

SRI LANKA'S ECONOMIC LIBERALIZATION AND ITS CONTRIBUTION TO THE ECONOMIC CHANGES: AN EMPIRICAL EVIDENCES AFTER 1977

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Abstract

To preview this paper's winding up the research work on "Sri Lanka's economic liberalization and its contribution to the economic changes: An empirical evidences after 1977". But generally it is found that it liberalization permanently lost its transparency. Its position has shifted from most favorable to reasonable rule of thumb. There is still a general believe for free trade as a best policy, and as a helpful target in the practical world of politics, but it can never be asserted that the liberalization policy is comparative to the economic theory that says is always right. Sri Lanka as a developing country was adversely affected by trade liberalization, structural adjustment and globalization. Show she began to have a process of regionalization. Consequently, intra- regional trade has come to play a vital role in international trade during the last three decades.

The main objective of this study is to assess the benefits to Sri Lanka by engaging in economic pattern and trade with her partner countries after liberalization. And to examine as to whether there are any structural changes occurred on Sri Lanka's economy based on the liberalization. A comparative and descriptive analysis was used to assess the impact on economic variables from selected explanatory variables such as GDP, per capita income, openness, imports and exports, and sectoral oriented indicators. One of the key findings of this study is that in terms

of size of the economy and per capita income Sri Lanka has benefited immensely though liberal economic system as well as from the regional Co-operation. However, her dependency ratio has increased as highly through liberalization and free trade policy. And there are many structural changes had also taken place on the economy. This study also reveals that open economy and liberalization has promoted trade creation and expansion to a considerable level in Sri Lanka's external trade. It has also been found that the trade-diversion effect has occurred to Sri Lanka.

Sri Lanka has been able to have significant gains from economic liberalization and intra-regional trade with other member countries of SAARC. It is advisable that Sri Lanka should carefully reduces or eliminates all trade and non trade barriers simultaneously and also should include some of imports items in the negative list. The economy of the country has under gone reasonable structural changes but its dependency ratio is not helpful to the country. Hence, Sri Lanka could make further gains by moving into more advanced stages of regional co-operation such as Free Trade Area, Custom Union, Common Market and Economic Union within the region. And also this research would suggest that liberalization is not out dated but it should be moderated for the country's situation for the best result and achievements

Keywords: Free Trade, Globalization, Liberalization,

1. Introduction

Today it has become necessary to evaluate the importance and the magnitude of the changes taken place in the Sri Lankan economy by the trade-creation of regional trade and also, the developing countries have to know as to whether the international trade or regional trade is more useful to the third world countries.

Trade-creation and trade-diversion brought about by the regional trade have considerably changed the size and quantity of Sri Lankan economy in international trade. Consequently these changes have influenced the Sri Lankan economic growth with structural changes, energy development and social development. So, this research becomes necessary.

As a result of the international trade, trade liberalization and open the economy arrangement for regionalization became inevitable for all countries. Almost all countries have been engaged themselves in international trade with one side and with other side in intra-regional trade. In this context, despite several international crisis and issues, Sri Lanka also has opened the door of her economy with the objective of building up its economy. However, Sri Lanka has not gained net trade benefits after the trade liberalization except in 1978. Of the problems faced by Sri Lanka due to trade liberalization, the most important question is for how long this free trade system is going to last

Based on the above main research point of view, this study seeks to find out the answer for the three research questions regarding Sri Lanka's current regional trade within the member countries of SAFTA, NAFTA, AFTA and EU. Firstly, how far these regional arrangements have actual trade flow patterns of Sri Lanka after 1977? Secondly, is the liberalization approach good or bad for Sri Lanka? Thirdly, is there any main structural changes taken place in the economy of Sri Lanka by the system of liberalization?

Because of these special features Sri Lanka comparatively differs from other regional countries. Particularly, in case of human resource and economic development, because Sri Lanka has already experienced several problems like unemployment, trade imbalance and negative effects on the environment. In spite of all these problems, Sri Lanka has to safeguard its own economy and international trade.

The evolution of the existing trade pattern and

trade system will provide a valuable insight, greatly facilitating trade and economic development in Sri Lanka. This investigation will help planners, policy makers, future researchers and academics to understand the system better and to popularize the international trade and market more efficient tools.

1. Significance and research problem of the study

This study mainly focuses on Sri Lankan economic growth with structural changes and on examining the international and intraregional trade pattern in Sri Lanka covering the post liberalization period 1977. And also to investigate to find out the truly fair of economic freedom has been taken place after liberalization in Sri Lanka as well as the level of trade creation and trade diversion of Sri Lankan foreign trade and factors require pricy wise attention to improve trade extension and quality. This investigation was base upon descriptive and comparative research carried out in Sri Lanka in respect of four groups of integrations like SAFTA, ASEAN, EU and NAFTA through it is narrowed the scope of the broad concepts of liberalization and regionalization.

This research attempts to make a formal analysis of research questions by estimating a descriptive model of economic growth and structural changes, and international trade as to whether Sri Lanka's regional trade is lower or higher than what is predicted with the economic model. On this background this research has following objectives.

2. Objectives of the research

The main objectives of this research are to find out the trade relationship of Sri Lanka with other countries especially leaving off SAARC countries and after the trade liberalization and the achievement of net trade advantages by Sri Lanka. The sub-objectives of the study are; to estimate the true level of economic freedom in Sri Lanka; to identify the changes taken place in Sri Lankan economic structure; to identify the changes taken place in Sri Lanka trade relationship under liberalization from 1977 to 2010. To analyses trade-creation and trade-extension taken place after the implementation of trade liberalization; to assess the buying behaviour of the consumer after the liberalization.

These objectives portray the picture of an idea about the structure of comparative advantage in the SAARC, ASEAN, NAFTA, EU member countries that helps to explain why intra-regional trade is low, and how trade among them can be promoted. It also gives guidance and confidence about the possibility

of trade creation and trade diversion effect from trade liberalization.

3. Hypotheses

The following hypotheses have been framed as test-parameters to assess the Sri Lankan economic pattern and bilateral trade after the liberalization. Open economic policy of Sri Lanka has been affected as positively; the conditions of the economic freedom in Sri Lanka not enough to help to the economic development; more open the country is the more would be the trade. So, positive sign is expected for this variable. Liberalization has promoted regionalization. There is a positive relationship of trade and intra-regional trade in Sri Lanka with EU, NAFTA, ASIAN and SAARC countries. Trade liberalization has created trade extension in Sri Lanka.

4. Study design and Research methods

The research result obtained through descriptive and comparative model analysis. The descriptive and comparative model research has been carried out on Sri Lanka by Balakrisnen, N (2010), Perinpanathan, N (2008), Sarvananthan, M (2006), and Sandaratne, N (2000). They have analysed the liberalization policy and its impact on Sri Lanka's trade with its major trading partners. Also, Hirantha (2003) has used gravity model for his research on intra-regional trade of SAARC countries. They have explained the structural changes of the economy as well as trade-diversion and trade-creation effect by their researches.

This paper deals with the economic reforms and its impact on the economic freedom in Sri Lanka, under the era of capitalism, liberalism, and neo-liberalism as well as on the social political role of the people of different cohorts, in respect of the agricultural, industrial, mineral and gem, and unclassified items measured with the scale of Gross Domestic Products under 10 categories of items before and after liberalization. Though, GDP is not suitable for calculating purchasing power as well as income distribution.

Economic reforms have been adapted by the successive goals in Sri Lanka, during the post independence era, to expand, improve stabilize and vitalize the wealth of the country to provide facilities and opportunities for the upper, middle and lower class people to become the powerful and energetic assets of the nations. Theoretically these economic reforms are welcomed, but practically there are different opinions and the outcome of these reforms in the face of economic freedom. Virtually it calls into question "how far have these economic reform helped

the people to enjoying the economic freedom"? "What is the measure of equality of economic status and of opportunities that the different governments have provided for the member of our society"? Based on these the economic growth from the angle of economic freedom is taken up for discussion with the GDP as the tools for measurement, assessment and evaluation of the output and benefits of the local products and services, and of imports and exports as well as demand and supply.

The panel data were used for the purpose of analysis for the period of 1977-2010. The panel data consist of GDP, Per capita income, index of economic freedom, exports and imports, exchange rate, and etc. All of data were collected from various recourses like Central Bank of Sri Lanka Annual Reports, <http://www.indexmundi.com>; <http://www.mongabay.com/igapo/worldstatistics>; <http://www.internetworldstats.com/stats8.htm>; <http://www.en.wikipedia.org/wiki/list.pulation> and The Fraser Institute (2012) available at <http://www.freetheworld.com/cgi-bin/freetheworld/getinfo.cgi> http://en.wikipedia.org/wiki/Wall_Street_Journal

5. Literature review

Kurugman (1990), in his study titled "Is Free Trade Passé? Accepts and advocates free trade. Based on his views the free trade is better than sophisticated government intervention. He pointed out that free trade is the best of all possible policies as part of the general case for laissez-faire in a market oriented economy. However, he mentioned a new view of international trade when the market is imperfectly competitive. The new outlook has two recommended suggestions against free trade. This is totally a new idea other one is old thought given a new face. First one is strategic trade policy argument and second is government policy favourable to domestic industries. Finally he concluded that free trade is not out dated, but it is an idea that has permanently and innocently lost. According to the view of Kurugman (1990) we thought that he may suggest neo-liberalism policy to be implemented on the international trade. Neo-liberalism, as a theory, is basically about making trade between countries with carefully removed restriction. It meant that free movement of goods and services, resources and companies among the countries, to maximize profits and efficiency as well as welfare of the nation's consumers.

