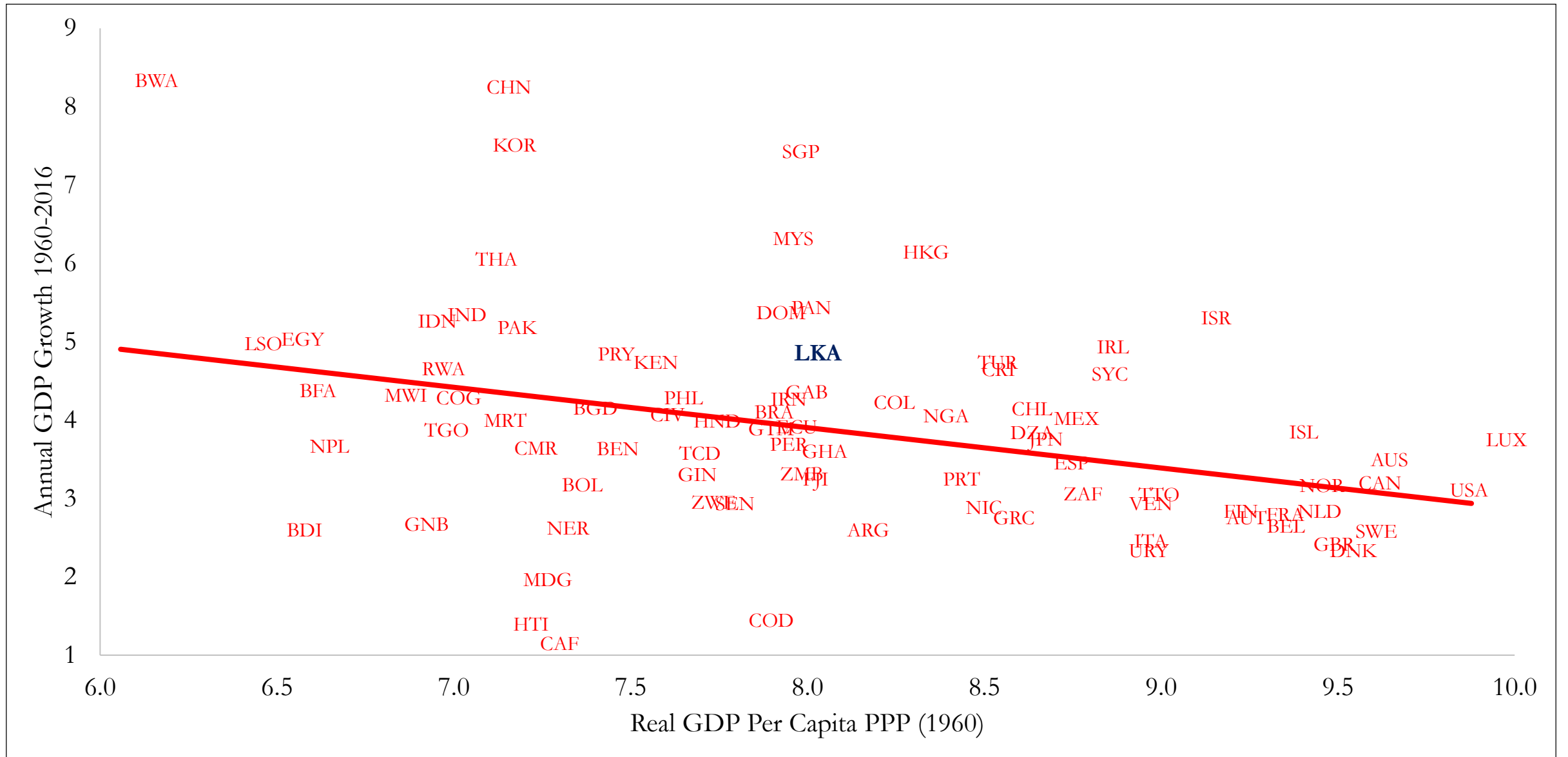
*Public Lecture at Central Bank of Sri Lanka
Colombo, July 9, 2018*

Overview

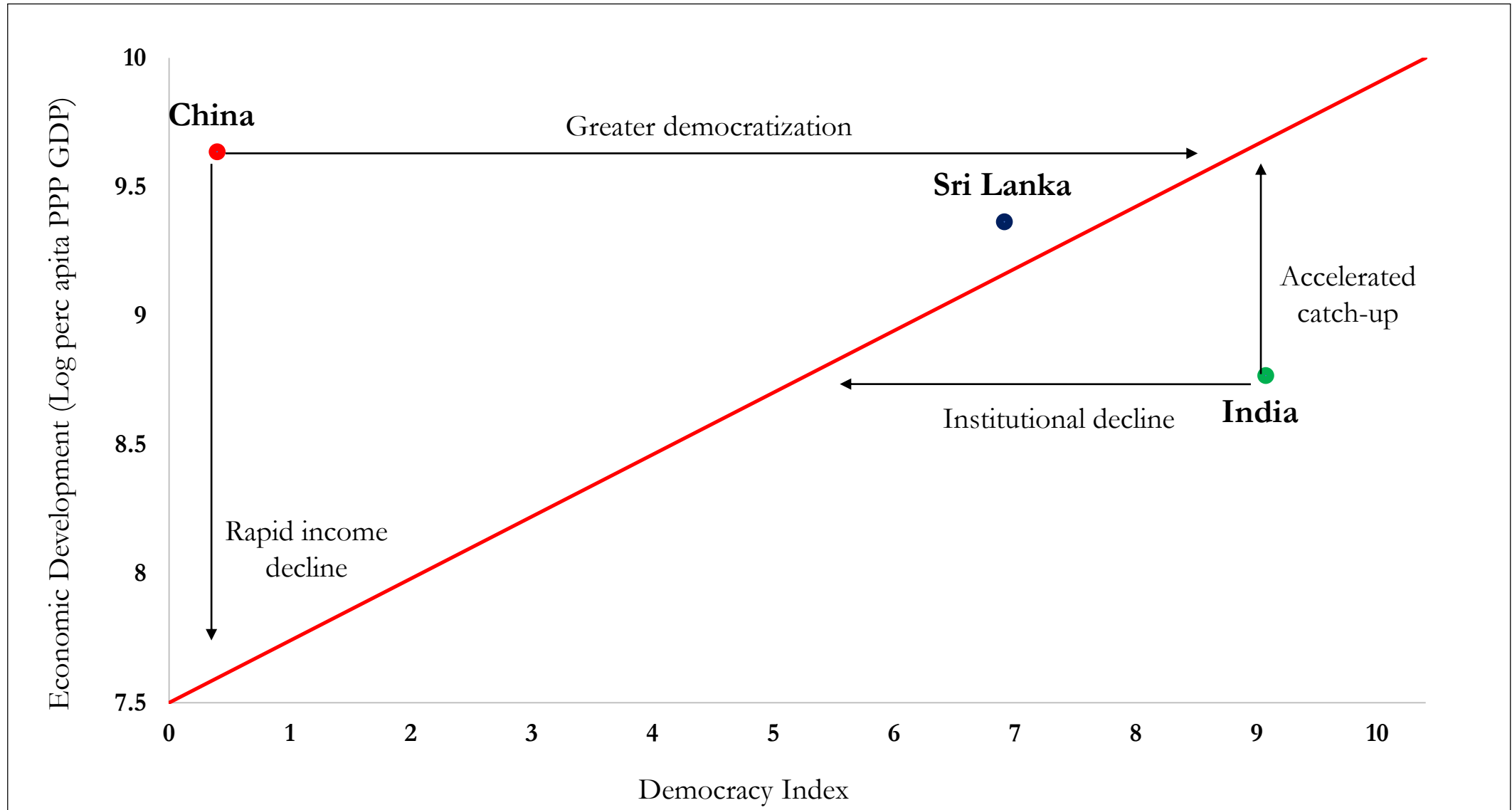
- Achievements
- Challenges
- Impacts of the Late Converger Stall
- Concluding observations

