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**THE IMPACT OF INDUSTRIAL EXPORT EARNINGS  
INSTABILITY ON ECONOMIC GROWTH IN SRI LANKA**



by

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## ABSTRACT

The economy of Sri Lanka, as it evolved during the colonial era, was often identified as an example of an export economy, an economy which was heavily dependent on export earnings of a limited range of primary commodities. Market-oriented policy reforms initiated in 1977 and followed over the past two decades have, however, dramatically transformed the colonial export structure. The main ingredients of the transformation and improved performance were the provision of neutral incentives rather than selective promotion of particular activities, creating a favorable environment for foreign direct investment and giving the private sector an important role to be played in the economy. The improved performance obtained in this manner was reflected by increasing GDP growth, productivity and labor absorption.

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This study examines industrialization experiences in Sri Lanka following the market oriented policy, mainly paying attention to the impact of industrial export earnings instability on economic growth in Sri Lanka. Accordingly, the study examines how a number of variables such as industrial exports earnings, investment of both domestic and foreign, labor productivity, technological development, civil war, traditional exports growth and foreign employment earnings have affected economic growth based on Solow growth model. This model has been highly applied for the developed countries and the capital, labor and technology have been mainly considered. However, this model should be expanded to be applied to developing countries like Sri Lanka. Therefore, some

additional variables are added to this model in this study. Further, the study takes a form of a descriptive analysis rather than an econometric analysis. Accordingly, relationships between independent variables and the dependent variables were attempted to be measured individually.

The basic hypothesis made in this study is that “there is a direct relationship between the growth in industrial export earnings and the growth of real GDP”. The study of the behavior of relevant data through the study highly supported this hypothesis. Consequently, the study concludes that there is a positive relationship between the growth in industrial export earnings and growth of real GDP..

In addition, the influence come from other independent variables on economic growth is also found to be more significant. Accordingly, there was a direct relationship between investment (domestic and foreign) and economic growth. On the other hand, labor productivity has increased throughout the reform period, and therefore, it is possible to determine that labor productivity has positively contributed to economic growth.

But, where technology development in Sri Lanka is taken, it is difficult to conclude that, there is a contribution from that variable to economic growth in Sri Lanka. On the other hand expenditure on civil war and economic growth variables have indirectly related to each other. Whenever war expenditure increased it has badly affected economic growth.

The contribution of traditional export towards economic growth was considered it has contributed to acquire a higher economic growth until 1986, beyond which its influence has diminished. More than anything else, foreign employment has had much influence on economic growth in the last few decades.

Consequently, the study concludes that instability of export earnings along with the influence came from other identified variables have largely contributed to appear an instability in economic growth during the reform period after 1977.