Neo-liberalism need a careful removal of all type of barriers or controls to free trade, such as; tariff,

regulations, certain standards, laws, legislation and regulatory measures and restrictions on capital flows to free investment. Anup Shah (2010) summarized, from Elizabeth Martinez and Arnold Garcia (1997), what is "neo-liberalism"? (See also <http://www.globalissues.org/article/39/a-primer-on-neoliberalism>) the rule of market is self-regulating, allowing to filter the freedom of capital, goods and services concept of wealth distribution among the people; the government reducing their public expenditure for social services; the government would allow market forces to act as a self-regulating mechanism; to encourage privatization of public enterprise; make and action regarding on responsibility of public and community goods as individualism.

Allyn and Bacon (1999) also have summarized some of principles of ideology of neo-liberalization from Richard Robbins, in his book, *Global Problems and the culture of Capitalism: sustainable economic growth is a must for human development; free markets to allow efficient and socially optimum allocation of resources; remove nation's geographical boundaries would be beneficial to all; privatization help of remove inefficiencies of government sector; government should focus only on infrastructure development to provide the facilities to national and international enterprises; and also government to make and implement the rule of law including intellectual property rights (TRIPS) and contracts.*

Free market operation or market-based economy was started 200 years ago. Especially free trade as a tool of Industrial Revolution came into force during 18th century in Europe. Free trade concept was mainly introduced by Adam Smith (1776) in his book, titled "The Wealth of Nation" said that for maximum efficiency, all type of government intervention in economic matters should be removed and other type of restrictions or tariff barriers also be eliminated on the manufacturing sector, trade and commerce within the nation's for it to develop.

In the capitalist way of thinking 'free trade' is obviously encouraged for the nation's development process on the basis of free enterprises. This tool ruled and led up until Great Depression of the 1930's was faced. Global viewpoint of this free trade was attracted by geopolitics or mercantilism. Free trade promises the trading nations to benefit and remain competitive. Adam Smith had strong foundation of imperialism, colonialism as well as capitalism. Adam Smith introduced absolute advantage theory of international trade, suggested by liberalizing trade,

countries can benefit economically.

Conversely, before the Second World War, there are some disparities started among the nations. That mean "neo-liberalism" can't go for a long period with his original pattern of suggestions. Because of the Great Depression in the 1930s, an economist, JM Keynes, suggested that government intervention is very much needed in the line of equal development between poor and rich. Keynesian model of development not allowed even state should voluntarily reduce its role in the economy. He argued that it might effect on the welfare of the society.

Recent advances in international trade theory and new empirical research mean that the once intuitively obvious sources of gain from trade liberalization can now quantified and incorporated into economy wide models (Lee Davis 2000). According to his statement, he further said the significant trade liberalization by countries there has been boost to productivity and growth. But the problem is how to calculate this benefits or effects on the trade liberalization. Apart from the mathematical estimation of trade effect, the Heritage Foundation has formulated to identify the key factors necessary to measure the "degree of freedom" of economy of a particular nation. For that purpose they have introduced the "index of economic freedom (IEF)" in 1986 based on fifty variables. These variables are included in 10 major groups. They are; trade policy; fiscal burden of state; state intervention in the economy; monetary policy; capital flows and FDI; banking and finance; wage and prices; property rights; regulations; and informal market activity.

The above situations explain that how some of the countries and regions have tried to implement their economic reforms in the decade of post 1970s and 1980s and even 1990s. The views of the rest of the world economic reforms suggested that almost all countries have believed that this is a positive relationship between trade liberalization and economic growth. However, the recent Euro zone debt crisis - 2011/12, US based financial crisis -2007/08 and even East Asia financial crisis 1997/98 had to occur due to the economic reform scenario.

It is necessary to highlight the rethink-tank policy background of 1970s world oil crisis from the point of rethink-tank policies of welfare state led development strategies. In this connection Margaret Thatcher and Ronald Regan are the two leaders started implementing rethink-tank policies in 1981. This means that both of them politician and philosophers have emphasized reduced state

intervention. They had implemented economic reforms in their countries. Consequently neo-liberalism reassembles as worldwide. Concept some of the researchers describe this phenomenon as "neo-liberal paradigm" (Sarvananthan 2006:2). Thereafter, economic reforms considered trade as a tool for an economic growth and world peace that has worked an independently.

There are two other events that have responded to the foot step and made it concrete to have the neo-liberalism in the universal order. One is the collapse of former Soviet Russian Federation in late 1980s and early 1990s. Meanwhile, socialistic economies of the East Europe regions also had to face downfall and they tried to join with European Union. However, the recent Euro zone debt crisis - 2011/12, US based financial crisis -2007/08 and even East Asia financial crisis 1997/98 had been brought under questions as to the limited role of the state interventions and to the increases in private companies control over the market.

6. Analysis Result

6.1 Launches of open economic policy and its expectation in Sri Lanka

Sri Lanka's economic growth and development experiences are viewed through out various periods, especially, after the episode of 1977 it is more important than before. During that period, the government has implemented many development strategies and framed policies as well as they were turning to Sri Lanka's economy. The dimension of that policies and strategies varies more than before (Balakishnen, 2010:15-16). The government's new policy has included flexibility on dominancy, restrictions or control and intervention, and followed liberal policy, relaxation of interest rate, strengthening market oriented, ownership, privatization, foreign investment, export oriented industrialization and outlook development. Now, the economic liberalization policy is 35 years old. During this long period the development and economic growth experiences, and effects of the liberalization varies on large scales.

According to Sarvananthan (2006:3), Sri Lanka's economic liberalization had taken place before 1980s as it was started by Thatcher and Ronald Regan as universal. He further pointed out that due to this economic system managed by the government and its economic burden during the period between 1970 and 1977. In addition, he divided the Sri Lanka's development periods into four main sub-periods namely 1977-1988; 1989-1994; 1995-2001;

and 2001 onwards. These periods are divided based on the government that became to power in the country by the general elections. The above periods of experiences are due to the impacts of the implemented policies by the successive government which especially started in 1960s. This rigidity of policy includes imports controls, payments controls in foreign exchange and price control. The above limitations are maximized in 1970s. Those two periods (1960s and 1970s) were dominated by the control policy due to some bad experiences such as low price in exports products, negative sign in terms of trade, continuing deficit balance of payment, and reducing foreign assets, causing the government to reduce the payments of import goods. Meanwhile, government has come to introduce an "imports substitution policy" as a strategy of industrialization and a tool for economic development.

However, the above said policies were not sufficient for the Sri Lanka's economic development and greater industrialization as well (Janine 1995). According to her statement, further, that the imports substitution policy became more complicated creating problems similar to that of earliest once due to the external and the internal issues. The internal factors are more dependants on foreign inputs, imbalance of balance of payments, increasing unemployment, crisis on public enterprises, low growth rates, and no longer development and external factors; oil crisis, increasing food prices and worldwide inflation. Hence, the government had to choose only the imports control more and more rather than other way of thinking to solve the problem.

On the consideration of the above background, a new government selected in 1977 has opened the economy as entirely different from the previous ones. Thus, economy and financial sectors are found as explicit outwards oriented policy. It means that, more changes had taken place in economic policy, under this, export-led industrialization strategy implemented instead of import substitutions for the industrial development as so far. These changes have caused neither internal and external problems nor the role model motivated by the experience of newly industrialized countries (NICs). The objectives of the policy are as follows; achieving of higher economic growth rate and quality of life, reducing unemployment rate, maintaining equal distributions of national income, having control of inflation, and strengthening of balance of payment. These aims are to be achieved through the strategy of export-led industrialization.

The introduction of the liberal economic policy and ongoing activities have helped market forces to work freely and simply employed in the healthy environment. This positive environment motivates investment in private enterprises, domestic investments, foreign investments, and openness economic activities as well. The government has taken actions continuously for the smooth functioning of market forces which are; liberalizing trade and foreign assets, reduced government subsidies, abolished price control, foreign exchange reforms, motivate inflows of FDI, export-led motivations, and introduced privatization policy.

7.2 Economic growth experiences in Sri Lanka

In 1960s the Sri Lankan economic growth is increased by an annual average of 4.35 percent which growth is not appreciable achievement. It has been pointed out by the researchers that very few economies have maintained such a growth rate over a long period. Yet this growth has been inadequate to raise the country's per capita incomes to a level of even an upper middle income in the country (Sandaratne, N 1999). According to his statement the World Bank categorized Sri Lanka as a "Lower Middle Income Country" in 2000. In spite of that her per capita income (GDP PC at PPP) US \$ 5,220 is higher than that of India (US \$ 2,358), Pakistan (US \$ 1,928) and Bangladesh (US \$ 1,602) in 2011. Meanwhile, the GDP (PPP) US \$ 106.5 billion and its growth rate was 9.1 percent in 2010 and 5-year compound annual growth rate was 6.7 percent. One quarter of population was found below the poverty line highlighting that average daily calorie intake 2,118 (poverty head count index-PHCI is 7.6 in 2010). The distribution of incomes also remains inappropriately uneven with a gini coefficient of house hold income 0.47 in 2010. Unemployment rate, though reduced, is high around 10 percent of the labour force in 2000 (5.8 % in 2009 and 4.9% in 2010) but increased to 5.4 % in 2011.