Significant Achievements

Solid, above-average performance on long-run growth

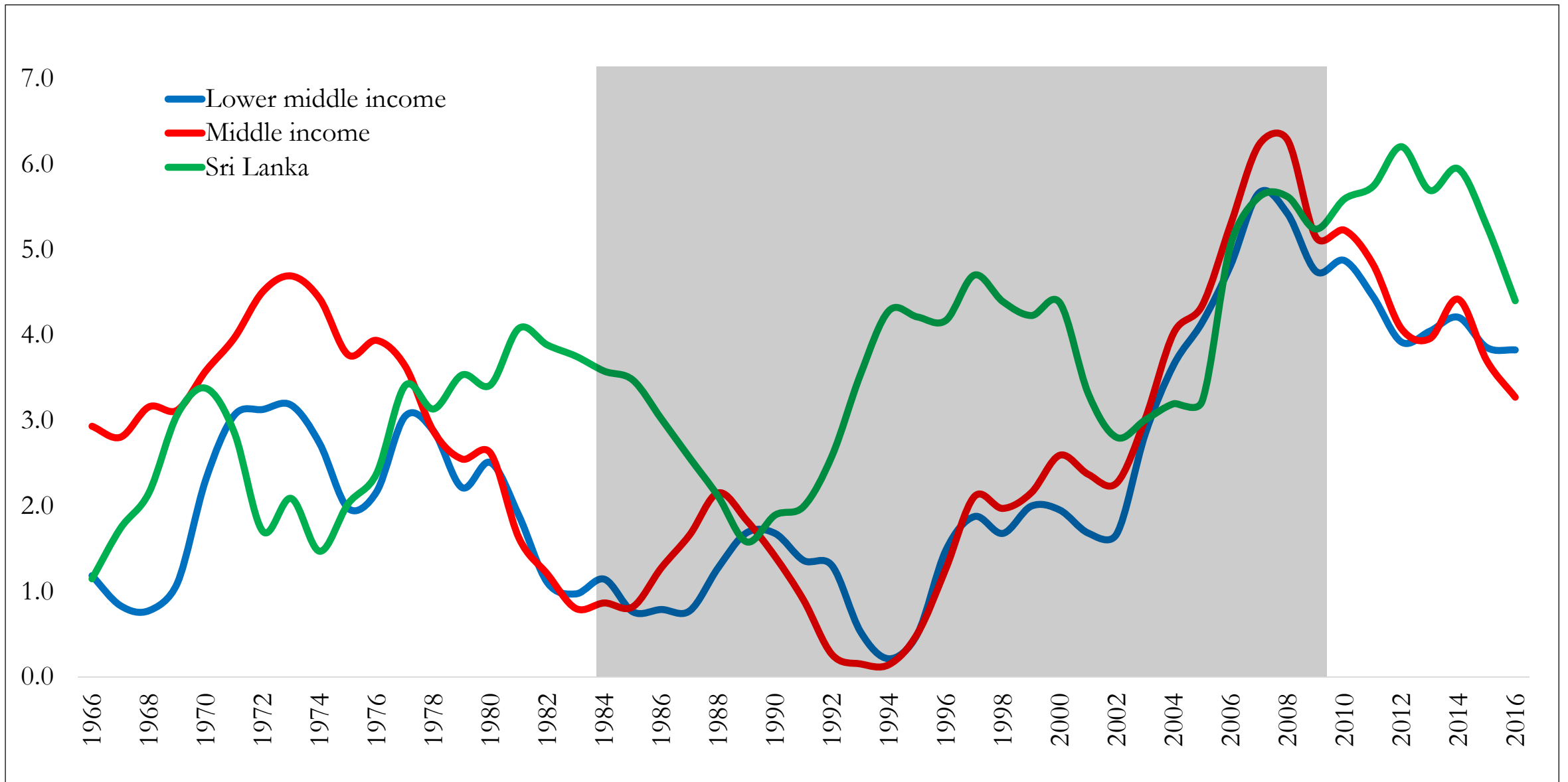


Long-run economic performance in line with political development

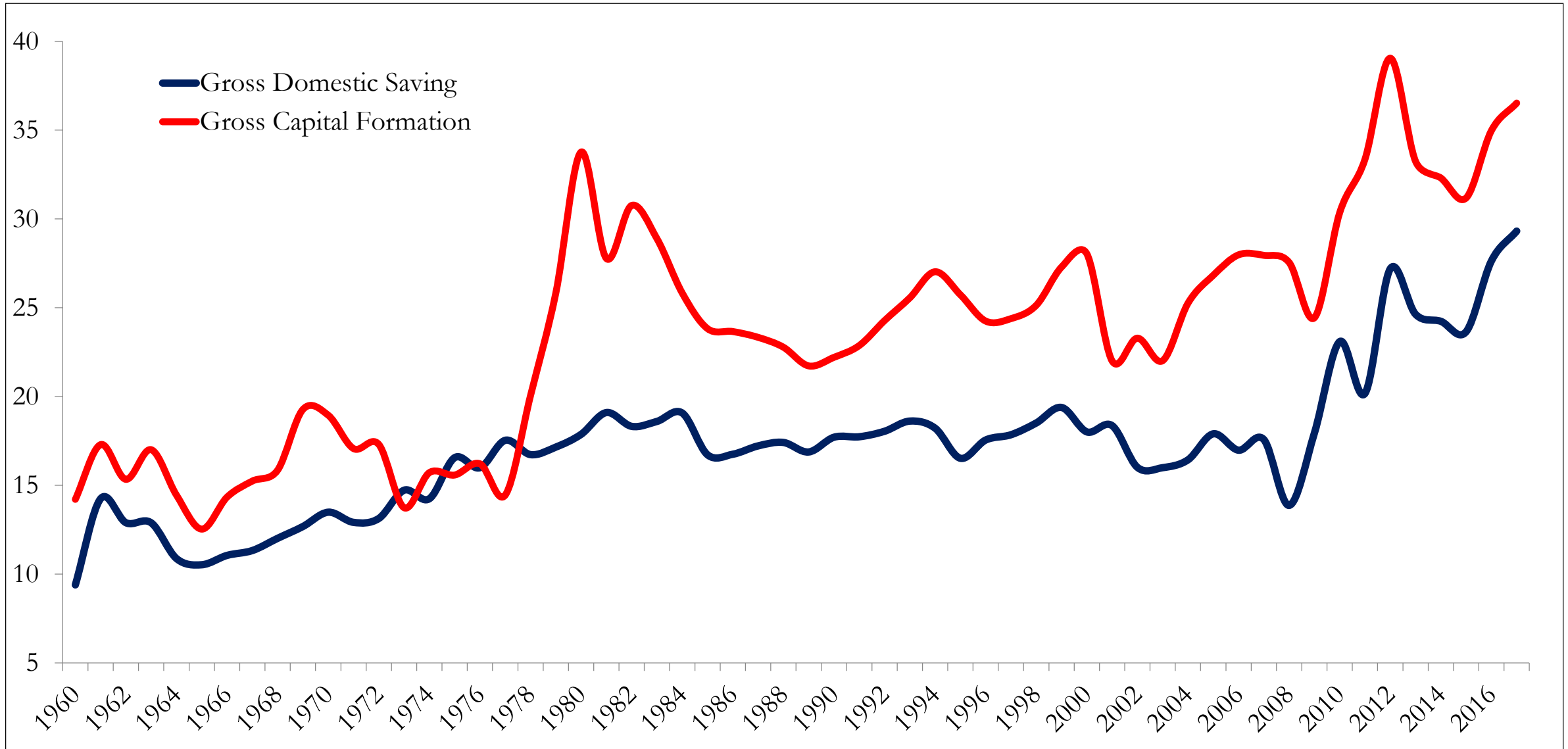


**India:1947, Sri Lanka:1948, China:1949*

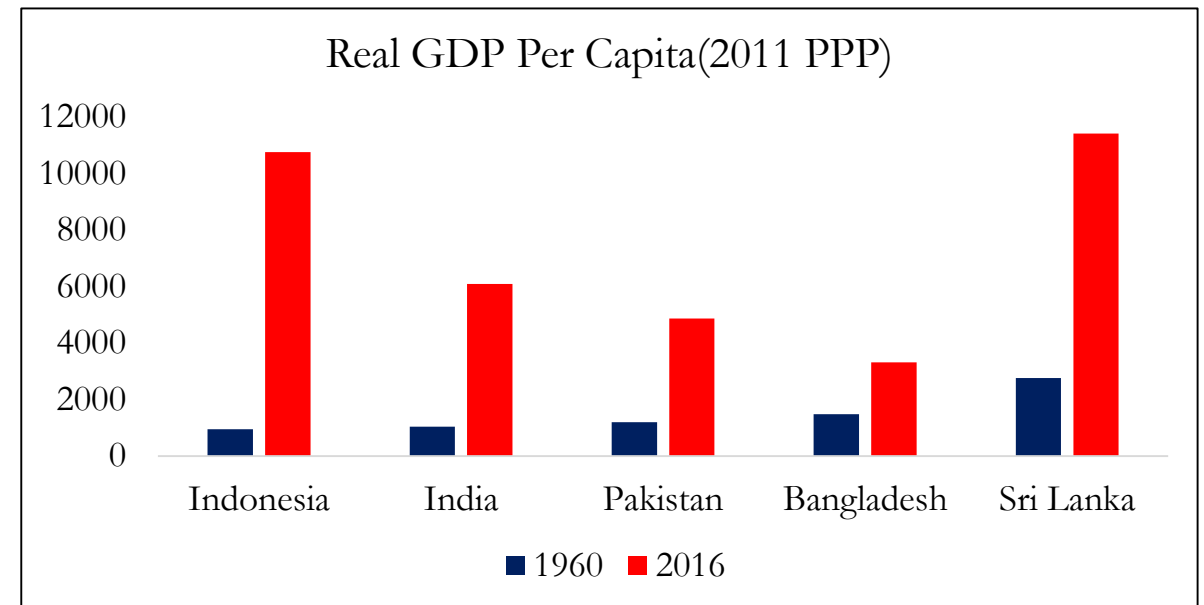
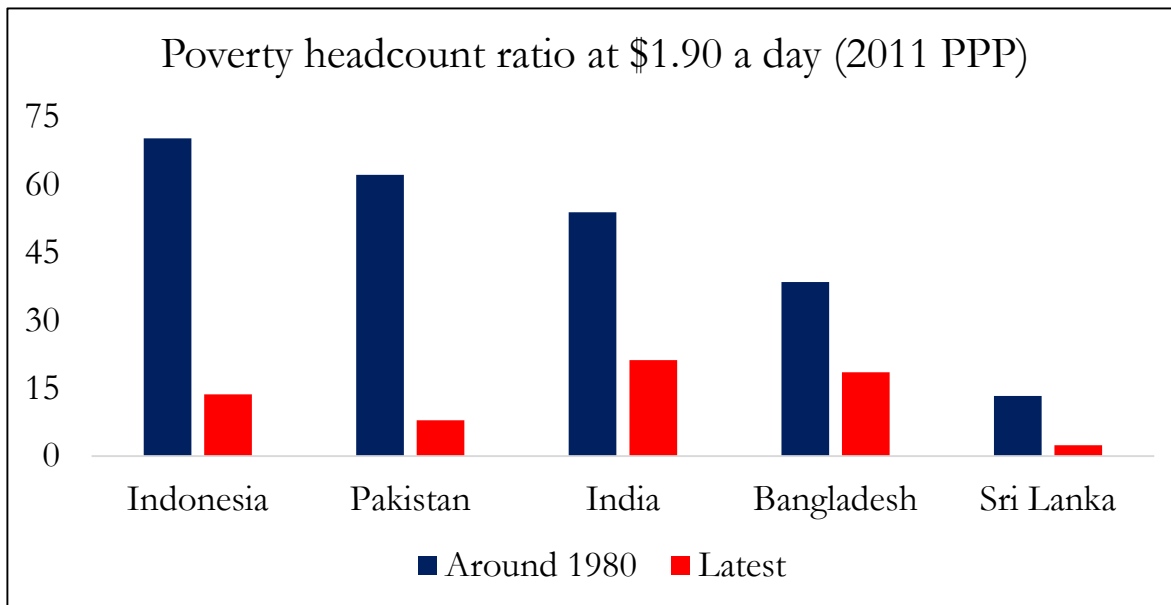
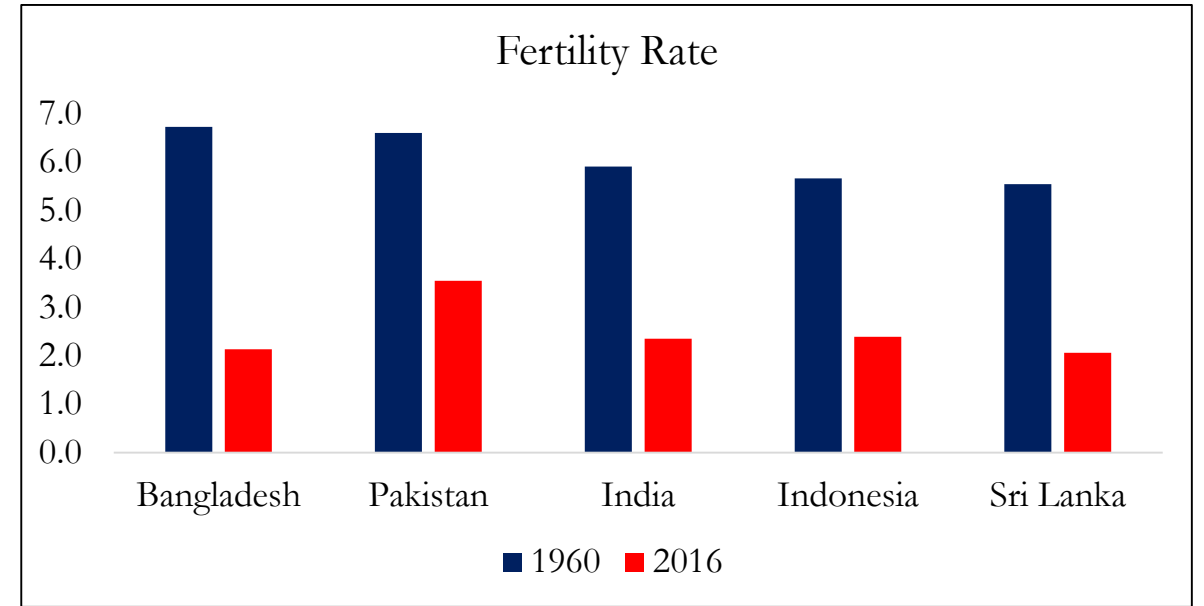
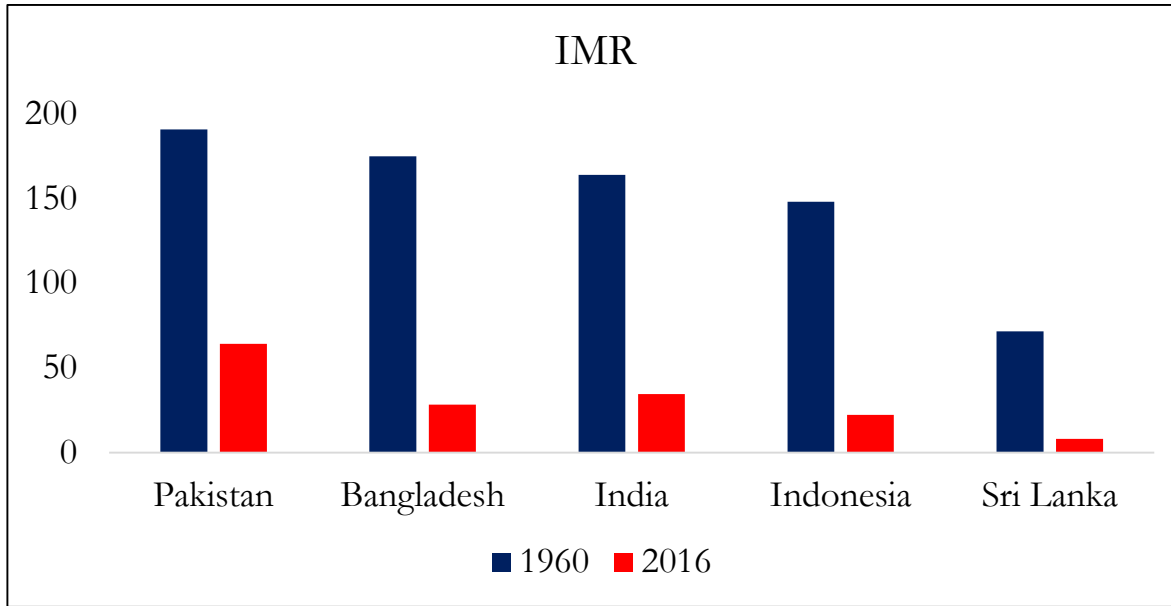
Solid real GDP Growth



