



## RESEARCH ARTICLE

# DEVELOPMENT STRATEGIES IMPLEMENTED UNDER THE OPEN ECONOMIC POLICY AND ITS IMPACT ON THE ECONOMY OF SRI LANKA

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### ABSTRACT

From the latter part of 1950s to 1977 in Sri Lanka, inward-looking economic development policies and import substitution industrialization strategy were given priority. There was increased government intervention and state regulation of economic activities in this period. Since 1977, the government has been deregulating, privatizing and opening up the economy to international competition. The main objective of this study is to examine the impact of outward-looking development strategy on the economy of Sri Lanka. The study exposes that under the outward-looking development policy, the country was able to acquire a great success and a noteworthy accomplishment in the growth of economy than inward-looking economic policy introduced in before 1977. Specially, Sri Lankan economy has been performing relatively well, with continuous increase in GDP per capita and an increase in exports of goods, and also it has managed to reduce poverty. The highest rate of unemployment in the country during the period 1950 to 1977 has been reduced under the open economic policy. Apart from that, a sharp development is remarkably observed in the fields of education, health services, nutrition, housing facilities and infrastructure facilities etc. Further, during the period 1950 to 1977, the annual growth of industrial sector was 3.4% has developed up to 7% after 1977.

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## INTRODUCTION

There are many contributors to economic growth. Export is considered as one of the very important contributors among others. In 1950s and 1960s, most of the developing countries followed the import substitution policy for their economic growth. Since the mid-1970s, in most developing countries, there has been considerable shift towards export promotion strategy. This approach postulates that export expansion leads to better resource allocation, creating economies of scale and production efficiency through technological development, capital formation, employment creation and hence economic growth. The economic growth and development of any country will entirely depend on the practices of the economic policies actively by the governments in power and on the success or failures on such efforts. Since Sri Lanka political independence in 1948, the inward-looking economic policy has been introduced and after 1977, it changed into an outward-looking economic policy (Dunham and Kelegama, 2005, p.22). Therefore, the year 1977 was seen as an important juncture after gaining independence in advancing economic and social

policies of the country. During the period outward-looking development strategies, several long term result-oriented policy reformations were introduced. Therefore, more gains could be achieved through the open economic policies than that of through the closed economic policies.

### The Objectives

- 1 to identify the main strategies implemented for the economic growth in Sri Lanka after the trade liberalization in 1977.
- 2 to investigate the impact of outward-looking development strategies on the economy of Sri Lanka'

### Data and Methodology

The study mainly based on secondary data. The data were collected from available literature, research papers, survey reports etc. related to the topic covering the period from 1977 to 2015. Further, this study employed a descriptive analysis with a policy discussion for the data analysis.

### Literature Review

Stryker and Pandolfi (1997) have been studied about impact of outward-looking policy reform on economic growth and

poverty. The result show that the very importance of outward-looking policy in promoting trade economic growth and poverty alleviation. Todaro and Smith (2011) noted that the outward-looking development policies will focus on export promotion and integrating with and opening up to the world. Harrison investigated the association between openness and economic growth. The study concluded that the correlation between these two variables was strong. Hasson and Kamrul (2005) investigated the casual relationship between trade openness and economic growth and the structure of international trade for Bangladesh. The study explored that there was long run unidirectional equilibrium relationship between trade openness and economic growth. Abdullah Iftikhar (2012) have been studied about trade liberalization and economic growth. The results show that in the long run trade is a great contributor to economic growth of Bangladesh. According to the Deraniyagala and Fine (2001), import substitution strategy is less attractive for export expansion to generate positive influence on economic growth.

### **The Open Economic Policy in Sri Lanka**

After having followed the import substitution policy for over a period of two decades, by 1977 the balance of payment situation was not sound and Sri Lanka faced foreign currency problems and a scarcity of essential food items. Not only that, the unemployment rate exceeded 20%. The capitalistic government which came to power in 1977 had to face these problems. They had to change the previously followed policy viz. import substitution policy to an Export-led (Export Oriented) Policy. It means the closed economic policy which was followed up to then was given up and changed over to liberal economic policies which paved the way to a trade dominated environment. If this arrangement is defined further, the open economy facilitates the local and foreign private sector to be associated with the local economy and such economical activities to be referred to the external. In this situation, the involvement by the government with regard to the economy lessens gradually and the free economic policy is put into practice. With this arrangement, the monopoly which was in the hands of the government was relaxed and an atmosphere was created whereby the private sector could compete with the government. The reason is that the government was made to understand that strict intervention into the economic activities by the government will not be helpful in reaching the expected targets in the economic development. As an example, it could be seen that during the periods where the private sector was offered better incentives, a higher rate of growth in the economy was shown.