Another way of description of Sri Lankan economic growth experiences is explained in real term of 5.1 % annually. This has occurred in 33 years accountable for the period of 1978-2010. Before that there is another period of 1951-1977 (27 years) responsible for growth rate of GDP annually 3.67 %. Based on this point of view relatively there are not many differences (1.43) before and after the episode of liberalization in Sri Lanka. In fact, in the case of the first 10 years period of after the liberalization (1979-1988) the average GDP growth rate accountable was 4.66 %, and during the 2nd

decade after the liberalization (1989-1998) it is 5.02 % and 3rd decade after the liberalization (1999-2008) is 5.08 % annually. However, even unexpected amount of this low growth rate is actual and stable growth rate of the liberalized economy that meaningful better than before the liberalization. For example the end of the civil war May 2009 is more helps to economic growth in Sri Lanka which has been contributed towards achieving 8.0 percent in 2010. Further, the economic growth has been somewhat higher during the last two decades indicating is 5.05 % per year (Table No: 1.5).

There were major differences in economic growth within the five decades according to the Table No: 1.5 and Appendix No 1.3-1.7. For example during the first half of 1960s the economy growth was at 4.52 percent annually, while during the second half of 1960s its annual average was at 4.84 percent. Therefore, second half of the period contributed not much more than the first half of the period in 1960s. Likewise, in the first half of the 1970s economic growth was only at 2.92 percent annually. At the same time a higher growth of 4.9 percent per year was achieved during the second half of the 1970s. According to the 1980s growth rate index, its first half has record of 5.36 % per year, but it got declined again during the second half of the 1980s to 3.16 % annually. During the first half of the 1990s the economic growth was at 5.52 %, although the growth rate decreased to about 4.92 % during the second half of the 1990s. Following 1990s the first half of the 2000s economic growth gone down to 3.96 percent per year, while a significant growth achievement was found around 6.04 % per year in the second half of the 2000s.

The big question is "what are the causes and events that are to explain the differences in economic growth during the last 51 years"? In this research it is explained and explicit that Sri Lanka's economic liberalization did not help to achieve economic growth as expected due to the structural and institutional barriers, and ethnic war. In conformity with classical economic theories, the country has achieved high rates of economic growth during periods due to high investment and open economy. According to the Appendix No:1.8 the Sri Lankan average domestic savings rate has flit around 13.81-16.75 per cent of GDP for most of the year but for the 34 years average is 15.28 per cent. Therefore, the major increase in investment was due to the foreign direct investment (FDI) which has contributed to the average rate of economic growth was around 25 per cent. The highest

rate of economic growth during the second half of the 1980s was achieved in the 1980-1984 period, when economy growth increased by 5.36 per cent annually. This highest achievement was due to the foreign investment around 29 per cent of GDP.

The periods of very low economic growth have been due to external shocks, youth disruptions or both. The Appendix No: 1.4 shows that in the 1970-1974 periods the annual economic growth was only 2.9 per cent. During this period, negative terms of trade caused by sharp crude oil price hikes and international food grain shortages, created enormous strains on foreign exchange resources and restrictions of fiscal operations. In the case of other periods (1987-1989) they also indicate that the annual average economic growth was only 2.16 per cent (see Appendix No: 1.5). The second semi period of 1980s has been accountable for only 3.16 % of GDP. The 2nd youth uprising in Western part of the country, has disrupted nearly all economic activities, and was generally responsible for this brutal dip in economic growth from annual average of 4.8 per cent during the period of 1984-1986. Further, the first semi decades of 1980s has explicated that the average growth rate was 5.36 per cent. During the second half of the 1980s, there was a decline in the economy growth, partly due to the North East war and partly owing to a slowing down of foreign investment and budgetary difficulties (see in Sandrine, N 1999).

After the liberalization, these had been several years of low economic growth due to the internal shocks. In semi decades of 1980s (1985-1989) economic growth was slipped down to 3.16 per cent from the average rate of 5.36 during the 1980-1984 period and 6.2 per cent during the 1978-1982 period (see Appendix No: 1.4 & 1.5). These negative trends have impacted on the economy by ethnic conflict started in July, 1983. This has been responsible for fall in tourism income and reduction or flies in FDI. The investors have lost their confidence and maximized the benefit of the business after the incident of ethnic conflict in Sri Lanka. Another situation that has come to hit the economy is drought weather that has not only affected domestic agricultural production, but also created a power crisis resulted in negative impact on industrial productions. So far, the periods of higher economic growth was not affected by external and internal factors such as oil prices, weather, ethnic crisis, youth uprising, inflation, financial crisis, global warming, foreign exchange, capital fly and etc.

Economic policies have also one of the important

factors for low economic growth in Sri Lanka. Sri Lanka declared openly as a free economic nation in the world in 1977. However, there was the discontinuity in economic policies. Actually, after the liberalization the different governments that come to power have the different economic regimes alternated giving rise to considerable uncertainty, reversal of economic policies and inadequate climate for foreign and domestic investment. Different economic policies have afforded some benefits to economic growth as contrasting economic growth rates are associated with different rule. Relatively economic liberalization has resulted in higher rates of economic growth ranging from 4.3 percent in 1951 to 6.2 percent in 2010 than other economic policies having the results of 1.6 percent in 1956-1959 and 4.5 percent in 1960-1964 and 3.6 percent in 2000-2003. This can be seen clearly from Table 1.6.

Appendix No: 1.2 show that after the independence of Sri Lanka for the first time in a single year 2001 she has obtained negative economic growth (-1.5 %). Reasons for this were the drought climate conditions, power and energy crisis, civil war, political instability and burden of the reelections costs, attack on US Trade Tower that has caused NATO and US war in Afghanistan and Iraq respectively, uncertainty of international economic environment, unexpected high oil price in the world market, and etc. However, the short -life government has embarked the economy as at 4 per cent in 2002.

Sri Lanka in 2010 has registered its second highest economic growth 8 % since independence and the highest record in the history of 32 years, from according to the 2010 Central Bank of Sri Lanka Annual Report. The PA government announces that Sri Lanka could well consolidate its position to become the "Wonder of Asia" sooner than later. Sri Lanka's economy witnessed an impressive economic growth of eight percent, the highest annual rate of growth reported since 1978 (8.2 %). This remarkable achievement reflects a fast recovery (3.5 % in 2009) and move towards a high and sustainable growth path. A reason for that is the peaceful domestic environment following the end of civil war in May 2009 (post war optimism), improved investor confidence, favourable macro-economic conditions, good number of tourist arrivals and a gradual recovery of the global economy from one of the deepest recessions in recorded history after the 1930s. Further, the inflation rate is maintained at a single digit levels, the government revenue supported by the expansion of economic activity through favourable

tax system and control the recurrent expenditure through fiscal and monetary management (i.e. the budget deficit reduced from 9.9 % in 2009 to 7.9 % of GDP in 2010). The Asian Development Bank (Asian Development Outlook 2011) has said that the economy is expected to show continued high growth of 8 percent in 2011, with services and industry leading the growth. However, the government has come to face the biggest challenges posed by the internal and external factors such as attending to the rehabilitation or resettlements and reconstruction in North and East, reducing the unemployment rates for mid-single digit levels, while managing demand pressures, improving domestic supply conditions, controlling the prices and building up the confidence of the international community on human rights improvements and obligation of answer or implementation of recommends by the Lesion and Learn Reconciliation Commission (LLRC) as well.

The improved performance in all key sectors of the economy has contributed towards the high economic growth in 2010. The Appendix No: 1.11 shows that the share of agriculture sector, which contributed around 12.8 percent of the GDP in 2010, increased by 0.1 percent, compared to 12.7 percent in 2009. The major reason for this was the unexpected flood disaster almost all parts of the county. But the share of industry sector declined by 0.3 % in 2010 compared to that of 2009. However, share of services sector in GDP continuously increased by 0.2 % in 2010. The Appendix No: 1.12 shows that the agriculture sector has increased its products by 17 percent in 2010 against in 2009. Further, the industry sector's increase accounted for 15 percent in 2010, compared to 2009 and also service sector has been boosting around 16 percent in 2010 rather than before 2009. These high achievements are obtained through increased production of paddy, tea, rubber and minor export crops along with considerable improvements in the fisheries sector output. In addition to these food and beverages, rubber based products, textiles and garments joined with increased performance in the construction sector and increased hydropower generation contributed towards this growth. In the case of service sectors' including such as external trade with the gradual recovery of the global economy and domestic trade with the restoration of peace. Furthermore, the strong performance in tourism, transport and communications, and banking, insurance and real estate also recorded notably high growth rates compared to 2009.

The reference of Appendix No: 1.8 shows that

the recovery in economic activity, consumption expenditure increased by 14.85 percent in 2010. In other words that as a percentage of GDP, private consumption increased from 64.4 percent in 2009 to 65.8 percent in 2010, while government consumption declined from a level of 17.6 percent to 15.6 percent. Hence, both domestic savings and national savings have increased from 17.9 percent of GDP and 23.7 percent of GDP respectively in 2009 to 18.7 percent and 24.7 percent respectively in 2010. The investment responded to the increase by 3.4 % in 2010 compared to 2009. Its mean that private investment improved from 17.9 % of GDP in 2009 to 21.6 % in 2010, while government investment declined slightly from 6.6 % of GDP in 2009 to 6.2 % in 2010, and as a result, investment as a percentage of GDP in 2010 increased to 27.8 percent. It clearly says that the savings gap between national savings and total investment is only 3.1 percent of GDP in 2010 filling by FDI (see also Appendix No: 1.10).

7.3 Structural changes in Sri Lanka's economy

After the liberalization of the economy witnessed a notable structural change in the economy from chiefly agricultural ones to more diversified economy, which was regularly started from 1978 benefited during last three decades of the 20th century. The most prominent characteristic of this structural change is the higher contribution of industry to GDP than agriculture. Especially, between 1950 and 2010 it was that this kind of changes occurred dramatically. The development theories clearly explains that when per capita GDP continuously increases in the economy as a production and employment levels are proportionally increases in the sector of agriculture, industry and services. And export and import structure of contents also changes in a very positive manner. In other words, positive structural changes imply that the contribution of agriculture sector proportionally was declining or the dependency ratio was reducing in the economy but its production efficiency and capacity got increased continuously. While the contributions of industry sector and service sector frequently were higher to the economy. And the efficiency of production and capacity also increased in the industry.