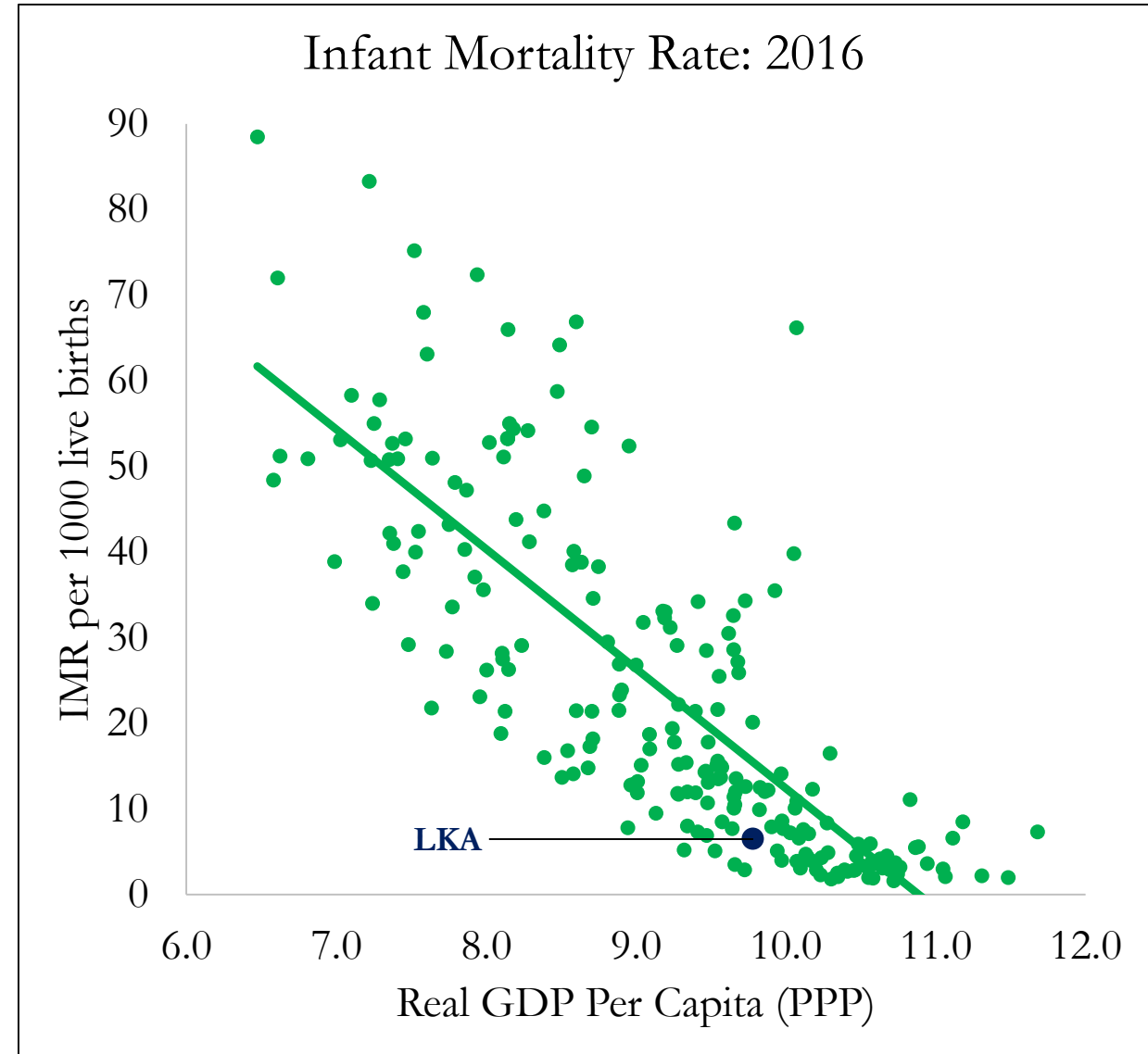
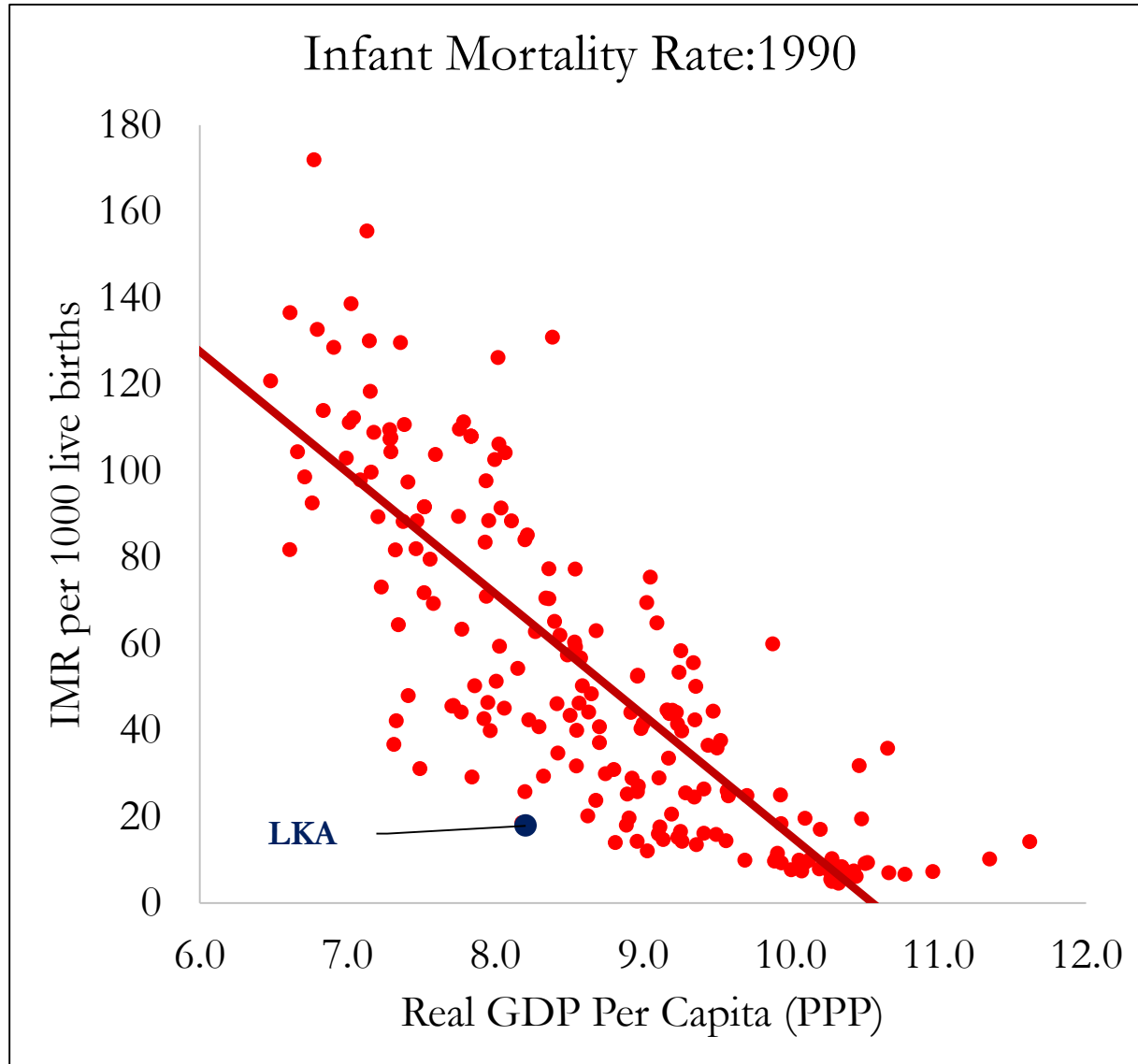
High Savings and Investment (as % of GDP)



Strong performance across various social indicators in line with its head-start

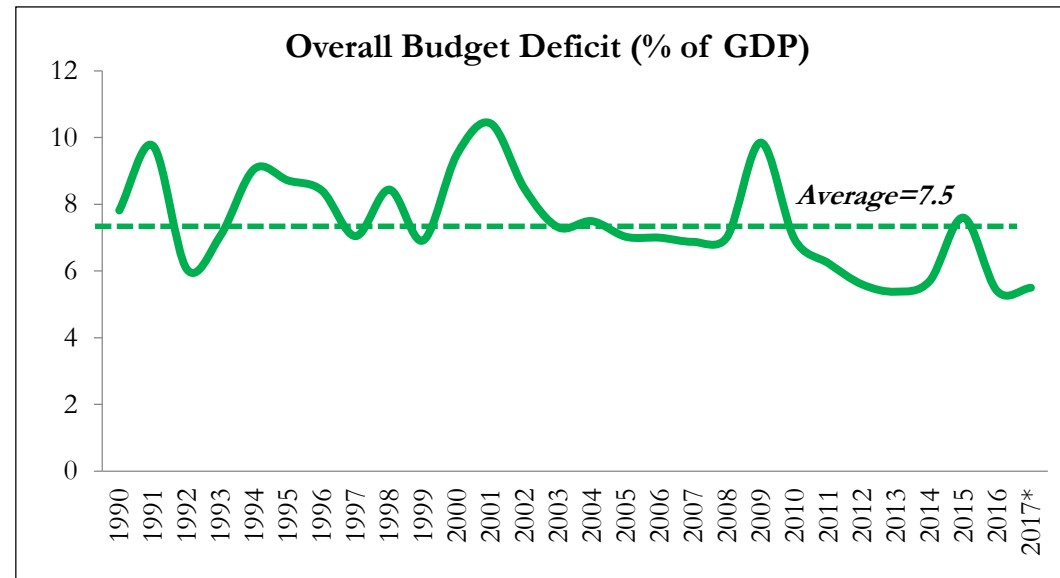
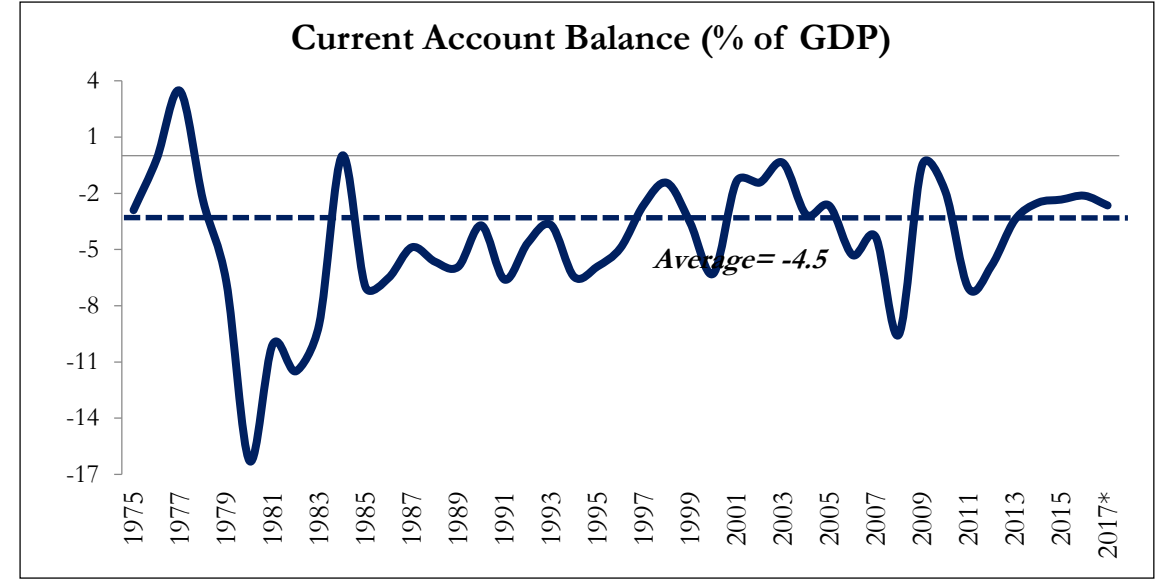
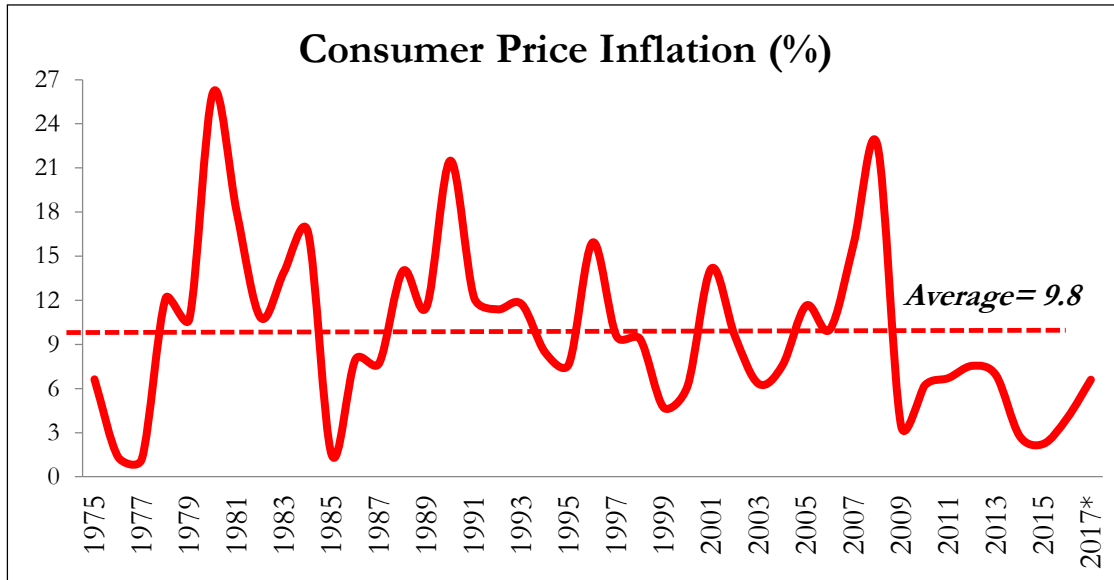