### **The Main Strategies Implemented for Economic Growth under the Open Economic Policy**

#### **1. Export Diversification Program**

When considered as a whole, under the import substitution policy based on the export diversification program, only a slight difference has taken place in the export and import structure from 1950s up to the period of 1977. But with the introduction of the open economic policy in 1977 under the industrialization policy concerned with exportation, a considerable change could be observed in the export and import structure. Under the facilitation of the open economic policy, the government gradually left its performances on the economy and was limited to be in the position of mediator. The

main objective of the outward-looking development strategy is to achieve a higher level of Economic performance. Generally, the government since 1977, embarked on a massive investment program consisting mainly of projects involving large amounts of capital and long development periods. It was expected that the private and foreign sectors would supplement the government's development effort relatively quick and high yielding investments. There is a vast difference between the economic policies which prevailed prior to 1977 and that of after 1977, when deep attention is paid to the export and import structure of Sri Lanka. The importance of agricultural exports lies at a lower degree than that of industrial exports under the open economic policy. In the 1950s, over 90% of exports comprised plantation crops, which constituted the backbone of the economy at the time. A remarkable change in the export structure was reported only after the mid 1970s in the liberalized trade regime. The dominance of agriculture in the structure of exports that accounted for 78.7% of the total in 1975 was replaced by industrial exports that accounted for 79.0% in 2007 (Abeyratne and Rodrigo, 2002: Annual reports of Central Bank of Sri Lanka, 2006, 2007). Along with the changing export composition in the liberalized trade regime, the structure of the imports too changed. Throughout the period until the mid 1970s, over half of the total imports were consumer goods. Out of this percentage 45% was foodstuffs. In the post liberalized trade regime this has been replaced by an increasing share of intermediate goods, which accounted for 58% of the total imports. Out of this percentage 9% was foodstuffs.

#### **2. Agricultural Development Policies**

Agriculture is the dominant sector in the economy of Sri Lanka. It has always contributed over 25% to the GDP. Yet agricultural sector would, even today, occupy a significant position in the national economy (Pieris, 1997). The first change in agricultural policy strategy came about after the political change in 1956. The key agricultural development policy of the 1977 regime was the Accelerated Mahaweli Development Program (AMDP) that enabled a further large extent of land to be settled by the diversion of the Mahaweli River (Sandaratne, 2004) and various programs are being organized after 1977 to develop the local agricultural sector. As a whole, over the last sixty years, agriculture has continued to play the leading role in the economy of our country (Ranaweera, 1998). With regard to the paddy cultivation, as a result of the approaches followed by, especially after 1977 to improve the production activities, there had been a vast improvement in paddy production. Accordingly, extent of cultivated land, the productivity and the entire production have shown a noticeable increase. The main reason for such a progress is positively due to the expansion of paddy cultivated lands through the irrigational schemes namely, Accelerated Mahaweli Development Scheme, Ingimitiya Scheme, Lunugamvehera Scheme and Udawalawa\_Scheme Phase two.

#### **3. Industrial Development Policies**

After 1977, the government initiated action to develop the industries managed by the private sector while promoting the same with the collaboration of the local and foreign industrial areas. The main target of the industrial policy was to achieve a speedy growth in the industries sector within an environment of the open economic policy. Therefore, the monopoly of the state sector was lessened enabling the private sector to

continue with their business activities with a higher competitive environment. Much concentration was focused on receiving foreign private investments. Accordingly, foreign investments were encouraged by offering various kinds of attractive incentives and minimizing the administrative problems and delays. The following relief was proposed to encourage local and foreign private sector investments: Relaxation of imports, implementing floating currency ratio system, establishing bank branches abroad, implementing regulations to control trade unions, providing tax relieving and tax interval removing foreign currency control rules, establishing Investment Promotion Zones, granting permission to foreign private investors to transfer their profits and dividends to their own countries, developing of infrastructure facilities, removing limitations on ownership of lands and housing, providing production subsidies, implementation of policies on bank loans, providing institutional facilities such as Greater Colombo Economic Commission, Sri Lanka Board of Investments, Export Development Board, Sri Lanka Export Loan Insurance Corporation etc.

