

IS SRI LANKA'S LIBERALIZATION OUT DATED? AN EMPIRICAL EVIDENCES AFTER 1977

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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.

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?

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 will 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.

The following hypotheses have been framed as test-parameters to assess the Sri Lankan economic pattern and bilateral trade after the liberalization. If the GDP is bigger; there will be more trade between the two countries; so we expect a positive sign for the coefficient of GDP. Per capita GDP provides a good proxy for the level of development and infrastructures that is essential to conduct trade. So, positive sign is expected for the coefficient of PCGDP variable. TR/GDP variable indicates the openness of the country. The 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.

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.

Methodology

The research result will be obtained through descriptive and comparative model analysis. The descriptive and comparative model research as a pioneer 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.

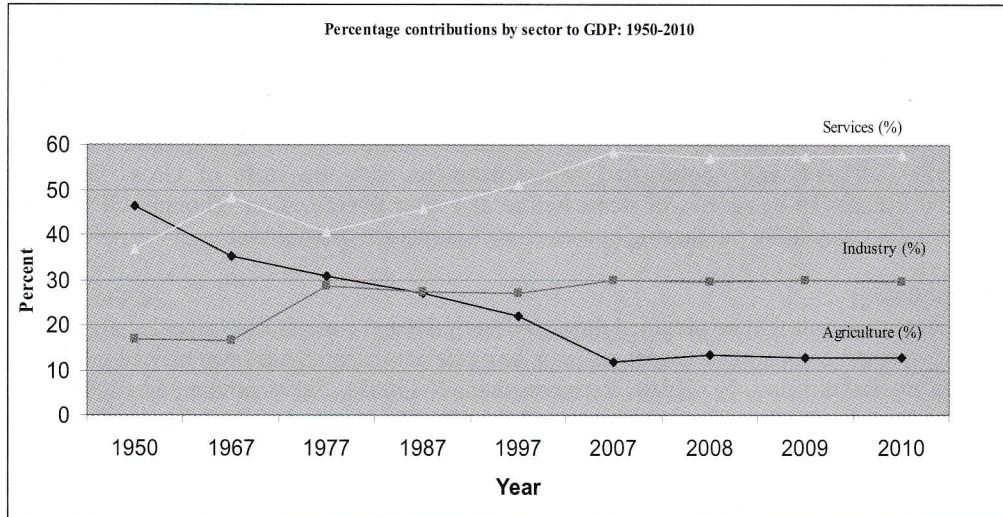
The panel data were used for the purpose of analysis for the period of 1977-2010. The panel data consist of GDP, Per capita income, index of economic freedom, exports and imports, exchange rate, and etc. All of data were collected from various recourses

Discussions and Conclusion

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".

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Structure of Sri Lankan Economy from 1950-2010



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 increases 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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