Social performance even better than its economic performance



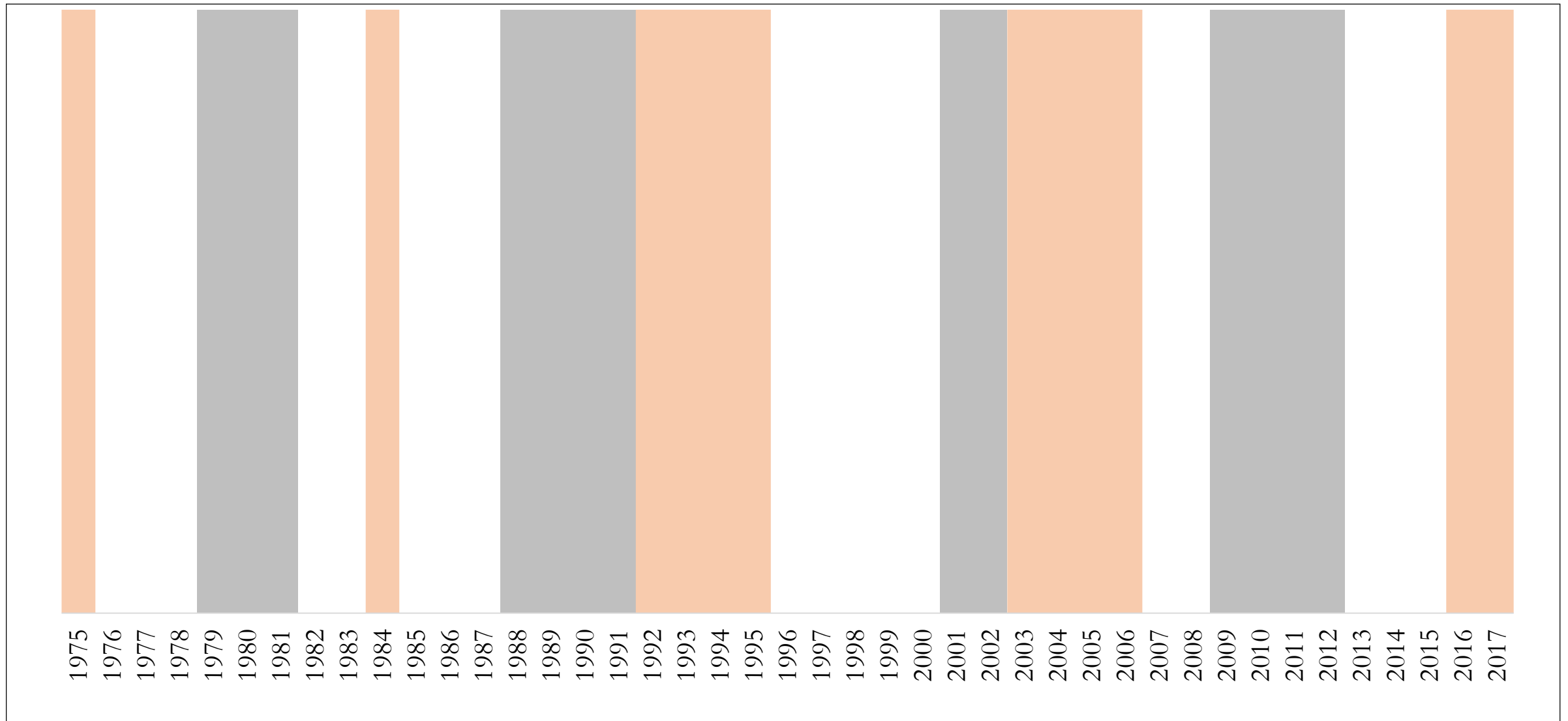
Challenges

Macroeconomic vulnerability



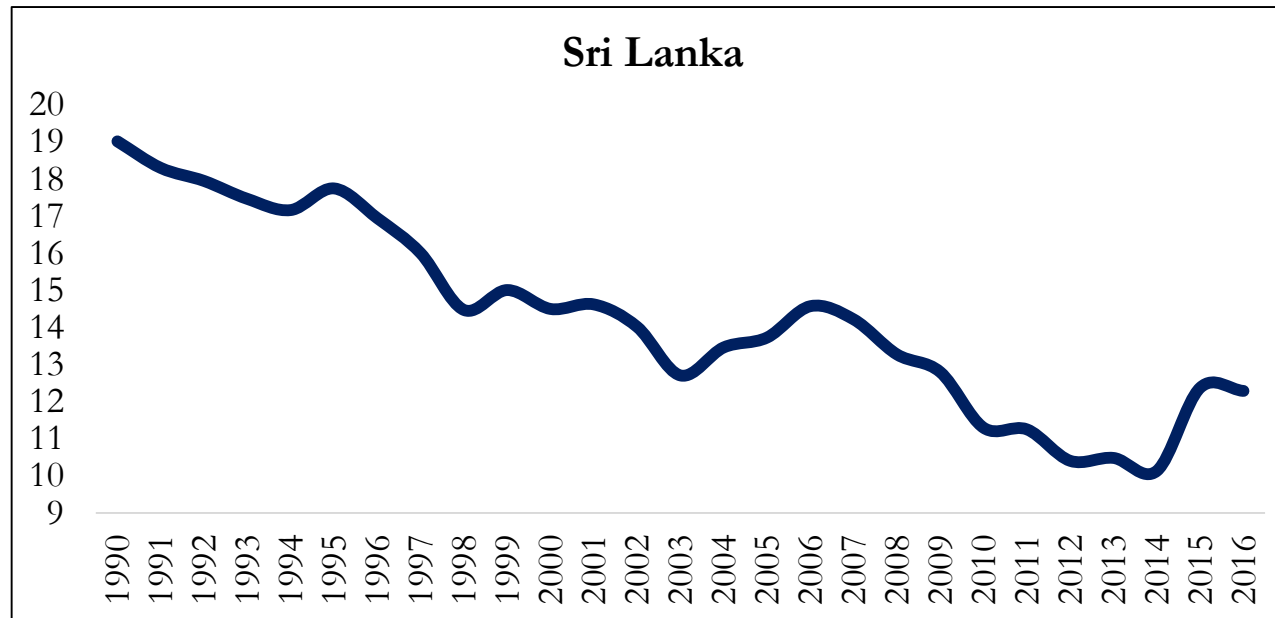
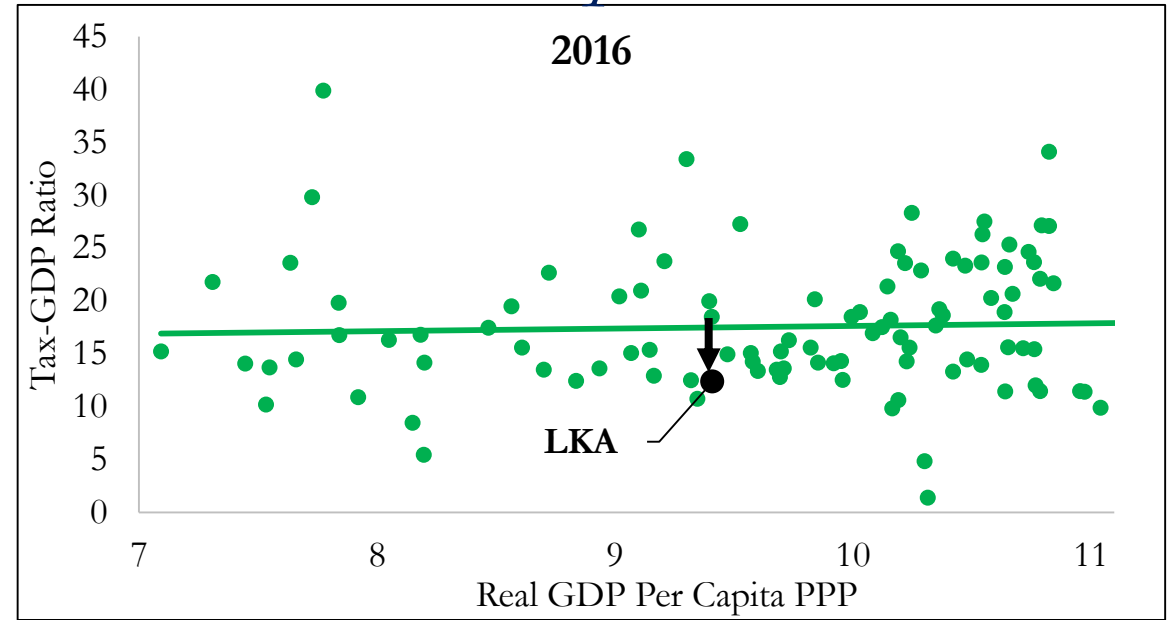
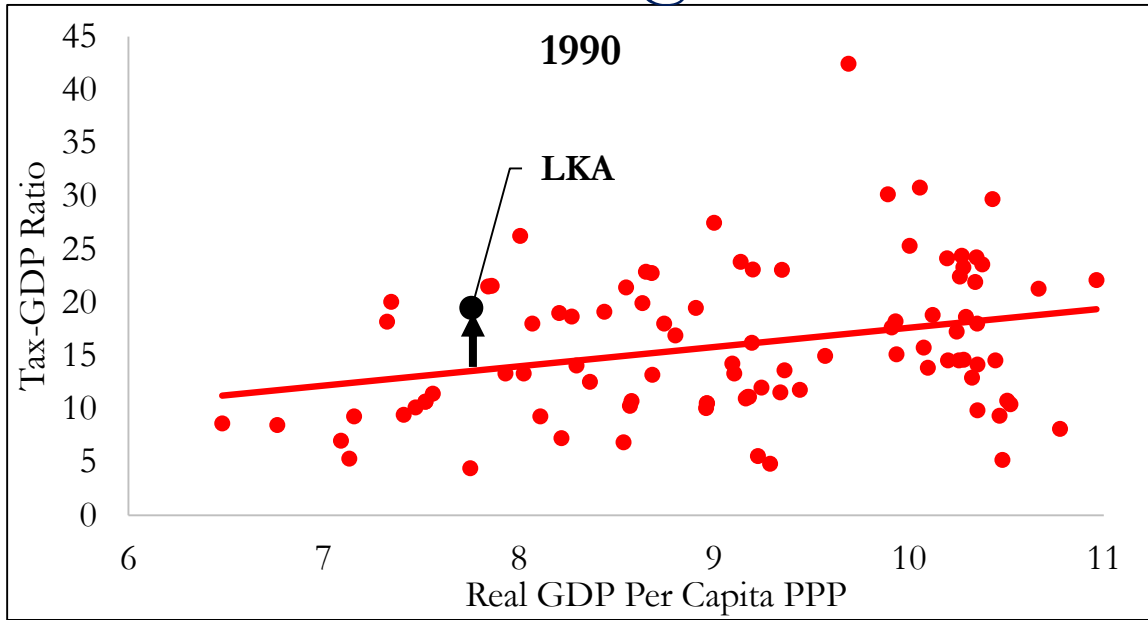
Note: * 2017 data provisional. Source: WDI, World Bank and Central Bank of Sri Lanka.