Under the export oriented industrialization policy as a whole, the annual growth rate of the industrial sector was seen over and above the average growth rate of the gross national production. As such, the industrial sector has contributed much towards the gross national production, employment opportunities and the income from exports. During the period 1950 to 1977, the annual growth of the industrial sector was 3.4%. According to the Annual Report of the Central Bank of Sri Lanka (1978), it has developed up to 7% after 1977. According to the Table 1, from 1977 to 2013, the importance of the relative contribution towards the Gross National Production by the agricultural sector has been reduced and industrial and service sector has been increased gradually

**Table 1. Percentage of partial contribution to the GDP 1977-2013**

Year	Agriculture sector	Industrial sector	Service sector
1977	26.8	22.6	50.6
1982	26.8	26.9	46.3
1992	21.7	29.7	48.6
2002	20.1	27.0	52.9
2003	19.1	26.7	54.2
2004	18.1	26.8	55.1
2005	17.4	27.4	55.2
2006	16.8	27.0	56.2
2007	16.4	27.0	56.6
2010	12.8	29.2	58.0
2013	10.8	31.1	58.1

Source: Annual Reports of the Central Bank of Sri Lanka

As mentioned earlier, the economy is dependent on the agriculture, industry and service sectors. Table 1 shows, in recent years, the importance of agriculture has declined with the sector accounting for about 16% GDP. The services sector is now the largest component of GDP at over 57%, including transportation, communications, financial services and tourism. The industrial sector accounts for about 27% of GDP, including manufacturing in textiles and garment, food and beverages, and chemical, petroleum, rubber and plastic goods.

Furthermore, under the export oriented industrial policy, the employment opportunities have increased through the development in the industrial sector. During 1950s, out of the entire employment structure, 7.4% claimed to be from the industrial sector and by 1971 it had developed up to 9% and increased up to 26% in 2015.

The available data, as summarized table 2, show the long-term trends in labour force participation, sectoral share of employment and unemployment. According to this table, it could be seen that there had been less employment opportunities in the agricultural sector while it is much more in the industrial and service sectors. The labour force participation rate shows a significant increase during the past decades. Generally, this pattern of change can be attributed to the demographic trends and education policies of the country. The share of employment in agriculture, which remains above 50% of total number employed, did not reflect a significant change in the restrictive trade regime of the 1960s and the 1970s. The share of employment in agriculture has subsequently declined in the 1980s and the 1990s. The factors contributed to the reduction of employment opportunities in the agricultural sector were, declining of the relative importance of the agricultural sector, increase of the labor productivity, the flexibility between the income and the demand of food productions and the instability in the agricultural income. During the period 1978/79-2004, the employment opportunities in the industrial sector have increased by around 30%. While the employment opportunities of the private sector had been in the rise, it could be observed that there had been a decline of employment opportunities in the government sector. The reasons for the reduction of employment opportunities in the government industrial sector are the non-intervention of the government towards the economic activities after 1977, privatization of government owned industries and offering retirements to government employees in the industrial sector (Hettiarachchi, 2007). The level of employment in Sri Lanka could be classified as 13% in the government sector and 42% in the private sector while the self employment level remains at a percentage of 31%. The changes in the rate of unemployment correspond to the differences in growth performance between the pre 1977 restrictive trade regime and the post 1977 liberalized trade regime. Until the 1970s the rate of unemployment had increased. The highest rate of unemployment in the post independence history of the country was estimated at 24% in 1973. The 1990s were marked by a substantial decrease in the unemployment rate, which was at 4.6% in 2015.

#### 4. Economic and Social Welfare Policies

Apart from the above development strategies, the investments and interventions towards the development of the economy by the other relevant sectors have had a remarkable influence to the economic development of Sri Lanka. In the meantime, enhancing human development, the welfare programs implemented to eliminate poverty during the past few decades and their achievements appear to be very important. When a country is striving for its economic development, while increasing the economic growth rate, there should be arrangements to develop the living status of the population too positively. But the governments which came to power have made their greatest effort to bring the living conditions of the people by enhancing the health, nutritional, educational and housing conditions to a considerable advancement. From that time itself, the governments have controlled and performed these activities but after 1977 with the introduction of strategic policies based on the trade market, the contribution from the private sector of these divisions was seen to be encouraged. As such, it could be well observed that there had been a positive growth in the welfare activities after 1977.