By 1977 industry has contributed 28.7 percent of GDP, while agriculture contributed to 30.7 percent growth of GDP. By next decade of 1987 this has 27.4 % and 27 % respectively. Following by next decade like 1997 both secretors are accounted 26.9 % and 21.9 % respectively. Another decade by 2007 makes clear the industry sector contributed to 29.4

% of GDP growth, while agriculture contribution had declined to 11.7 % of GDP. However, the contribution of agriculture slightly increased to 13.4%, 12.7%, and 12.8% to 2008, 2009 and 2010 respectively. While industry sector contributed to average around 30 percent to the same three years. This is in sharp contrast to the structure of the economy in 1950, when agriculture's contribution was 46 % and industry accounted for 17 % of GDP. It has another way 35 % and 17 % respectively in 1967. Other interesting changes have occurred in the service sector, its significant contribution had risen from 40 % in 1950 to 58 percent of GDP by 2010 (see Appendix No: 1.11). This structural change undergone the economy has undergone after the liberalization is captured in Appendix No: 1.13 and Graph No: 1.7.

According to the above analytical explanation, there is a question derived related to Sri Lanka's structural development pattern or its changes 'why' contradicted with growth theories. The growth and structural development theories have concluded that in the process of economic growth, the structural changes firstly were observed in agriculture sector which contributed more than other two sectors, after that the sector of industry has replaced agriculture sector and followed by service sector and later the service sector has becomes the forefront than industry sector followed by agriculture sector. There is an interesting sophisticated observations like the service sector always became front to Sri Lanka's growth scenario rather than industry sector in Sri Lanka after 1960s even liberalization. Perinpanathan, N (2008) pointed out that this was reflected during the colonial periods. The colonial rulers did not develop industrial sector in Sri Lanka and they have given more importance to plantation sector and related with bank, insurance, transport, and port development as well. Therefore, the service sector has contributed more than industry sector in Sri Lanka.

Apart from this virtual situation, there were qualitative differences in agriculture, industry and services. Especially there is a change explicit that contribution of plantation sector has been declining and was replaced by a rural agriculture in total agriculture products in Sri Lanka. For example, the plantation crops such as tea, rubber, and coconut had contributed 70 percent to GDP while paddy and other foods crops contributed only 30 percent to GDP in 1950. Another view point is that these three plantation crops have not only contributed a large scale of agriculture output, but most of the manufacturing output consisted of the processing of tea, rubber and

coconut (Sandaratne, N 1999). In contrast, the plantation crops contributed less than 4 percent to GDP while paddy and other food crops contributed 13.2 percent to GDP in 1998. On other hand, non-plantation sector crops contributed 79 percent to the total agricultural production in 1998. It means that, paddy has contributed 3.4 percent while tea only 1.5 percent to GDP in 1998 (Central Bank Report 1998). The plantation crops contributed 27 percent while paddy and other foods crops including livestock and forestry contributed 60 percent to the total agriculture product in 2007. In other words, non-plantation sector crops contributed 7 percent while plantation crops contributed only 3 percent to GDP in 2007. This situation has reversely changed in 2010. For example, the plantation crops accounted for 25 percent to the total agriculture products while non-plantation crops accounted for 62 percent and fishing contributed 13 percent to the total agriculture products in 2010. It means that, paddy contributed only 2 percent, at the same time, the plantation crops contributed 3 percent to GDP in 2010 (Central Bank Report, 2010).

The above elegant changes of upper hand of rural agriculture and different growth trend due to the governments came to the power after the independence given more efforts to rural agriculture. For example, new colonial programme with massive housing projects, development of irrigation facilities, provision of subsidy in various forms, introductions of new crops and hybrid seeds, newly applying a bio and chemical inputs, given loan facilities through state banks, and higher development occurred in transport and marketing facilities, etc. Finally, a normal situation like the major role of agriculture sector has come to the lower hand in the growth process happened in the Sri Lanka's economic growth path since 1978.

Other interesting transformation observed was regarding the increased relative importance of manufacturing, as well as the qualitative alterations. Before 1977 industrial input consisted of tree crop processing and few industrial products such as cement, chemicals, glass and cottage, paper, and sugar industries. Reason for this was the government ruled the country (1970-1977) that maintained an import substitution industrial strategy. Through this strategy it tried to make up in the country a wide range of consumer items, industrial and manufacture goods imported from foreign countries. However, the above strategy did not have a significant impact on changing the economic structure. Therefore, it was a remarkable change by replacing liberalization strategy in 1977. In the words of Sandaratne, N (1999), it is

clear that "post 1977 period of trade liberalization and encouragement of foreign investment which led to both the expansion of the industrial sector and its diversification". He further pointed out that factory industry has replaced the export crop processing for its importance.

There is evidence that a small and cottage industry began to decline in 1977. So factory industry now contributes about 55.5 percent of industrial output, while tea, rubber and coconut processing contributes about 2.7 percent and small industry about 2.8 percent of total industrial output. Factory industry itself has shown considerable diversifications as electricity, gas and water accounted for about 7.7 percent to the industry. In the case of construction, it was remarkably contributed to about 25.7 percent of total industrial outputs. The total industrial outputs has given a share to GDP about 29.4 percent while manufacturing covers about 18 percent, processing covers of about 0.8 percent, factory industry covers about 16.4 percent, and cottage industry share was only 0.8 to GDP in 2010. Despite textiles, wearing apparel and leather products hold a dominant position by contributing 12.2 (factory profit ratio) percent of industrial output, a wide range of industrial items are produced for export (Central Bank, 2010).

The above contributions of manufacturing industry was mainly due to the unfavourable situation like massive competition from cheapest imports goods and led closing the small and medium factories during the liberalization periods. Apart from that there is other reason also contributed for closing the small and medium factories post liberalization which the old labour law works in the country for a long period. For example Appendix No: 1.1 stated that the labour freedom only available since 2005. Therefore, entrepreneurs of small and medium manufacture closed down or stopped their factories immediately induced to reduce the number of their workers. It began to cause unemployment and unnecessary burden on the economy for a long term.

In case of service sector, unexpected development has observed in the economy since 1950. It was contributed around 37, 43 and 48 percent to GDP in 1950, 1957 and 1967 respectively. The early periods of independence the activities of trade, transport, post and telecommunication, bank and other financial services have been undertaken by the state monopoly. Due to this those sectors works not properly including reduce their productivity and sectoral growth ratio. Reason for the low growth contributed such as controlling in external asset,

nationalization, higher taxes, complicated price structure, and social choices with distribution and controlled or implemented by central planners. In shortly says, negligence of consumer's choices as freely (Perinpanathan N, 2008). He further pointed out, therefore, growth of service sector was negative affected to total growth and income generate and led to low growth of other two main sectors not only increasing gap between consumers and domestic productions. The same observation like during the periods of 1970-1977. I.e. the shares of service sector to GDP were as 48 percent in 1970 and 40.6 percent in 1977.

But, after the liberalization an unpredicted and unwanted boom had occurred in the service sector in the country. This is normally called "white elephant" because of the episode of big cost of the economy. The government continued maintaining a massive employment demands over the unskilled and low productive workers in the industrial sector and all type of institutions. However, there was much demand for good and capable labours in the face of reducing the state monopoly and encouraging privatization, motivation of foreign investments and industrialization after the liberalization. Besides, there was a situation of a large economic resulted in multi-dimension of economy demands are huge skilled and productive workers also in the country. It has created a link between production and consumption and also a rapid growth of communication with capable labours in the service sector of the economy. But, unfortunately state service sector has continued its works with earliest impediment. For example, after the liberalization of the country, the service sector has reached unwanted higher position other than two sectors like agriculture and industry, i.e., the service sector average contribution to GDP was around 53 % from 1977-2010 and a balance 47 percentage was shared by other sectors (see Appendix No: 1.11). However, a more relaxation was observed regarding the trade liberalization, transport, and financial services after 1990s. Government motivated and expected quality services as private activities in the above sectors. It may be the reasons for a higher growth in service sector reflected after 1990s and 2000s.

7.4 Structural changes in Sri Lanka's foreign trade

The structural changes in the economy are reflected in the country's trade patterns (see Appendix No: 1.15 and 1.16). These export structure table clearly defined that the agriculture sector is

more predominant than other three sectors before liberalization. Besides, this phenomenon is happened from the beginning of the plantation economy dominated till the 1977. For example, the agriculture sector contributed 77.4 percent in 1977 and 42.4 percent in 1987 while industrial sector has only 13.8 percent in 1977 and 48.6 percent in 1987, mineral and unclassified sector has shown the growth rate only 6.4 percent in 1977 and 9 percent in 1987 to share the total exports in Sri Lanka. In 1950, tea, rubber, and coconut exports accounted for 94 percent of exports. After the trade liberalization, a significant diversification of exports has taken place in the 1980s, 1990s, and 2000s. I.e. by 1987 agricultural exports had declined to about 35 percent. And by 1997 it had further declined to 20 percent. It never has increased higher than 25 percent of total exports till 2010. The diversified export structure consists of average 75.5 percent of industrial exports from 1997 to 2010. But mineral and unclassified items consist of average 2 percent only added to the exports from 1997 to 2010.