Ongoing macro-economic stresses: IMF arrangements in Sri Lanka

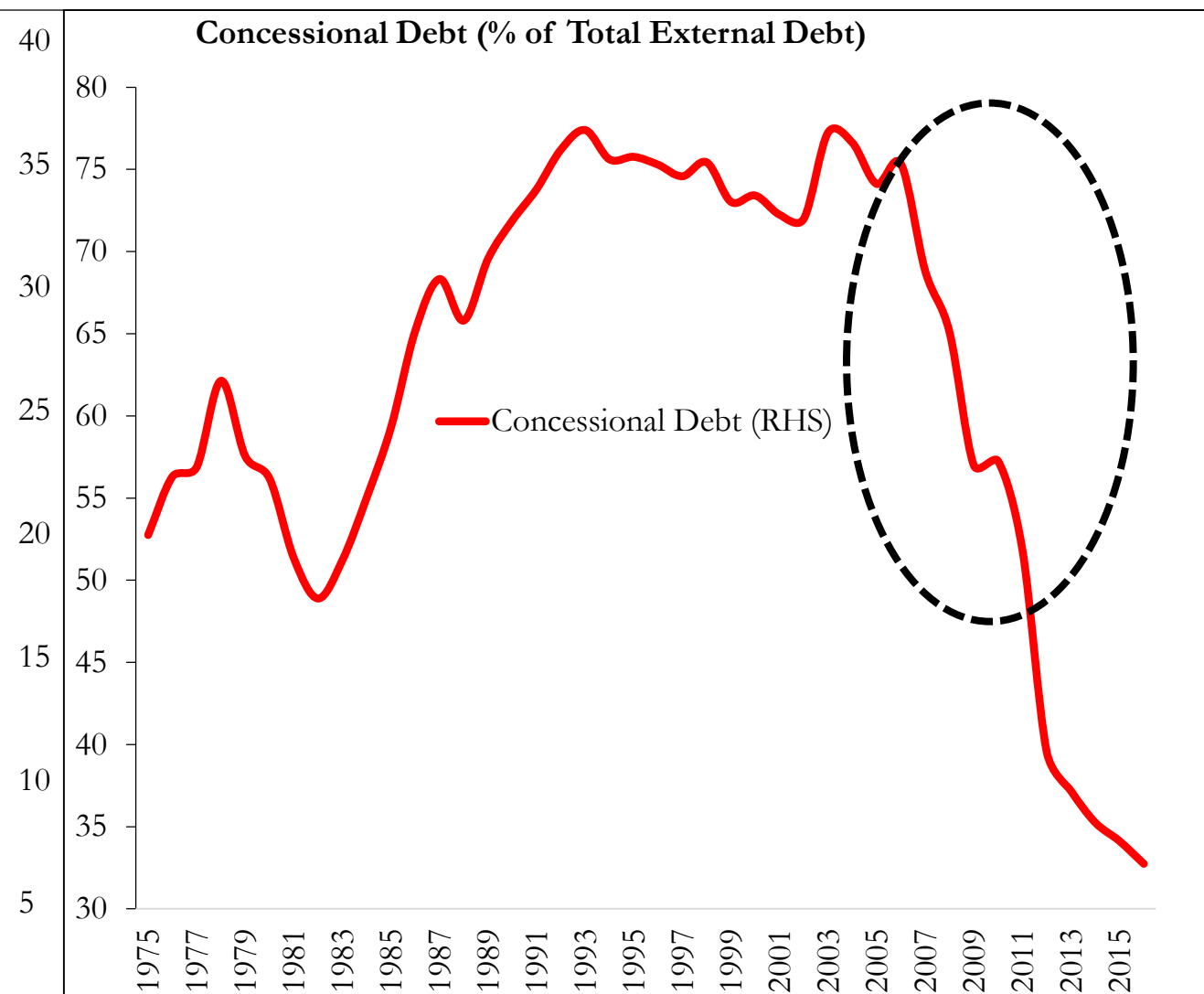
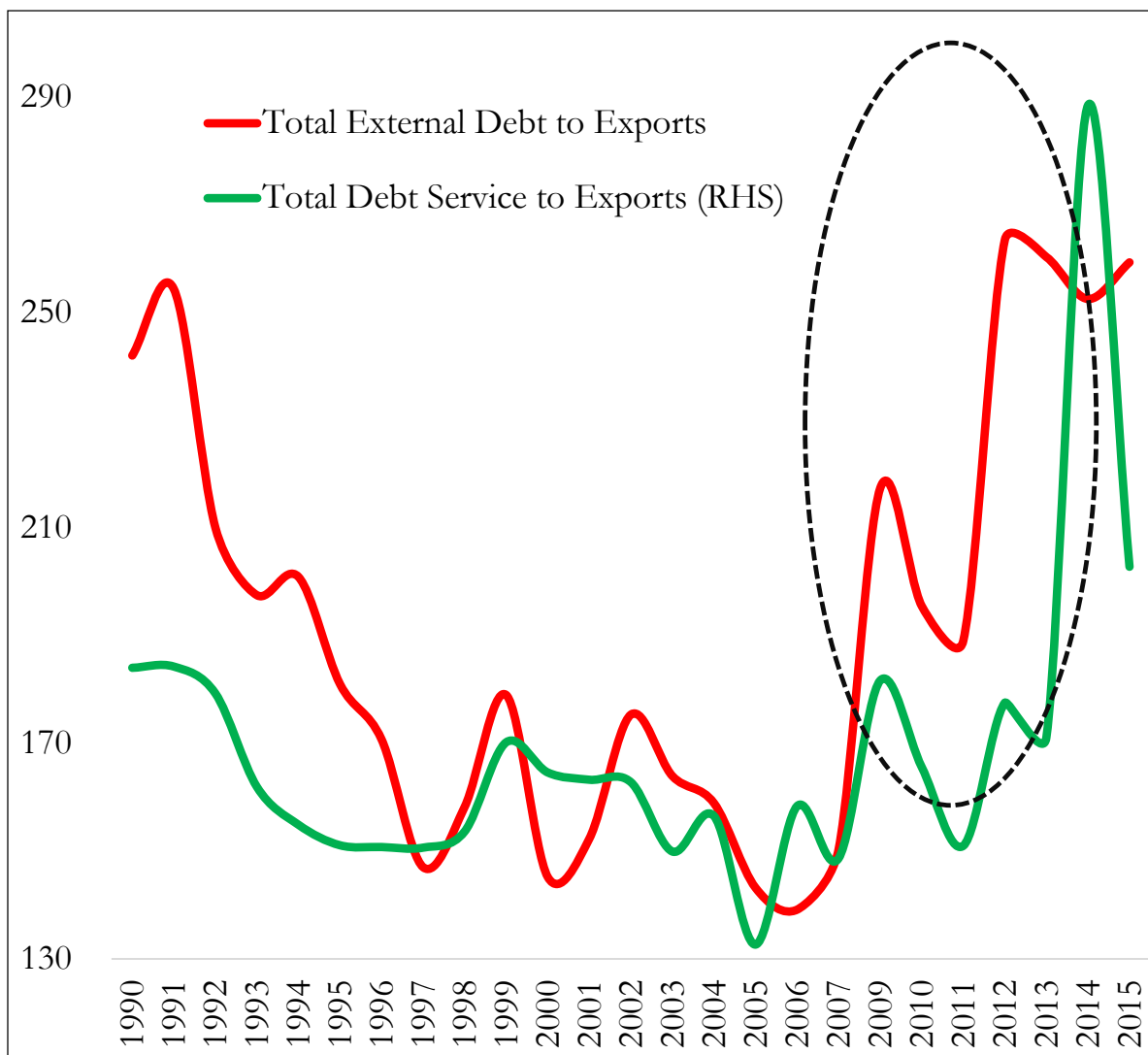


Includes Stand-by, Extended Fund facilities. Width of the bar denotes length of the arrangement in years.

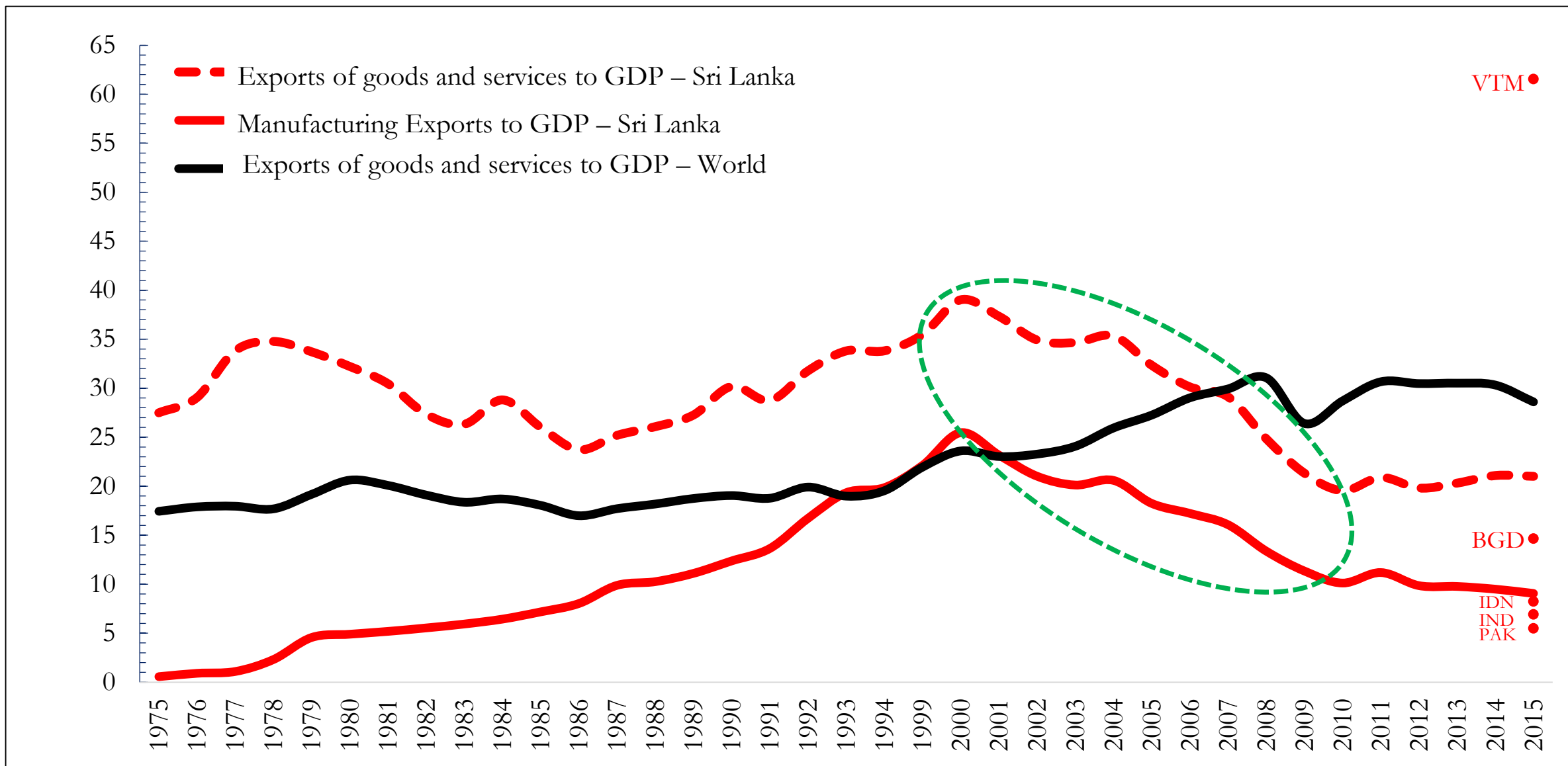
Striking decline in tax-gdp ratio but recent uptick