**Table 2. Employment and unemployment in selected years**

Years	Sectoral share employment as % of total			Participation rate	Unemployment rate
	Agriculture*	Industrial	Services**		
1963	52.6	9.1	38.0	32.7	16.6
1971	50.1	9.3	40.0	35.4	18.7
1973	54.6	9.2	35.7	33.9	24.0
1981/82	50.5	12.3	35.5	34.3	11.7
1990***	46.8	13.3	38.4	61.9	15.9
1994***	39.5	14.3	45.4	48.7	13.1
2000***	35.7	16.8	46.8	50.7	7.7
2008***	32.4	26.3	41.3	55.7	5.2
2011	33.1	23.9	42.9	52.9	4.0
2012	31.2	25.9	42.9	52.5	3.8
2013	30.2	26.0	43.8	53.7	4.4
2014	28.9	26.3	44.8	53.2	4.2
2015	28.7	25.8	45.6	53.8	4.6

Sources: Annual Reports of Central Bank of Sri Lanka \*Includes Forestry and Fishing \*\* Includes Construction  
 \*\*\*Data Excluding Northern and Eastern Provinces From 2011 to 2015 All Districts are Included

**Table 3. Health Conditions of Sri Lanka 1948-2007**

Year	No. of Hospitals	No. of Beds	No. of Doctors	Nursing Staff	Infant mortality rate (per 1000)	Maternal mortality rate (per 1000)	life Expectancy			Government expenditure for health services (as a % of GDP)
							Total	Male	Female	
1948	247	18949	701	907	92	8.3	-	-	-	1.84
1953	267	21371	773	1827	71	4.9	58.2	58.8	57.5	1.81
1963	295	32312	1436	4422	56	2.4	61.7	61.9	61.4	2.15
1971	332	38521	2120	5003	45	1.4	65.7	64.2	67.1	2.09
1981	386	42275	1964	6805	30	0.6	69.8	67.8	71.7	1.18
1991	365*	41782*	2934	9934	18	0.4	71.9	69.5	74.2	1.40
2001	585	58883	7235	15061	12	0.1	74.0	71.7	76.4	1.33
2007	619	62197	11442	22088	11	0.1	74.8	72.8	76.9	1.92

\*Except Northern Province

Sources: Department of Census & Statistics: Administrative Reports of the Department of Health: Annual Reports of Central Bank of Sri Lanka

**Table 4. Form of Education in Sri Lanka 1948 – 2007**

Year	General Education			University Education			Literacy rate	Government expenditure for education ( as a % of GDP)
	No. of Govt. school	No. of students	No. of teachers	No. of students	No. of lecturers	No. of graduates		
1948	3091	1177695	32704	1611	121	200	-	2.95
1953	3449	1548197	47426	2392	193	312	65.4	2.90
1963	4936	2482613	81109	5706	435	973	71.6	4.43
1971	8585	2828070	94858	12239	1109	3489	78.5	4.15
1981	9521	3451358	135869	17656	1609	3197	87.2	2.38
1991	9998	4258698	177231	28260	1811	5386	86.9	2.45
2001	9891*	4337258	198397	48061	3268	8896	92.0	2.02
2007	9678*	4111000	221000	66996	4304	12005	93.0	2.59

\* Excluding non-functioning school

Sources: Department of Census & Statistics: Central Bank of Sri Lanka; Administrative Reports of the Dept. of Education: University Grants Commission

These welfare activities which were in practice for a long period of years were performed without any discrimination between the rich and poor, in order to enrich the quality of nutritional conditions of the entire population. These programs were confined mostly to the poor only during the past few decades. When considering the upkeep of the nutritional, educational, health and housing development conditions of the present day generation, it could be well perceived that the attempts made to enhance the living conditions of the people have been fruitfully successful.