The imports structure was also changed significantly after trade liberalization in Sri Lanka. For example, imports of foods items accounted for 45 percent of total imports including rice. The share of consumer goods imported was about 42.2 percent in 1977 of total imports, 28 percent in 1987 while it continuously declined below 20 percent since 1997. Further, the import structure has changed those over 50 percent of imports being consumer items, to over 50 percent being intermediate items. I.e. the intermediate goods consist of about 57.2 percent in 1987, 55.2 percent in 1997, 59.8 percent in 2007, and 62 %, 58 %, 57.4 % in 2008, 2009, 2010 respectively in total imports in Sri Lanka. Therefore, the average of intermediate goods imported have accounted for 56.2 percent annually after the liberalization. The records of imports of investment goods also suggested that it was increased to average rate of about 21 percent annually out of total imports after the liberalization in Sri Lanka.

Based on the above structurally changed trade patterns it can be said that Sri Lanka's dependency ratio highly increases from 1977 onwards. The data of exports and imports, more clearly, explained that exports and imports as a proportion of GDP (Openness) have remained high even after the trade liberalization. For example, in 1950 the country's trade dependency was 70 percent. It is only marginally less at about 68 percent in late 1990s (Sandaratne, N 1999). However, this dependency ratio has started continuously declining to GDP after 2007 today. I.e.

it was 59 percent in 2007, 55 percent in 2008, 41 percent in 2009, and 44 percent in 2010 but the average is 50 percent annually today. Therefore, the important question arises 'is whether liberalization policy has benefited or has positive impact on Sri Lanka's economy?' Because, this country is always depend on foreign goods even income also comes from beyond the country. In other words, exports earning resend to other countries by the way of cost of imports.

This clearly illustrates that the trade dependency is more on industrial than on agricultural. Further, manufactured items dominate on export sector. On other hand, relatively the country's dependency ratio was low before the liberalization. Especially, there was a different ratio volume between dependency of exports and imports (low deficit balance of trade) but there was gap between exports and imports after 1977. The data exposed that country is more dependence on imports rather than exports. It is always not suitable to the country. Because, the county continuously becomes more dependent on foreign trade it may be affected by external shocks. Hence, inputs like raw materials and capital goods for industries consist of a larger share of imports than food and other consumer imports goods. And its prices are higher than the country's exports goods. So, value added only considered as marginal cost of production. Although the country's Current Account balances has never reached as positive sign other than 1977 (\$ 144.1 million as 3.5 percentage of GDP) and balance of trade 74 million US dollar in 1977 otherwise becomes negative after the liberalization.

Other significant changes observed in Sri Lanka's direction of trade since 1977. Sri Lanka's trade relationship with countries is an interesting trend since her trade liberalization. Especially, it has maintained more relationship with other countries than intra-regions. The Appendix No: 1.17 shows that Sri Lanka's total exports was US \$ 748.2 million in 1977 while 7.5 percent was exported to NAFTA, 26.9 percent was sent to EU regions, 24.7 percent have gone to Asia and 40.9 percent was exported to other regions. During next 10 years following the liberalization a small diversion has occurred to the total exports was (US \$ 1397 million) divided into NAFTA 28 percent, EU 23.3 percent, AFTA 7 percent, other regions 32.4 percent, and especially SAFTA accounted for only 4.2 percent. In the situation of 1997, Sri Lanka's exports have increased to NAFTA and EU. For example, NAFTA has obtained 38 percent of Sri Lanka's exports; EU has

got 30 percent while AFTA and SAFTA have received only 11 percent. During the period of 30-35 (1977-2010) years it was experienced that liberalization has not caused significant changes' regarding on Sri Lanka's exports. I.e. even after 2007, average exports like 25 percent were sent to NAFTA region while average of 37 percent were EU countries and 4 percent of average exports have gone to AFTA region even as 7 percent of average exported goods to SAFTA countries. Therefore, last 33 years nearly 85 percent of Sri Lanka's exports were sent to other than SAARC regions. However, it has proved that after the formation of SAARC / SAFTA which led intra-regional trade creation among the member countries.

Meanwhile, Sri Lanka's direction of imports reflects a little bit of differences compare with her direction of export. For example, her imports was accounted for US \$ 726.2 million in 1977 as 9 percent from NAFTA, 24 percent from EU, 34 percent from Asia and 32 percent from other regions. Although, Sri Lanka's imports has reflected on as 11 percent from NAFTA, 20 percent from EU, 30 percent from AFTA, 34 percent from other regions while SAFTA accounted 7 percent in 1987. In case of 1997, her imports considered as around 7 percent from NAFTA, 17 percent from EU, 37 percent from AFTA, Other region accounted 27 percent whereas from SAFTA accounted only 11 percent. After the 20 year of liberalization, Sri Lanka's imports direction have changes significantly as high imports from the intra-region. For example, share of imports of intra-region increases averagely 23 percent. At the same time, average of AFTA share also was at 18 percent and altogether both regions have obtained 41 percent average share and the balance 59 average shares of imports is divided among NAFTA (4%), EU (12%), and other region (43%). This is another proof that after the formation of SAARC / SAFTA intra-regional trade diversion also occurred among the countries (see also Appendix No: 1.17).

7. Summary and conclusions

Economic reforms have been adapted by the successive goals in Sri Lanka, during the post independence era, to expand, improves stabilize and vitalize the wealth of the country to provides facilities and opportunities for the upper, middle and lower class people to become the powerful and energetic assets of the nations. Theoretically these economic reforms are welcomed, but practically there are different opinions and the outcome of these reforms in the face of economic freedom. Virtually it calls into

question "how far have these economic reform helped the people to enjoying the economic freedom"? "What is the measure of equality of economic status and of opportunities that the different governments have provided for the member of our society"? Based on these the economic growth from the angle of economic freedom is taken up for discussion with the GDP as the tools for measurement, assessment and evaluation of the output and benefits of the local products and services, and of imports and exports as well as demand and supply.

Thirty three years (33) is a long period in the context of Sri Lanka as a free trade and liberalized country in South Asia. Yet the last three decades has witnessed deep and irreversible changes. The country has moved from a pre-dominantly agricultural economy for good or bad to around 20 percent of GDP at present. The growth of industry for export has been the outstanding development of the last three decades. The agriculture sector has declined from the liberalization with its component parts has changed remarkably. It means that agriculture sector has lost its dynamism. For the economic development, the county has more importance given to industry while the agriculture sector has been neglected. Sandaratne, N (2000) said that "this is no doubt partly due to mistaken view that agriculture need not be promoted as industry provides better income and employment opportunities".

Therefore, country requires to be corrected, as agriculture still has a tool for economic growth. And it can contribute significantly to GDP as well as employment. After the liberalization of the economy witnessed a notable structural change in the economy from chiefly agricultural ones to more diversified economy, which was regularly started from 1978 benefited during last three decades of the 20th century. The most prominent characteristic of this structural change is the higher contribution of industry to GDP than agriculture. Especially, between 1950 and 2010 it was that this kind of changes occurred dramatically.

The economic changes of the liberalization have important socio-cultural impacts, which would go round to influence the economy. These impacts are complex and not traditional ones, because of the service sector became higher position than industry. Unfortunately, the financial sector is not supportive one to the development what the country depended on others who are loaners or debt providers such as IMF, WB, ADB and DCs. Multi-dimension is witnessed during the period of liberalization are likely

to gain in momentum and impact more significantly in the coming decades also. For example, increased dependency, urbanization, consumerism, higher expectations, globalizations are some of these influences or dimensions which would bear heavily on future directions of the economy. Finally, this research would suggest that liberalization is not out dated but it should be moderated for the country's situation for the best result and achievements.

Generally, country's foreign trade has to face the challenges due to; more demands prevailed for consumer goods, intermediate goods, petroleum, fertilizer, chemicals, textiles, machinery and parts, building materials, and defense equipments in Sri Lanka. Therefore, its trade balance was not favourable to Sri Lanka; not only that they have all less demand elasticity and necessary goods. Consequently, its prices always had to increase in the world market, but never had to reduce their imports; country's direction of trade more complicated as explained already in this section; share of industry has taken a higher position in the country's exports after the liberalization but, share of textiles and garments items have covered more portion in the industry sector for a long period; some of the exports items became under the Multi Fiber Agreement (MFA) quota, however this agreement has ended in 2006 and further extension was affected by war and human rights requirements; country's most of exports items have high demand -elasticity and semi -luxury goods that have high competition in the world market.

Hence, its price was not favourable to Sri Lanka; not only to that but country's exports were also more likely homogenous in production from the point of her neighbour countries. It has more complicated in the market; in the progress of the industrialization, country moves up to electronic and electrical production and its exports but, Sri Lanka has not produced these goods as the export, reason for that is that the country's capacity of the above production not in the possible position and also unavailable for skills and experience labour forces to the production even the cost of production also is very high in Sri Lanka.