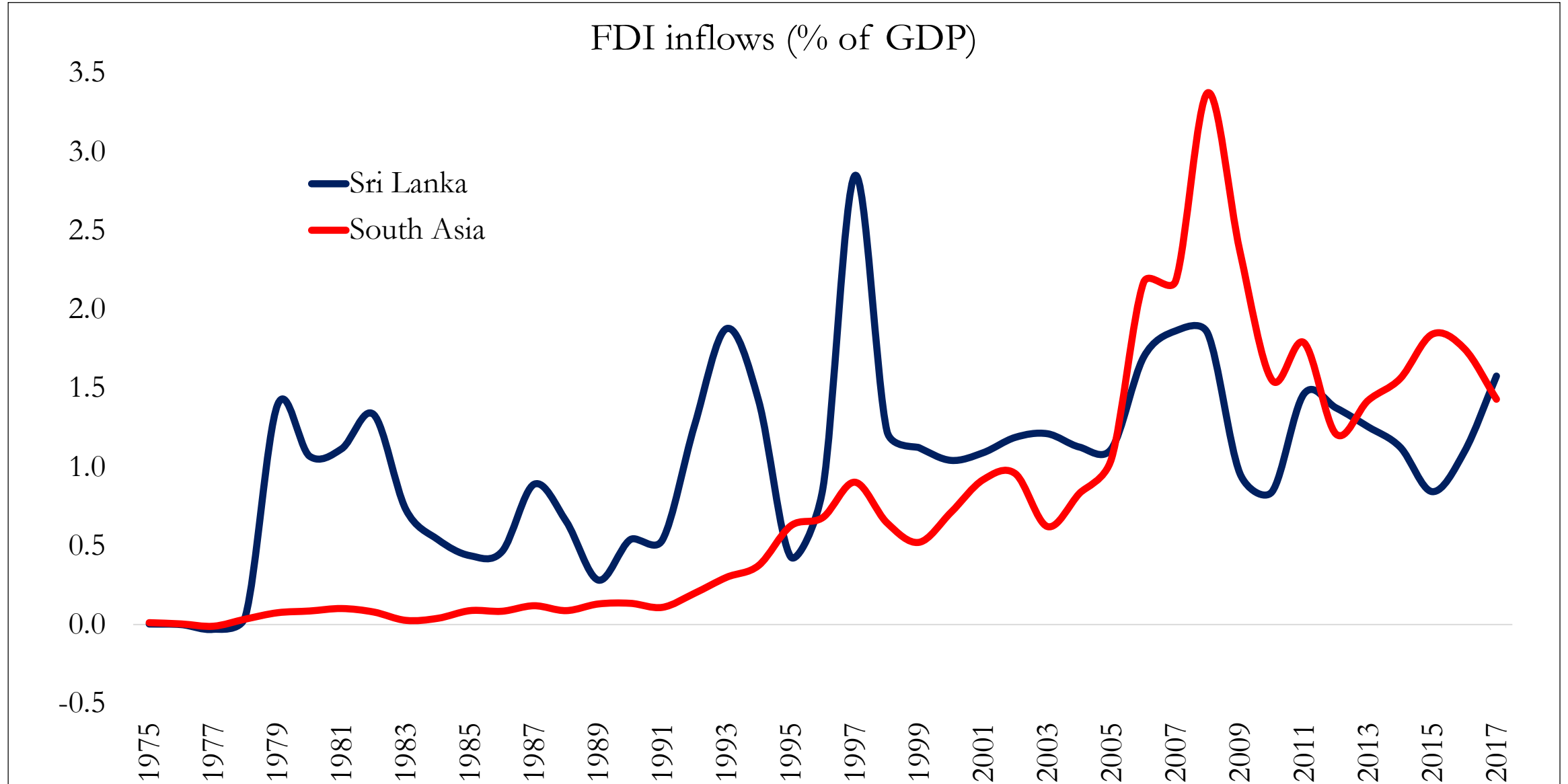
Rising external debt and worsening terms of debt