#### 4.1 Health

Although there were limited amenities during the time of Independence, the health facilities were offered to the population but confined only to the urban areas. A considerable percentage of the state income is being utilized for the health sector along with foreign aid and the service is maintained continuously in a highly and positive and successful manner

As such, when attention is paid to the health criteria of the country, it could be well observed that there is a remarkable development in the health sector. Those criteria are similar to that of developed countries. The reasons for such advancements are the intervention of local and foreign private sectors and the investments made for the health sector after 1977 by the government. Table 3 depicts that the health sector has achieved a considerable development. It was due to the government being directly involved in the activities, such as Health Education, Health infrastructure and widening of hospital net work, enhancement of medical-co services, supply of medical equipment, providing medical and surgical specialized services, regularizing the vaccination systems and introducing prevention methods etc. In the same way, after 1977, private sector also attended to participate in providing health supplies which was a great contributory factor for the development in the health sector. After 1977, the main strategic policy of the government to reduce the expenditure incurred by offering free medical services to the public was to

take action to widen the health service alternatives for the people.

#### **4.2 Education**

The main development project of the governments which came to power after 1977 was to improve the status of education in the country. According to the report of C.W.W.Kannangara in 1944, all the students have to be offered free educational facilities up to level of university education. As a result of the educational reforms, during the early periods after the country gained independence, opportunities were open even for the children of poor families to rise up to enjoy the levels of higher education. Every government which ruled the country after gaining independence set apart a considerable percentage from the government budget for the services such as, providing free lunch for school children, introducing scholarships, supply of free school books and free uniforms for students and improving the infrastructure facilities in schools etc. Investment in education produces a wide array of economic and social benefits including higher human capital and earnings, improved occupational attainment, and social mobility, increased female labour force participation and superior family health levels and child nutrition outcomes (The World Bank, 2005).

The education sector of the country mainly consists of general education, university education and vocational education. Despite the fact that has achieved a remarkable progress in general education, achievements in vocational and university education are still far behind the international levels (Central Bank of Sri Lanka, 2008). The key issues in the education system are related to equity, quality, efficiency and effectiveness. The Ten-Year vision has identified these issues very clearly. A Compulsory Education Ordinance of 1997 stipulates that all children between the ages of 5 to 14 years old must receive an education. As a result of these reforms it could be seen that at present there is a noticeable improvement in educational field of the country.

#### **4.3 Housing Development**

Among the developments, which took place after the introduction of open economic policy in 1977, the increase of the number of houses and their improvement is very important. The main reason for the same is after 1977, the government was much involved in the housing development activities and presently the private sector too contributes to the development of housing schemes. Specially, with the increase in income levels and changing the life styles, the private sector has emerged as the major provider of houses for middle and high income people while the government continues to be involved in providing housing facilities for low income households and specific groups. Furthermore, The National Housing Development Authority (NHDA) has continued to engage in providing shelter to the needy people.

#### **4.4 Eliminating Poverty and Enhancing Nutrition**

Sri Lanka being a beautiful island known as the pearl of the Indian Ocean is one of the smallest of the South Asian nations. As a developing country, Sri Lanka also faces the problems of poverty. It is estimated that around 15.2% of the population being poor but, around 45% out of total families are being covered under the safety net programs funded by the government (Samurdhi Division, 2006). When discussing the

factors which contributed to the economic growth and development before 1977, the governments which ruled the country concentrated on increasing the qualities of living conditions of the people. Accordingly, even during the period 1948–1977, the nutritional level of the people was in a fair position. All the governments, since Independence, have made their greatest effort to eliminate poverty and upkeep the nutritional level of the people. Various programs such as food subsidy program, “Janasaviya” program, and “Samurdhi” program etc' are being implemented after 1977 for eliminating poverty and enhancing nutrition by the government.

#### **4.5 Investments for Infrastructure facilities and services**

In order to speed up the economic growth and development, it is very important that services in respect of infrastructure facilities contribute the most. It was the same during the period of gaining independence with regard to the developments of the infrastructure aspects of the irrigational process. Along with such facilities, improvements in transportation provided by highways and railways were in a satisfactory manner. Modern communication amenities and monetary services were mainly centered towards the urban areas. Every government which came to power was interested in developing the infrastructure facilities to suit the rate of the increasing population and the expanding economy. With such efforts, Sri Lanka has achieved a considerable progress in providing infrastructure amenities at present. Roads are the backbone of the transportation system. Efficient transportation system will always assist towards the enhancement of the growth of the economy of a country.