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Tables

Table No: 1.5 Economic growths by decades (1959-2010)

Years	GDP (current market price: Rs Million)	Average (Rs Million)	GDP Growth Rate (%)	Average (%)
1959-1968		7,832.7		4.35
1959	6,416		1.5	
1968	10,718		8.2	
1969-1978		23,268.3		3.76
1969	11,695		4.8	
1978	42,665		8.2	
1979-1988		133905.8		4.66
1979	52,387		6.3	
1988	221,982		2.7	
1989-1998		579,411		5.02
1989	251,891		2.3	
1998	1,017,986		4.7	
1999-2008		2,264,702.3		5.08
1999	1105963		4.3	
2008	4410682		6.0	
2009	4835293	-	3.5	3.5
2010	4835293	-	8.0	8.0

Resource: Central Bank (2010) Annual Report-2010, Special Statistical Appendix Table: 2

Table No: 1.6

Economic growth comparison by different government regimes (1951-2010)

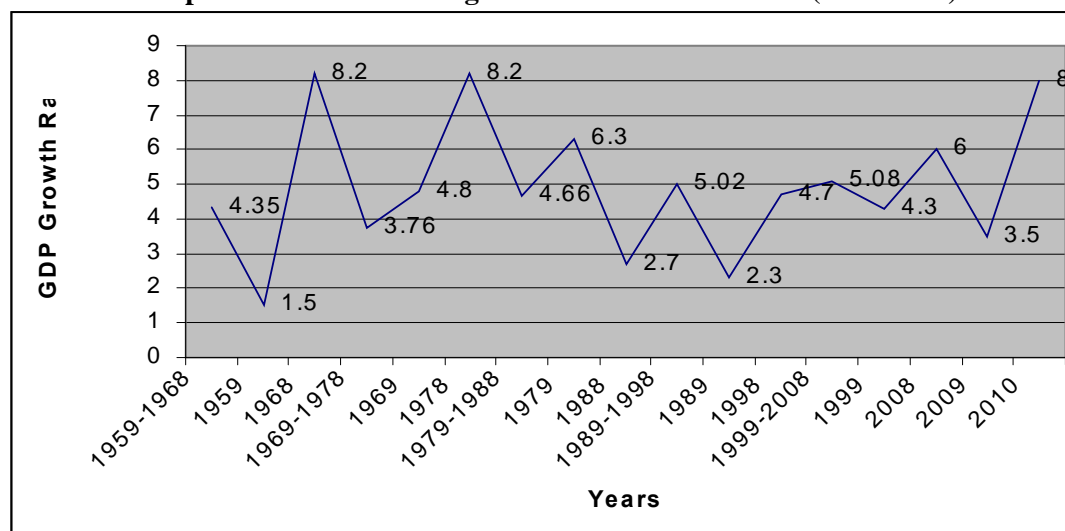
Liberal Regimes		Control Regimes	
1951-1955	4.3	1956-1959	1.6
1965-1969	4.8	1960-1964	4.5
1978-1993	4.9	1970-1974	2.9
1994-1999	5.0	1975-1977	3.3
2004-2010	6.2	2000-2003*	3.6

Resource: Central Bank (2010) Annual Report-2010, Special Statistical Appendix Table: 2

* Complicated periods: No stable government regime during this period.

Graph

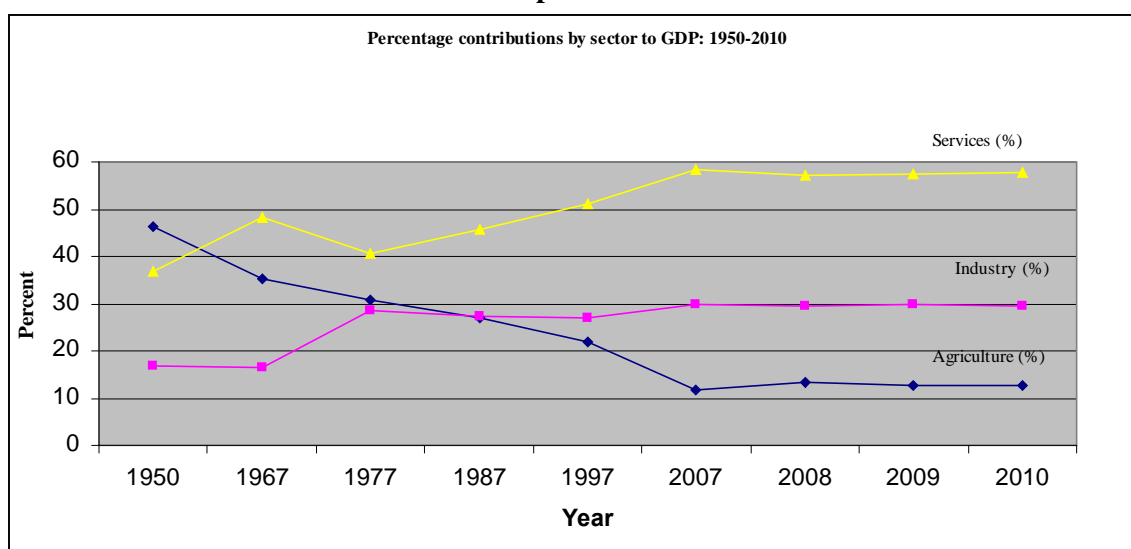
Graph No: 1.6 Economic growth rates in Sri Lanka (1959-2010)



Based on Table No: 3.5

Note: 1959-1968, 1969-1978, 1979-1988, 1989-1998 and 1999-2008 are indicating the average rates of GDP.

Graph No: 1.7



Appendix

Appendix No: 1.1

Index of Economic Freedom of Sri Lanka (1995-2012)

Items Year	Overall score	Business Freedom	Trade Freedom	Fiscal Freedom	Govern. Spending	Monetary Freedom	Investment Freedom	Financial Freedom	Property Rights	Free. from Corruption	Labour Freedom
1995	60.6	70.0	54.2	64.3	78.3	78.4	50.0	70.0	50.0	30.0	N/A
1996	62.5	70.0	61.0	72.5	78.1	80.5	50.0	70.0	50.0	30.0	N/A
1997	65.5	85.0	61.0	72.5	69.1	81.8	50.0	70.0	50.0	50.0	N/A
1998	64.6	85.0	61.0	72.3	66.3	77.0	50.0	70.0	50.0	50.0	N/A
1999	64.0	70.0	68.0	72.6	71.7	74.0	50.0	70.0	50.0	50.0	N/A
2000	63.2	70.0	71.0	72.9	79.7	74.9	50.0	50.0	50.0	50.0	N/A
2001	66.0	70.0	70.2	73.4	81.3	79.1	50.0	50.0	70.0	50.0	N/A
2002	64.0	70.0	72.0	73.3	81.3	79.3	50.0	50.0	50.0	50.0	N/A
2003	62.5	70.0	70.2	73.4	80.3	68.6	50.0	50.0	50.0	50.0	N/A
2004	61.6	70.0	70.6	79.9	77.3	69.6	50.0	50.0	50.0	37.0	N/A
2005	61.0	70.0	76.6	78.5	80.6	72.3	50.0	30.0	50.0	34.0	67.6
2006	58.7	68.2	71.4	78.5	83.1	72.5	30.0	30.0	50.0	35.0	68.6
2007	59.4	69.2	71.6	78.5	83.4	70.4	30.0	40.0	50.0	32.0	68.9
2008	58.4	71.6	69.6	73.5	81.7	65.4	30.0	40.0	50.0	31.0	71.4
2009	56.0	73.7	71.0	73.2	80.5	59.4	20.0	40.0	40.0	32.0	70.8
2010	54.6	71.8	62.2	73.5	83.9	56.8	15.0	40.0	40.0	32.0	70.7
2011	57.1	71.9	72.2	73.4	84.7	65.8	30.0	40.0	40.0	31.0	61.8
2012	58.3	78.0	77.1	73.5	81.4	68.5	30.0	40.0	40.0	32.0	62.1

Resource: The Heritage Foundation (2012) available at <http://www.heritage.org/index/explore>

Appendix No 1.2

Resource: Central Bank Annual Report-2010, "Special Statistical Appendix"- Table: 2

Years	GDP (cur. Mar. price: Rs M)	Average (Rs Million)	GDP Growth (%)	Average (%)
1959-1968		7,832.7		4.35
1959	6,416		1.5	
1960	6,711		6.7	
1961	6,875		2.1	
1962	6,970		4.6	
1963	7,382		2.8	
1964	7,797		6.4	
1965	8,084		2.3	
1966	8,337		3.8	
1967	9,037		5.1	
1968	10,718		8.2	
1969-1978		23,268.3		3.76
1969	11,695		4.8	
1970	13,664		4.3	
1971	14,050		0.2	
1972	15,247		3.2	
1973	18,404		3.7	
1974	23,771		3.2	
1975	26,577		2.8	
1976	30,203		3.0	
1977	36,407		4.2	
1978	42,665		8.2	
1979-1988		133905.8		4.66
1979	52,387		6.3	
1980	66,527		5.8	
1981	85,005		5.8	
1982	99,238		5.1	
1983	121,601		5.0	
1984	153,746		5.1	
1985	162,375		5.0	
1986	179,474		4.3	
1987	196,723		1.5	
1988	221,982		2.7	
1989-1998		579,411		5.02
1989	251,891		2.3	
1990	321,784		6.2	
1991	372,345		4.6	
1992	425,283		4.3	
1993	499,565		6.9	
1994	579,084		5.6	
1995	667,772		5.5	
1996	768,128		3.8	
1997	890,272		6.3	
1998	1,017,986		4.7	
1999-2008		2,264,702.3		5.08
1999	1105963		4.3	
2000	1257636		6.0	
2001	1407398		-1.5	
2002	1581885		4.0	
2003	1822468		5.9	
2004	2090841		5.4	
2005	2452782		6.2	
2006	2938680		7.7	
2007	3578688		6.8	
2008	4410682		6.0	
2009	4835293		3.5	3.5
2010	4835293		8.0	8.0

Resource: Central Bank Annual Report-2010, "Special Statistical Appendix"- Table: 2

Appendix No 1.3
Economic growth by decades & semi decades (1960-1969)

Years	GDP Growth Rate (%)	Semi decades	Average (%)
1960	6.7	1960-1964	4.52
1961	2.1	1965-1969	4.84
1962	4.6		
1963	2.8		
1964	6.4		
1965	2.3		
1966	3.8		
1967	5.1		
1968	8.2		
1969	4.8		