Deglobalizing when world was hyper-globalizing; manufacturing exports flagging

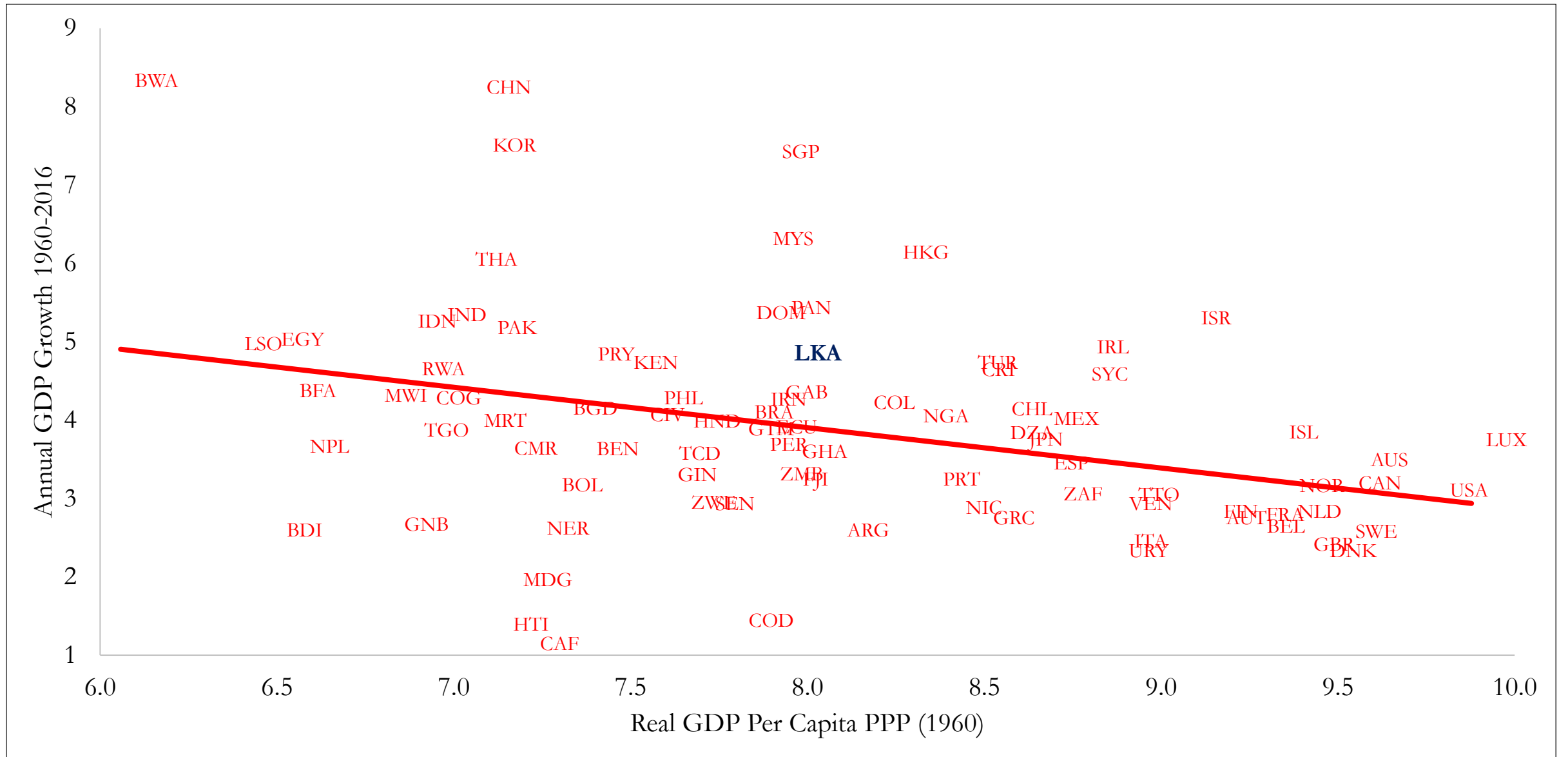


FDI decline associated with deglobalization

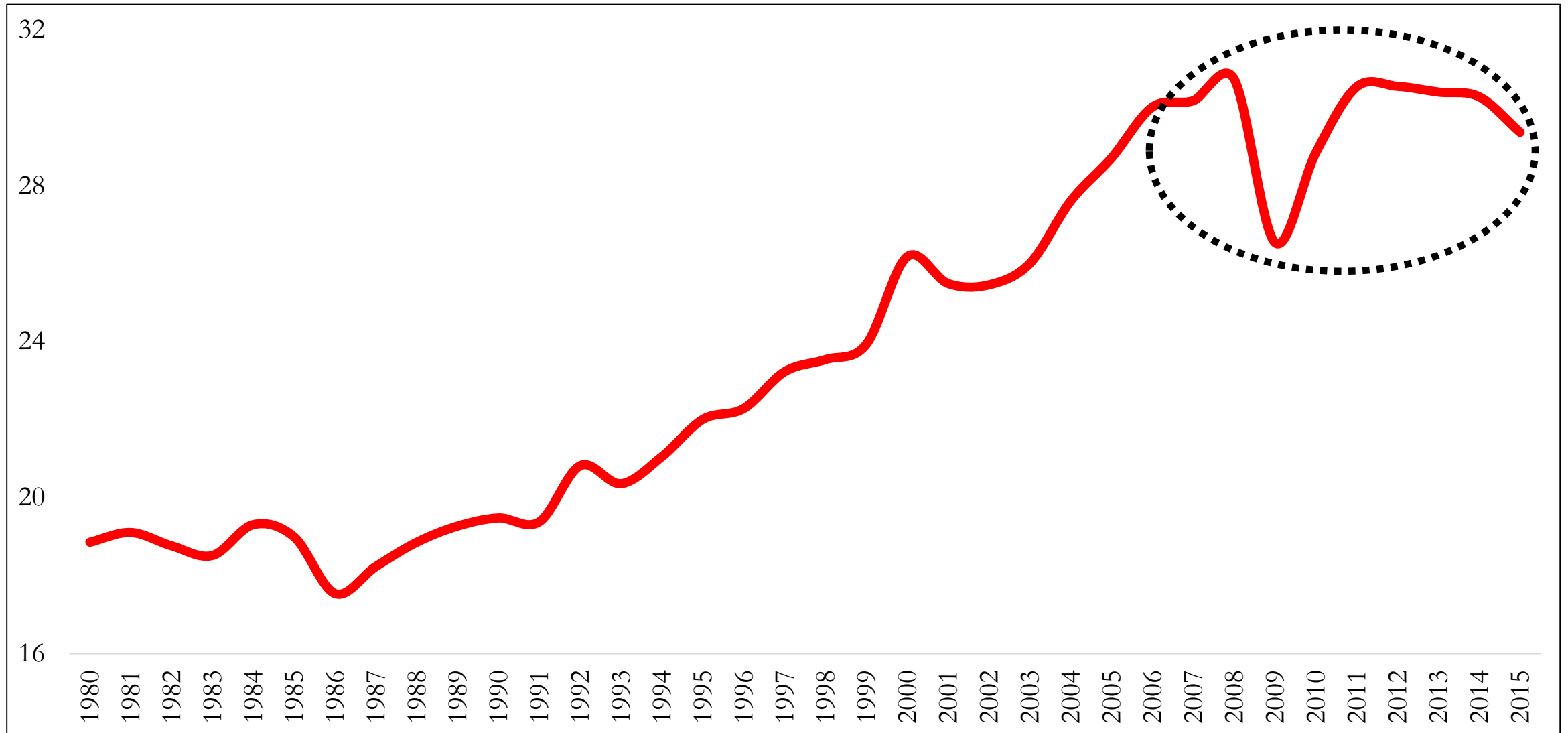


Late Converger Stall: Slow-down in growth

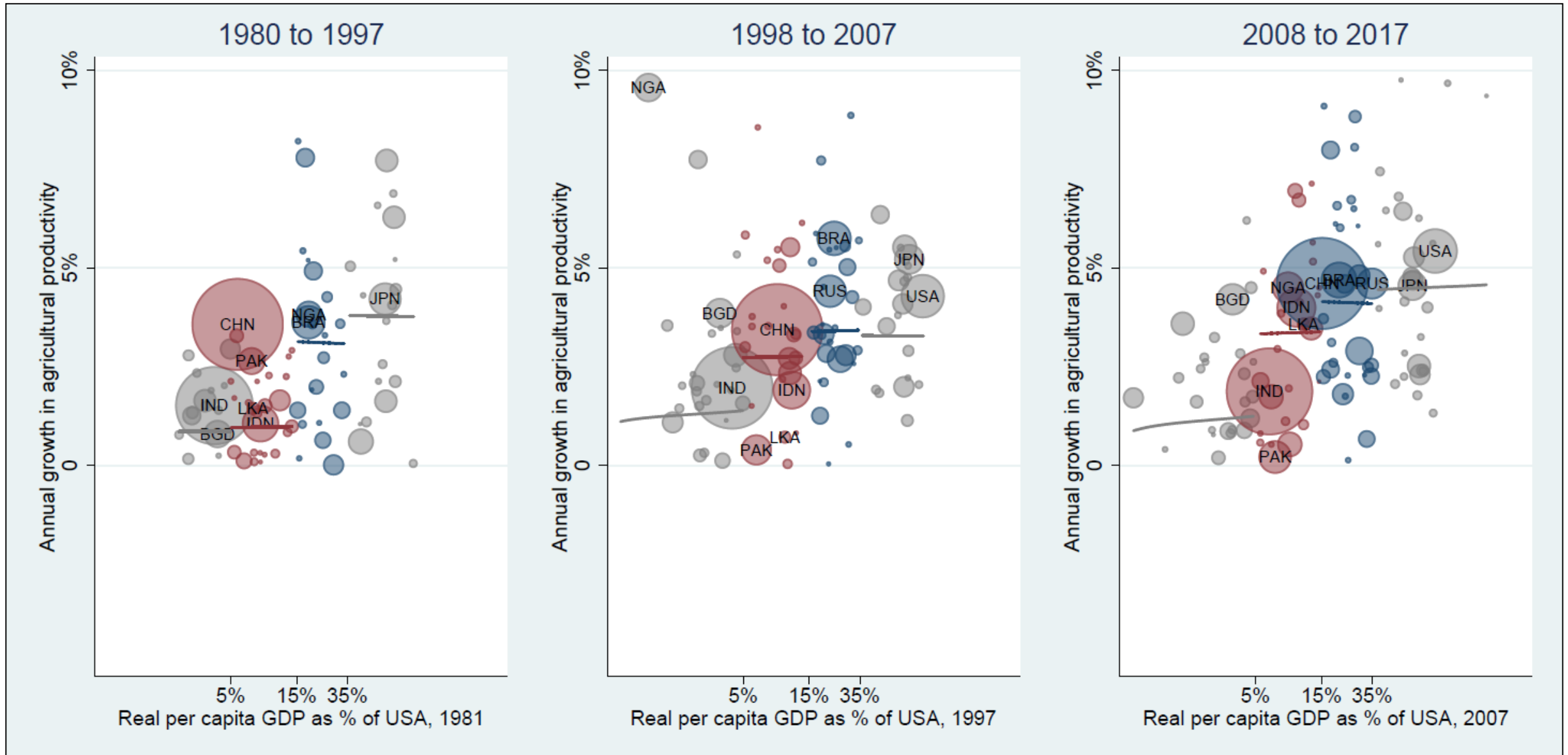
Are lower middle income countries slowing down?



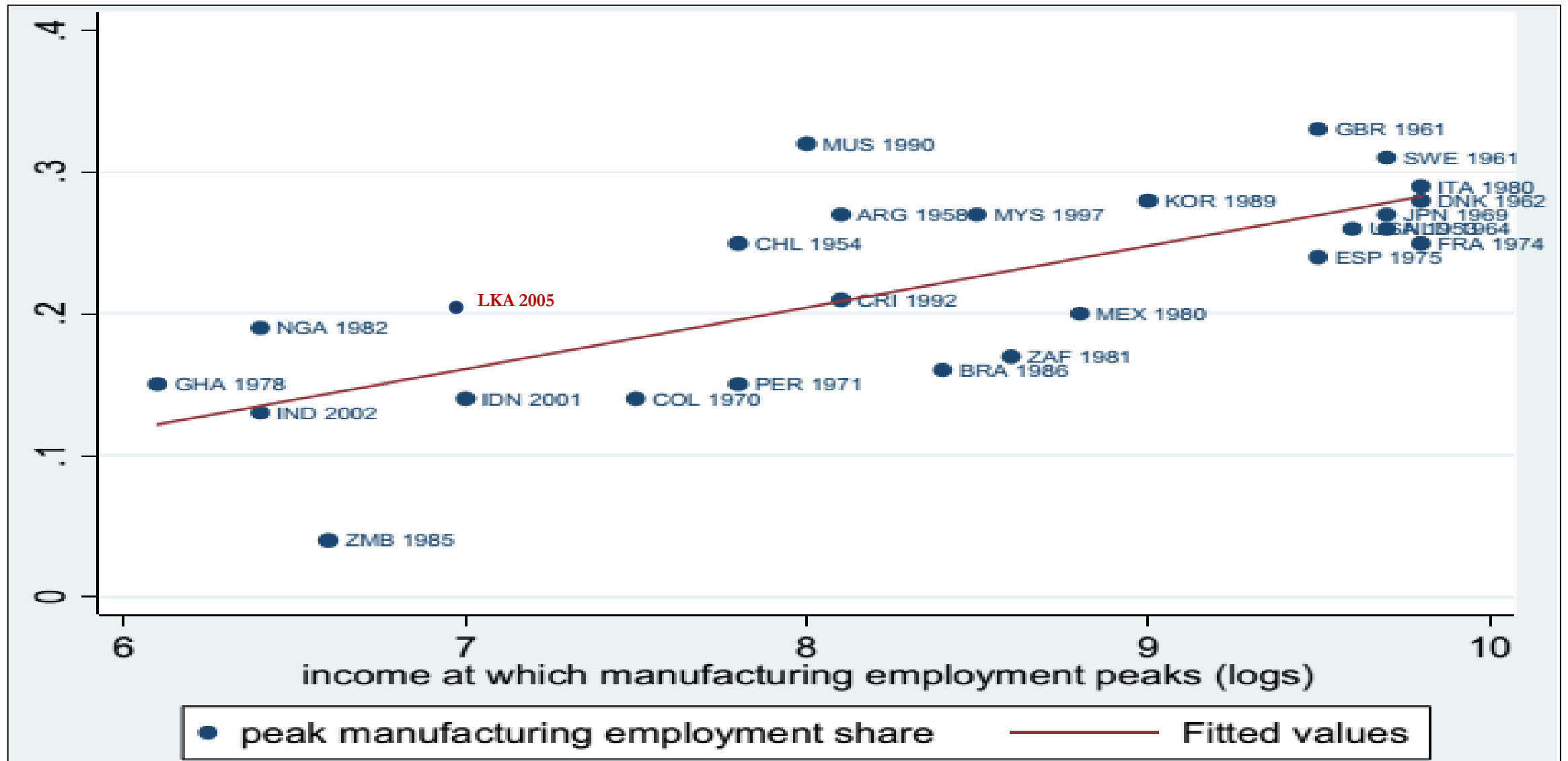
Hyperglobalization backlash: Declining share of world exports of goods & services to GDP



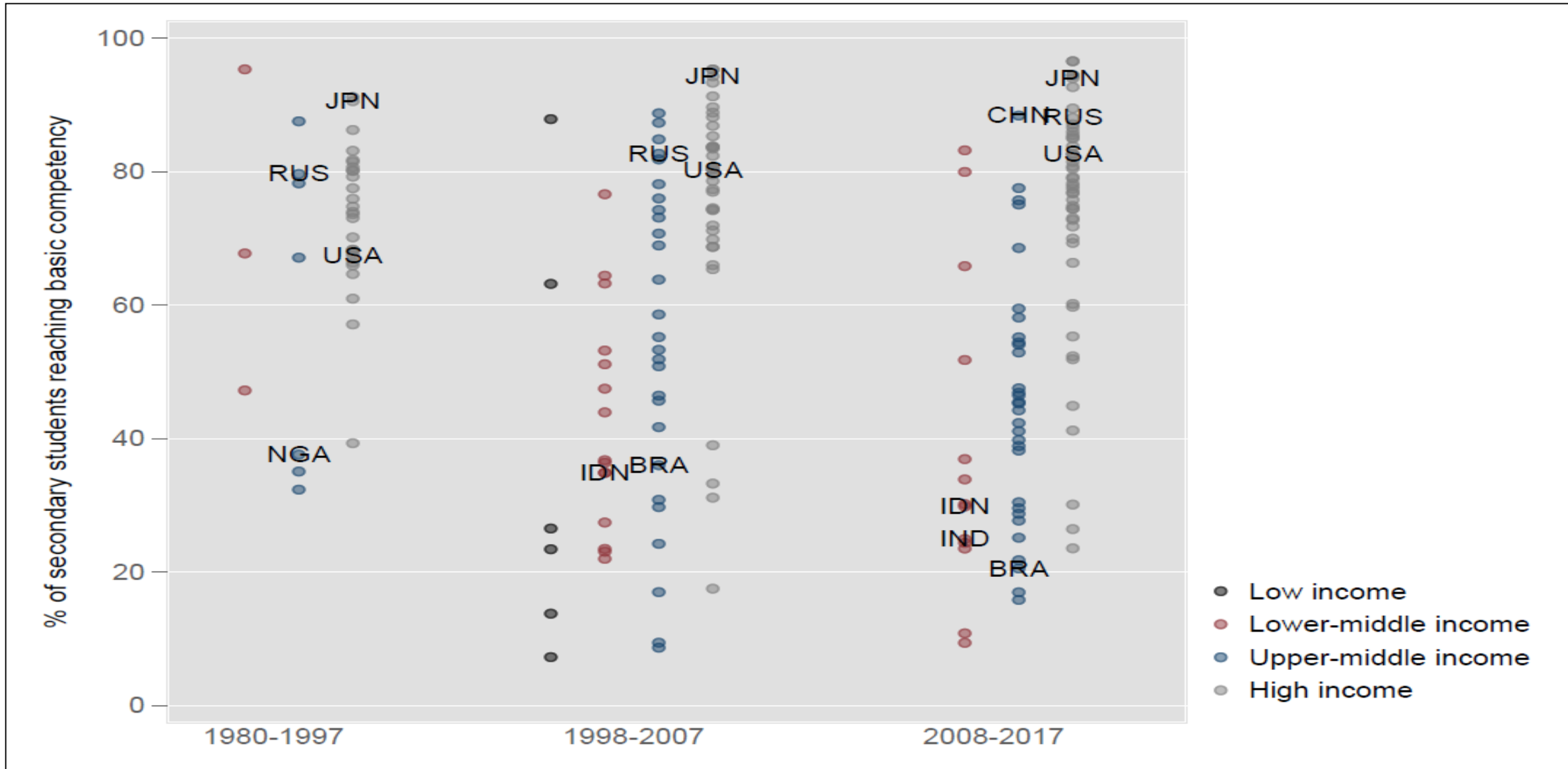
Climate Change and Agriculture



Premature deindustrialization



The human capital challenge:



Back to Sri Lanka

- No Late Convergence Stall or no Middle Income Trap as yet but de-globalization and premature de-industrialization are a worry
- Macroeconomic challenges: Proximate responses
 - Inflation targeting
 - Fiscal rules
 - Improving tax collections
- But macro-economic pathologies have institutional origins (Friedman):
Reflect stresses to social contract and sharing of economic pie

Back to Sri Lanka

- Challenging and unusual dynamic between declining tax collection and increasing dependence on foreign resources: A quasi-aid pathology (Rajan and Subramanian)?
 - Tax decline not because of external resource reliance (typical aid curse)
 - Equally, external resource reliance not to fill domestic resource gaps
- Address social contracts and external financing?
- Is there a role for international cooperation?