Transportation is mainly utilized for use of the people for their required movements and goods to be moved on to the necessary destinations and vice versa. It plays a vital role in the development of the economy. Out of these, providing employment opportunities, earning foreign currency and facilitating public coordination are vital in this procedure. During the past 6 decades after gaining Independence, to meet the constant demand for the transportation of goods and personnel, highways have expanded with a comparable equality towards the transportation. Communication and mass media sector too have shown a very high development. Postal service, telecommunication service, broadcasting service, and the television net work and newspapers have developed in the field of telecommunication and mass media to a very high degree. This growth is due to the various schemes implemented by the governments which came to power after the Independence to develop the communication and mass media services. With the liberalization of the economy after 1977, the need to develop the telecommunication services was felt very strongly. Therefore, the telecommunication technology has reached a very high level of development at present.

#### **4.6 Development Projects**

Post liberalization beginning development projects (Mahaweli Development Project, Free Trade Zone, Housing Development Project with Roads-Telecommunication etc.) contributions were large to increase the employment ratio on favorable level. Post liberalization policies continuously favored to increase the commercialized environment in country. In response to these changes, various expansion reasons to absorb unemployed generation, in particular, female expansion increased considerably.

**Table 5. Growth Rate of GDP 1951-77**

Year	Average Economic Growth
1951 – 1955	4.3
1956 – 1960	2.6
1961 – 1965	3.6
1966 – 1970	5.3
1971 - 1977	2.9

Source: Central Bank of Sri Lanka, 1998

**Table 6. Average Growth Rate of Gross Domestic Production 1977-2015**

Year	Average Economic Growth	Year	Average Economic Growth
1977 – 1983	5.8	2003	5.9
1984 – 1990	3.9	2004	5.4
1991 – 1996	5.1	2005	6.2
1997 – 2000	5.3	2006	7.7
2001	-1.5	2007	6.8
2002	4.0	2015	4.8

Source: Central Bank of Sri Lanka, Annual Reports

**Table 7. Composition of GDP and Employment**

Year	Composition of GDP (%)			Composition of labour force (%)		
	Agriculture	Industry	Services	Agriculture	Industry	Services
1950	45.8	20.4	41.7	61.2	10.2	28.6
1963	44.4	19.9	41.5	52.6	9.4	38.0
1971	36.8	24.9	44.3	50.1	9.6	40.2
1981	32.9	23.1	47.8	45.3	11.0	43.7
1991	27.5	23.7	50.4	42.5	16.1	41.4
2000	20.5	27.6	52.0	36.0	17.6	46.0
2007	11.7	29.9	58.4	31.2	26.6	42.2
2015	8.1	29.1	62.8	28.7	25.8	45.6

Source: Annual Reports of the Central Bank of Sri Lanka; Ratnayake, 2004

#### 4.7 Free Trade Zones (Investment Promotion Zones)

In its overall strategy to promote the country's development, the government has assigned a place of special importance to the three lead projects: the Free Trade Zone (FTZ), the Accelerated Mahaweli Development (AMD), and the Housing and Urban Development Programme. These projects would have considerable effect on employment generation, agricultural development and self-sufficiency in food, hydro-power generation, export growth, and enhanced foreign exchange earnings (Balakrishnan, 1980, p.895). The main thrust of government policy is to concentrate on the establishment of Free Trade Zones or Investment Promotion Zones for the creation of a new and dynamic export-oriented industrial sector, assisted by foreign capital with local collaboration. Katunayake Investment Zone which was inaugurated in 1978 has expanded up to Biyagama and Koggala by now.

These investments zones which provide employment opportunities to millions of people and contribute to the economic development to a greater extent are administered by the Board of Investment of Sri Lanka. There are various objectives in establishing these Investment Promotion Zones. Some of the targets among those are, stabilizing and accelerating the economic development, strengthening and widening the economic structure, enhancing the incentives for the foreign investments etc. At the same time, there is a garment factory program established under the Divisional Secretariat basis and facilities are offered to such industries too.