Resource: Central Bank, Annual Report-2010, "Special Statistical Appendix"- Table: 2

Appendix No: 1.4
Economic growth by decades & semi decades (1970-1979)

Years	GDP Growth Rate (%)	Semi decades	Average (%)
1970	4.3	1970-1974	2.9
1971	0.2	1975-1979	4.9
1972	3.2		
1973	3.7		
1974	3.2		
1975	2.8		
1976	3.0		
1977	4.2		
1978	8.2		
1979	6.3		

Resource: Central Bank, Annual Report-2010, "Special Statistical Appendix"-Table: 2

Appendix No: 1.5
Economic growth by decades & semi decades (1980-1989)

Years	GDP Growth Rate (%)	Semi decades	Average (%)
1980	5.8	1980-1984	5.36
1981	5.8	1985-1989	3.16
1982	5.1		
1983	5.0		
1984	5.1		
1985	5.0		
1986	4.3		
1987	1.5		
1988	2.7		
1989	2.3		

Resource: Central Bank, Annual Report-2010, "Special Statistical Appendix" -Table: 2

Appendix No: 1.6
Economic growth by decades & semi decades (1990-1999)

Years	GDP Growth Rate (%)	Semi decades	Average (%)
1990	6.2	1990-1994	5.52
1991	4.6	1995-1999	4.92
1992	4.3		
1993	6.9		
1994	5.6		
1995	5.5		
1996	3.8		
1997	6.3		
1998	4.7		
1999	4.3		

Resource: Central Bank, Annual Report-2010, "Special Statistical Appendix" -Table: 2

Appendix No: 1.7
Economic growth by decades & semi decades (2000-2009 & 2010)

Years	GDP Growth Rate (%)	Semi decades	Average (%)
2000	6.0	2000-2004	3.96
2001	-1.5	2005-2009	6.04
2002	4.0		
2003	5.9		
2004	5.4		
2005	6.2		
2006	7.7		
2007	6.8		
2008	6.0		
2009	3.5		
2010	8.0		8.0

Resource: Central Bank, Annual Report-2010, "Special Statistical Appendix"- Table: 2

Appendix No 1.8
Domestic savings and investment rate in GDP at current market prices (1977-2010)

Year	Domestic Saving %	National Saving %	Investment %	Year	Domestic Saving %	National Saving %	Investment %
1977	18.1	17.7	14.4	1994	15.2	19.1	27.0
1978	15.3	15.5	20.0	1995	15.3	19.5	25.7
1979	13.8	14.8	25.8	1996	15.3	19.0	24.2
1980	11.2	14.0	33.8	1997	17.3	21.5	24.4
1981	11.7	14.3	27.8	1998	19.1	23.4	25.1
1982	11.9	15.4	30.8	1999	19.5	23.5	27.3
1983	13.8	16.4	28.9	2000	17.4	21.5	28.0
1984	19.9	22.2	25.8	2001	15.8	20.3	22.0
1985	11.9	14.2	23.8	2002	14.4	19.5	21.2
1986	12.0	14.5	23.7	2003	16.0	21.5	22.0
1987	12.8	15.3	23.3	2004	16.4	22.0	23.5
1988	12.0	14.2	22.8	2005	17.9	23.8	26.8
1989	12.2	14.6	21.7	2006	17.0	22.3	28.0
1990	14.3	16.8	22.2	2007	17.6	23.3	28.0
1991	12.8	15.2	22.9	2008	13.9	17.8	27.6
1992	15.0	17.9	24.3	2009	17.9	23.7	24.4
1993	16.0	20.2	25.6	2010*	18.7	24.7	27.8
1977-2010	Domestic saving :15.28 National saving:18.83 Investment:25.0						

Resource: Central Bank, Annual Report-2010, "Special Statistical Appendix"- Table: 2

* Consumption expenditure increased from 2009 to 2010: 4,557,348-3,967,770 = 589,578

Percentage change: 589,578 / 3,967,770*100 = 14.859

Appendix No 1.9 Sectoral based foreign direct investment (1991-2000) (RS Million)

Sectors	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Food, beverages and tobacco products	95	87	196	667	1,290	2,274	4,253	5,199	5,476	4,301
Textile, wearing apparel and leather products	3,163	4,408	5,839	11,585	11,064	12,351	15,465	16,819	18,248	20,464
Wood and wood products	3	30	53	449	488	474	515	671	578	458
Chemicals, petroleum, coals, rubber, and plastic productions	78	177	181	167	167	326	438	461	489	521
Non-metallic mineral productions	2,793	3,289	3,978	4,687	4,945	5,762	5,921	7,121	7,930	8,340
Manufactured metallic products, machinery, and transports equipment	484	595	685	652	774	972	1,035	3,044	4,081	3,581
Other manufactured productions	1,205	1,517	1,563	472	615	605	1,186	2,832	4,703	3,873
Agriculture	877	1,379	2,007	2,981	2,919	3,499	4,207	5,646	5,105	6,253
Services	2,548	3,208	7,658	20,221	28,108	34,694	45,680	58,438	70,363	84,025
Total	11,246	14,690	22,160	41,881	50,370	60,957	78,691	100,231	116,972	131,815

Resource: Central Bank (1997-2004) Various Annual Reports

Appendix No 1.10 Sectoral based foreign direct investment (2001-2010) (RS Million)

Sectors	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Food, beverages and tobacco products	5,058	8,732	9,773	12,493	16,765	20,375	22,766	28,970	29,077	28,147
Textile, wearing apparel and leather products	22,006	25,438	26,806	26,313	30,278	36,970	44,906	47,629	52,055	53,778
Wood and wood products	1,300	2,751	3,680	5,218	5,619	5,715	5,581	5,929	6,050	8,078
Chemicals, petroleum, coals, rubber, and plastic productions	517	567	497	504	788	747	1,004	1,579	3,782	3,962
Non-metallic mineral productions	10,178	11,040	15,058	14,660	19,042	21,931	29,415	35,617	25,789	34,261
Manufactured metallic products, machinery, and transports equipment	3,183	3,574	5,217	9,703	9,621	11,400	11,371	7,395	7,797	11,272
Other manufactured productions	3,769	5,562	6,390	7,189	9,827	13,153	14,440	12,303	131,140	10,084
Agriculture	5,924	6,212	6,763	8,176	8,403	1,075	11,890	14,317	17,922	19,445
Services	89,355	101,019	112,598	124,440	133,180	164,325	222,871	286,669	329,554	364,285
Total	141,290	164,894	186,782	208,696	233,523	285,366	364,244	440,408	495,506	533,312

Resource: Central Bank, Annual Report-2010

Appendix No 1.11

Share of GDP at Current Factor Prices (1977-2010) Percentage

Selected Years	Agriculture (%)	Industry (%)	Services (%)
1950	46.3	16.8	36.9
1967	35.3	16.6	48.1
1977	30.7	28.7	40.6
1987	27.0	27.4	45.6
1997	21.9	26.9	51.2
2007	11.7	29.9	58.4
2008	13.4	29.4	57.2
2009	12.7	29.7	57.6
2010	12.8	29.4	57.8

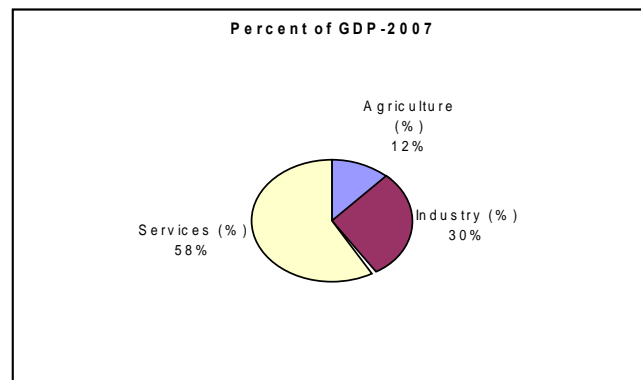
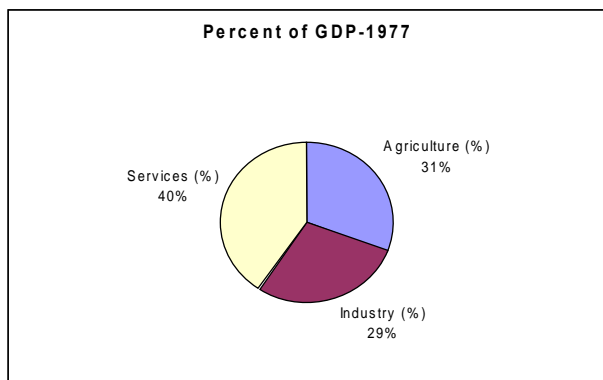
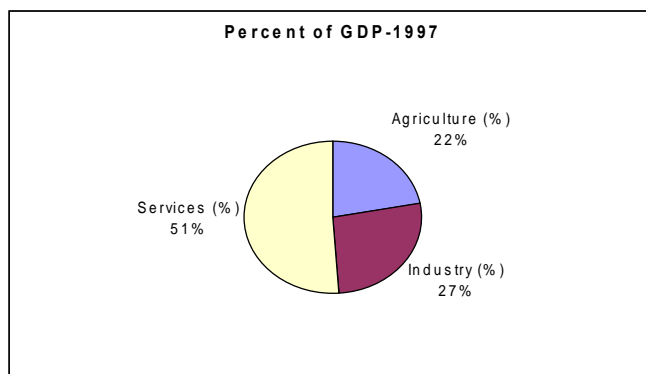
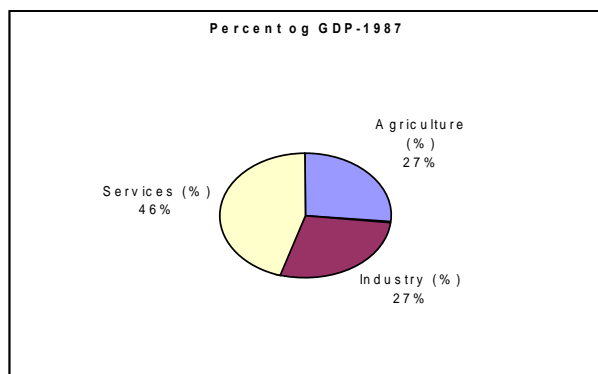
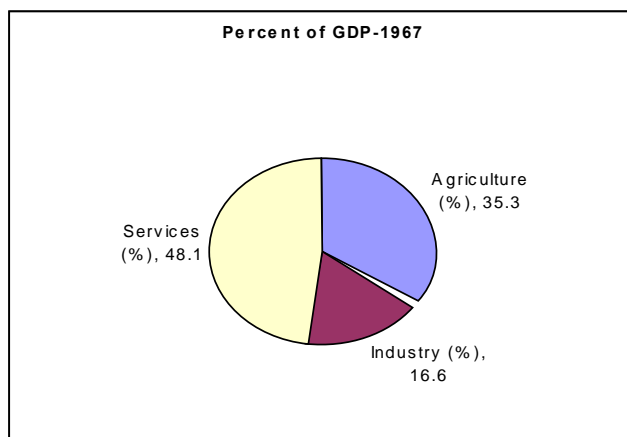
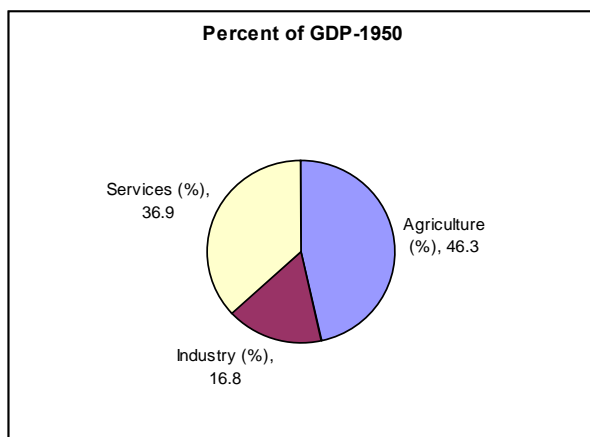
Resource: Central Bank, Annual Report-2010, "Special Statistical Appendix"- Table: 2