Thank You

Real GDP Growth

10

Emerging Asia
Sri Lanka

9

8

7

6

5

4

3

2

1974

1976

1978

1980

1982

1984

1986

1988

1990

1992

1994

1996

1998

2000

2002

2004

2006

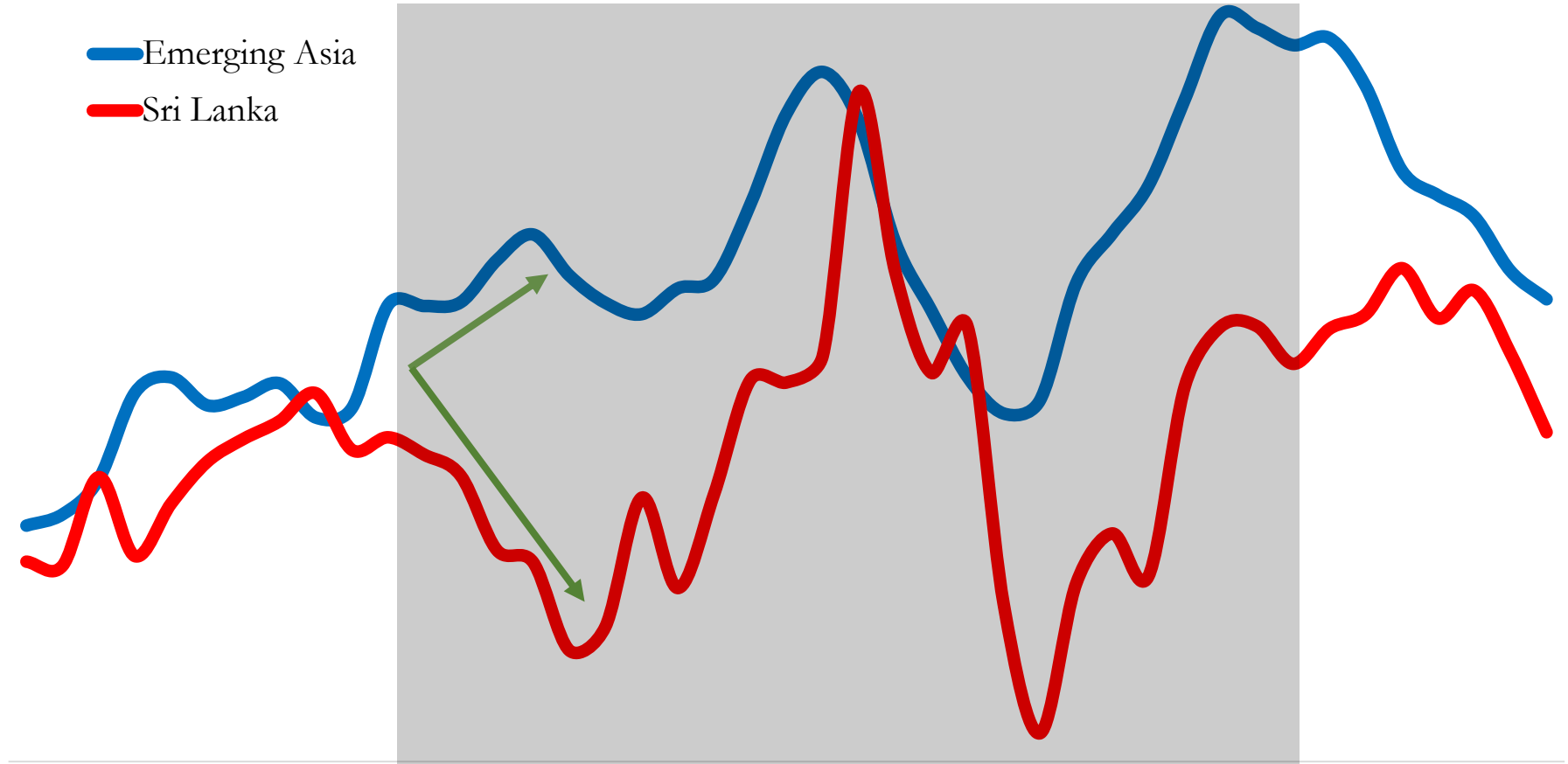
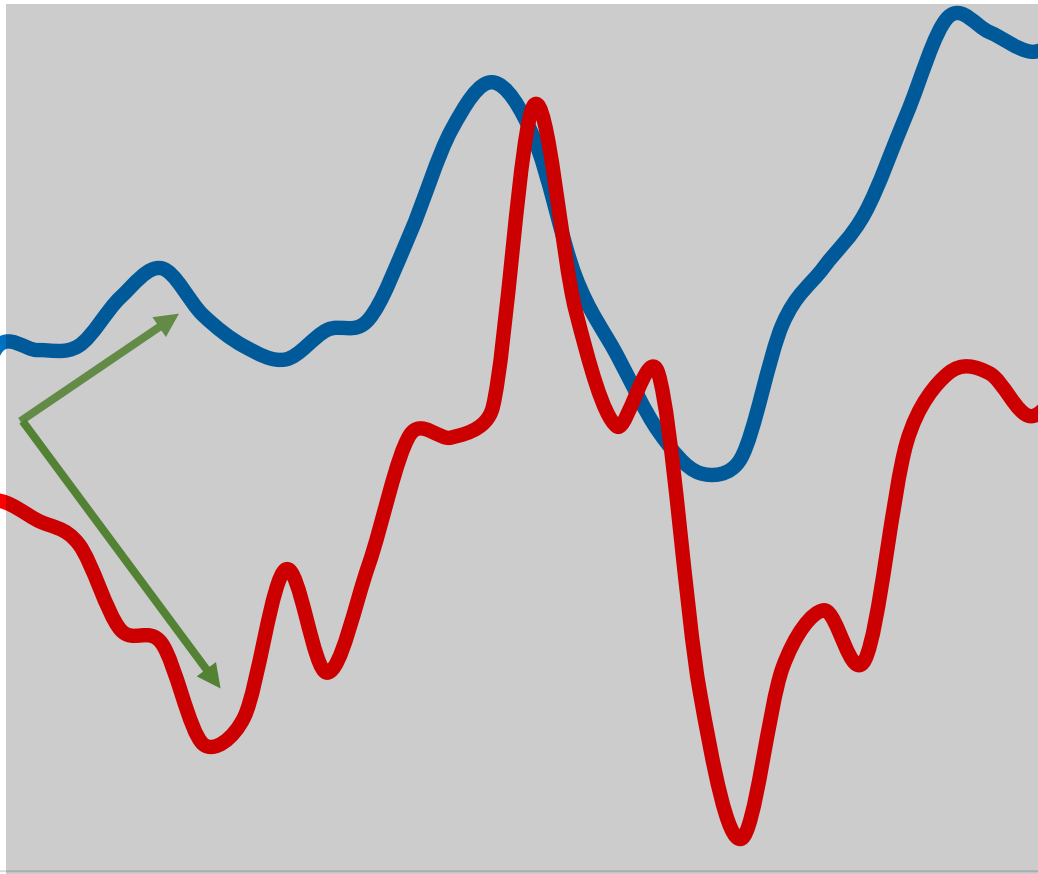
2008

2010

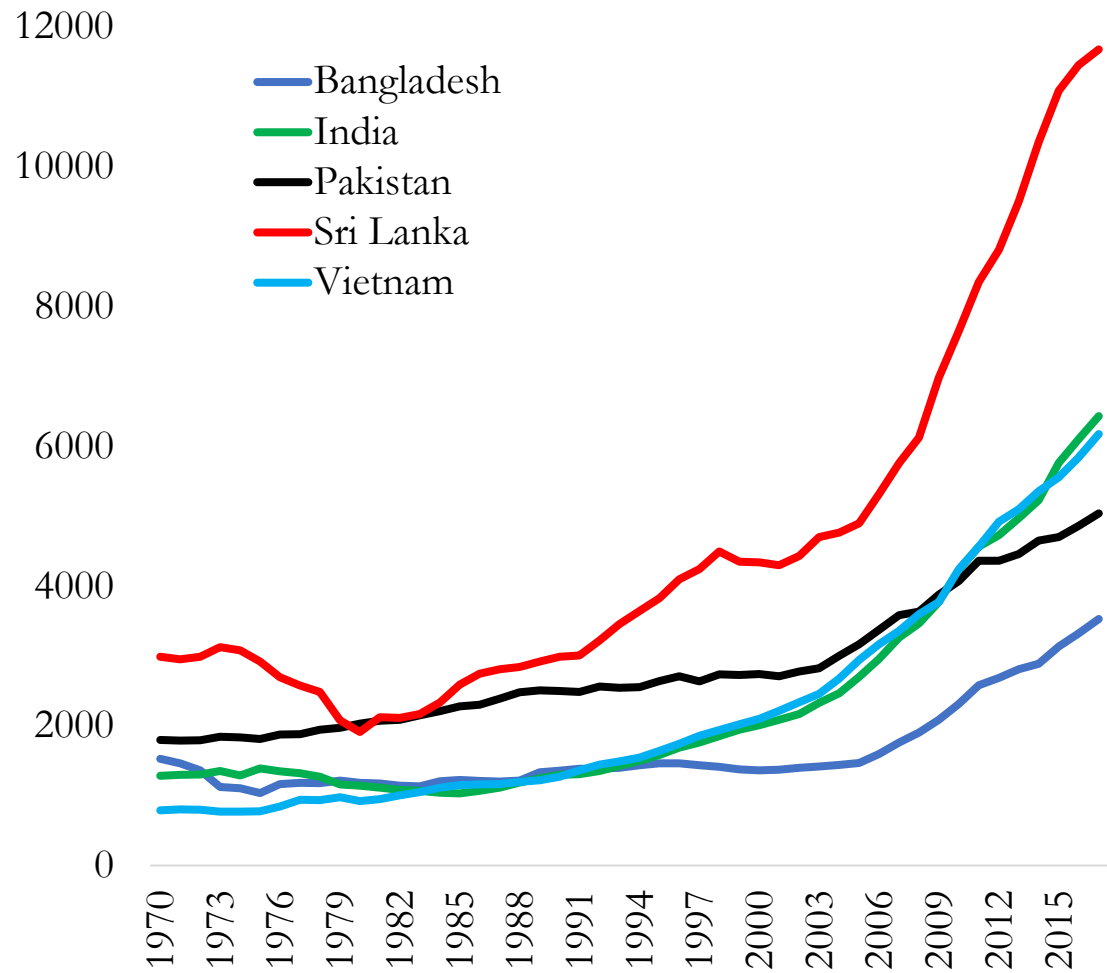
2012

2014

2016



GDP per capita (Levels - PPP)



GDP (Levels - PPP)