#### Impact of inward-looking development strategies and outward-looking development strategies on the economy of Sri Lanka

During the period 1951-1977, the average economic growth was 3.8%. From 1966 to 1970 when the government exerted to relax the economy to certain extent, a very high standard of the economy was shown and the Gross Domestic Production (GDP) grew up to an average growth of 5.3%. When the government intervened strictly towards the economy during 1971-77 the rate of growth fell lower as 2.9% (Table 5). The adverse effects of the price hike of petroleum in 1973 which led to unsound economical situations internationally too paved the way to this state of affairs (Central Bank of Sri Lanka, 1998; Pieris, 1997). But, as shown in Table 6, it is evident that the average economic growth rate of Sri Lanka had increased twice over after 1977 with the liberalization of the economy than that of prior to 1977. The reason for the same is growth of the local and foreign economic affairs after 1977 in the private sector and due to the increasing of socio-economic infrastructure investments. Since the major liberalization of the economy in 1977, Sri Lanka's economy achieved an average growth of around 5% with a relatively higher inflation. According to Table 6, the reason for the average economic growth rate to be at lower level during 1984-90 is the commencement of ethnic war in the North and East Provinces and spreading of civil struggles internally in the country. However, a negative growth of 1.5% was recorded in 2001, because of global economic slowdown, drought weather conditions and some failures in the security establishments, i.e. the ethnic war in the North and East (Central Bank of Sri Lanka, 2008).

After 2002 there had been a gradual average improvement in the economic growth rate. That situation has contributed towards the development of employment opportunities in the country. Similarly, the population growth rate in our country is lower than other developing countries. Therefore, the per capita income in Sri Lanka has increased than other developing countries in the world. The per capita income in 1980 had been US\$ 273 which became 1241 in 2005 and in 2015 it has gone up to US\$ 3818. This position is a clear example for the direct improvement of the per capita income. Sri Lankan liberalization constitutes of three phases as a whole. The first phase of liberalization (1977–1989), the second phase of liberalization (1989–1994) and the third phase of liberalization (from 1994 onwards) (Patabandige, 2005). Under these reforms, the overall outcome of the increase in gross domestic investment and other measures taken were reflected by an increase in the average growth. Thus GDP grew, on average by 6.2% per annum during the first five years (1978–1982) following the trade liberalization as compared to the lower GDP growth rate of 2.9% recorded in the previous control era of 1970–1977. The industrial sector performance in the post-liberalization period (1977–2000) was also substantially superior to that of the pre-1977 import substitution regime. During the pre 1977 era, the average annual growth of the manufacturing sector was 1.1%, whereas it increased to 4.6% during the period 1978–82 and to above 6% during the rest of the period.

In the immediate aftermath of the 1977 reforms, employment generation in Sri Lanka increased substantially as evidenced by the reduction of the rate of unemployment from 20% in 1977 to 11% by 1981/1982. According to Korale (1988), 175,000 to 200,000 employment opportunities were generated annually during the period 1978–1982. Mega construction projects such as Mahaweli, Housing etc. accounted for nearly half of the total employment increase over the period 1978–82. Also, Expansion of the service sector, due to liberalization of trade and payments, increased job opportunities for a large amount of persons in areas such as import trade, transport, tourism etc. When we concern about last five decades, there was a greater economic stability in the post 1977 period than during the 1950s. The changing sectoral composition of GDP (production and employment) is also another criterion on which to measure the progress of economic development. Table 9 shows how the sectoral composition of GDP and the structure of employment changed during the post independence period. Above table shows that on eve of independence, the economy is predominantly agricultural. The economy was dominated by agricultural and related activities, with nearly half of the GDP derived from agriculture and fishing. More than 60% of the labour force was engaged in the primary sector, i.e. agriculture, fishing etc. 28% of the labour force was employed in the service sector. However, the relative importance of agriculture has declined by more than half from 46% in 1950 to 8% in 2015. The contribution rate of the service sector increased from 42% in 1950 to 63% in 2007. This change has largely occurred since the post 1977 period as a result of extensive policy reforms towards export-oriented industrialization.

## Conclusion

According to the forgoing discussion the average growth rate of the economy of the country had increased twice over after 1977 with the liberalization of the economy than that of prior to 1977. Similarly, per capita income too has improved and the

savings and investment ratio too has strengthened. Apart from that a sharp development is remarkably observed in the fields of education, health services, nutrition, housing facilities, infrastructure facilities etc. In recent years, the importance of agriculture has declined with the sector accounting for about 8% GDP and the service sector is now the largest component of GDP at over 60%. Also, during the period 1950 to 1977, the annual growth of industrial sector was 3.4% has developed up to 7% after 1977. The highest rate of unemployment in the country before 1977 has been reduced under the open economic policy.

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