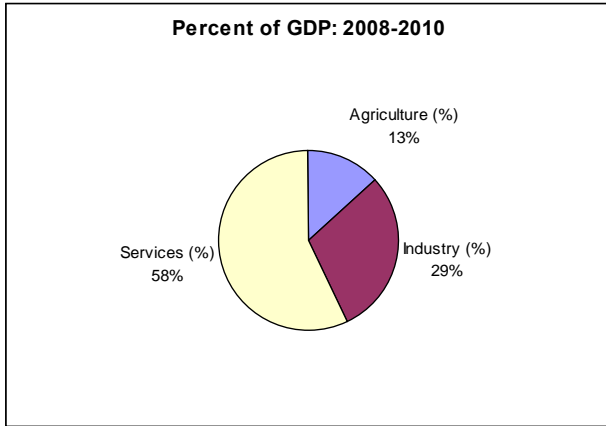
Appendix No 1.12
GDP by sectors at Current Factor Prices (1977-2010) (Rs. Millions)

Selected Years	Agriculture	Industry	Services	GDP	GNP
1977	10,644	9,945	14,095	34,684	34,432
1987	47,923	48,763	81,045	177,731	173,395
1997	175,774	216,177	411,747	803,698	794,289
2007	418,104	1,070,737	2,089,847	3,578,688	3,539,634
2008	590,114	12,95,470	2,525,099	4,410,682	4,305,651
2009	613,694	1,434,701	2,786,897	4,835,293	4,779,497
2010	716,892	1,649,141	3,236,288	5,602,321	5,530,464

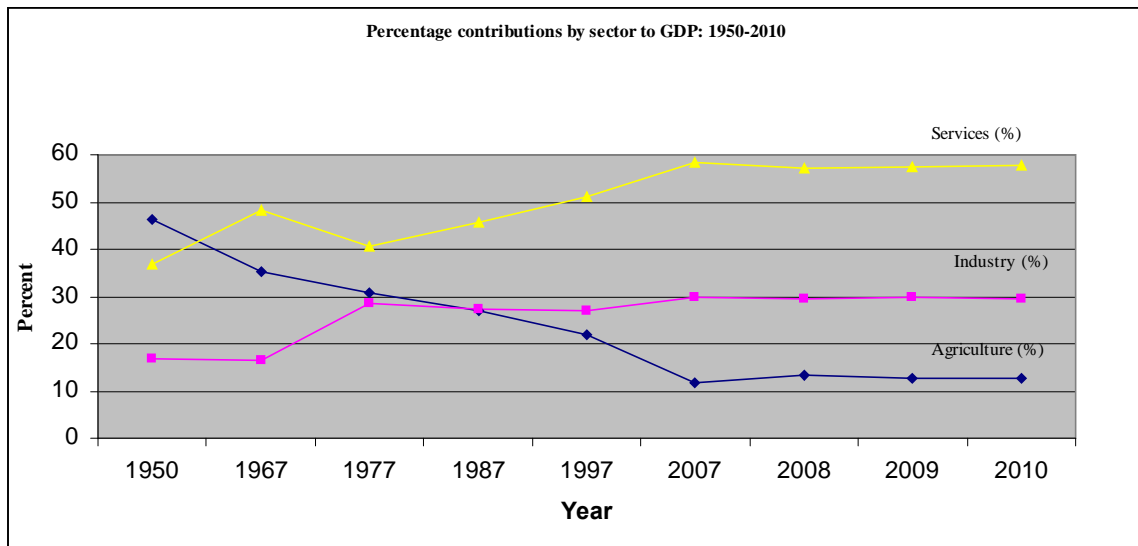
Resource: Central Bank (1982, 1990, 2000, 2010) Various Annual Reports

Appendix No 1.13
Structure of Sri Lankan economy in selected years





**Appendix No 1.14
Structure of Sri Lankan economy from 1950-2010**



**Appendix No 1.15
Export Structure of Sri Lanka (1977-2010)**

Items	Exports (US \$ million)							Share of percentage (%) in total exports						
	1977	1987	1997	2007	2008	2009	2010*	1977	1987	1997	2007	2008	2009	2010*
Agriculture	593.4	592.0	1060	1508.2	1853.3	1690.4	2044	77.4	42.4	22.8	19.7	22.8	23.8	24.6
Industry	106.1	697.0	3436	5966	6159.7	5305.4	6171	13.8	48.6	74.1	78.1	75.9	74.9	74.3
Mineral/ Gem	35.7	60	90	105.4	76.3	68.8	70	4.7	4.3	1.9	1.4	1.0	1.0	0.8
Unclassified	13	66	53	60.4	21.3	19.9	22	1.7	4.7	1.2	0.8	0.3	0.3	0.3
Total exports	748.2	1397	4639	7640	8110.6	7084.5	8307	100	100	100	100	100	100	100

Resource: Central Bank (1982-2010) Various Annual Reports
* Provisional

Appendix No 1.16
Imports Structure of Sri Lanka (1977-2010)

Items	Imports (US \$ million)							Share of percentage (%) in total imports						
	1977	1987	1997	2007	2008	2009	2010*	1977	1987	1997	2007	2008	2009	2010*
Consumer goods	306.8	473.6	1084.8	1768	2184	1713	2613	42.2	22.8	18.5	15.7	15.5	16.8	19.3
Intermediate goods	320.3	1186.8	3236.8	6751	8720	5924	7753	44.1	57.2	55.2	59.8	61.9	58.1	57.4
Investment goods	90.1	388.6	1325.2	2685	3048	2451	2970	12.4	18.7	22.6	23.7	21.6	24.0	22.0
Unclassified	9.4	26.1	217	92	139	115	176	1.3	1.3	3.7	0.8	1.0	1.1	1.3
Total imports	726.2	2075.1	5863.8	11296.5	14091.2	10206.6	13511.7	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Resource: Central Bank (1982-2010) Various Annual Reports

* Provisional

Appendix No 1.17
Sri Lanka's direction of trade (1977-2010)

Year	Exports %						Imports %					
	Total exports (\$ M)	NAFTA	EU	AFTA	SAFTA	Others	Total imports (\$ M)	NAFTA	EU	AFTA	SAFTA	Others
1977	748.2	7.5	26.9	24.7**	N/A	40.9	726.2	8.9	24.3	34.3**	N/A	32.4
1987	1397	27.99	23.3	6.55	4.2	37.96	2075.1	10.6	19.33	29.52	6.77	33.78
1997	4639	37.6	29.6	5.8	2.6	24.4	5863.8	6.5	16.5	36.98	11.4	28.62
2007	7640	27.6	37.6	2.8	8.5	23.5	11296.5	4.3	12.4	16.8	24.9	41.6
2008	8110.6	24.9	37.4	2.8	6.9	28.0	14091.2	4.7	12.5	15.6	26.0	41.2
2009	7084.5	24.0	38.5	3.7	6.2	27.6	10206.6	5.2	12.6	18.6	20.1	43.5
2010 *	8307	22.9	35.0	5.2	7.2	29.7	13511.7	3.3	11.3	18.5	21.3	45.6

Resource: Central Bank (1982-2010) Various Annual Reports

* Provisional

** Including SAFTA