Promoting Employment-IntensiveGrowth in Sri Lanka:
Policy Analysisof the Manufacturing and Service Sectors

Abstract

Sunil Chandrasiri

The purpose of this paper is to examine the employment effect of growth in manufacturing sector industriesin Sri Lanka covering a period of 17 years from 1990. In the main text, two periods are distinguished interms of employment elasticity: a) the slow growth period of the 1990s and b) the period of high growth (post-2000). The paper uses an integrated framework which qualifies the relative importance of the key factors determiningemployment elasticity and its variations between the two time periods. The findings indicate that themanufacturing sector has responded positively to policy reforms of the post-1977 period in terms of growth,export orientation, productivity, profitability and employment creation.

Manufacturing is the main contributor to value added in industry and its relative share of GDP increasedfrom 13 percent in 1990 to 17 percent in 2000 and reduced to 16 percent in 2006. The contribution of manufacturingto total employment varied from 13 percent in 1990 to 19 per cent in 2006, demonstrating its capacity tocreate employment opportunities under a liberalized policy regime. The female share of employment in manufacturing has remained unchanged (49 percent) between 1990 and 2006, except a moderate increase in 2000. Anassessment of quality of employment measured in terms of different categories of employment revealed thatmore than 80 percent of jobs in manufacturing are shared by skilled (59 percent) and unskilled (24 percent) workers.In terms of income generation, skilled and unskilled workers account for about 51 and 17 percent of salaries and wages earned by persons engaged in manufacturing, respectively. This could be viewed as an important stream of pro-poor benefits as a sizable proportion of workers belonging to skilled and unskilled categories aremore likely to represent the low-income segment of the population.

An assessment of growth performance of the economy in terms of value added reveals high growth rates maintained by manufacturing as opposed to the services sector and the national economy. Since 2001, growth ofvalue added in manufacturing was rather low and the services sector emerged as the best performer. In terms of employment intensity, however, the manufacturing sector (e = 1.55 for 2000-2006) performed better than that of the services sector (e = 0.34 for 2000-2006) and the national economy (e = 0.41 for 2000-2006). This implies atransition of manufacturing sector from low employment intensity to high employment intensity between 1990and 2006 relative to other sectors.

This evidence was further confirmed by employment elasticity estimates at 2-digit level and 4-digit level.For example, employment elasticity estimates at 4-digit level indicate that more than 50 percent of industry sub-sectorsin manufacturing record high employment elasticity (e < 0.75), particularly between 2000 and 2006.Decomposing of employment elasticity values for the two time points covering the entire manufacturing sector,as well as the three-sub-sectors indicate an increasing trend of employment elasticity from e = 0.55 to e = 0.99for 1990-2000 and 2000-2006 periods, respectively.

The inter-sectoral variations in employment elasticity was carried out using three sub-sectors: a) Food andBeverages (ISIC 31) to represent high employment elasticity (0.5 < e); b) Textile and Wearing Apparel (ISIC32) to represent moderate employment elasticity (0.25 < e <0.5); and c) Wood Products and Furniture (ISIC 33)to represent low employment elasticity (e < 0.25) in manufacturing. In overall terms, the findingspoints to a systematic, positive relationship between labour supply and employment intensity of growth. The evidence at sub-sectoral level confirms positive effects of export orientation, firm size, K/L ratio and productivityon growth of employment. However, there is some evidence in support of the view that jobs created in somesub-sectors tend to be of lower quality.

Policy Implications

The overall policy issues affecting growth and employment creation include both incentive policies andstructural policies. With respect to the former, the state has to play a major role in promoting employment intensivegrowth particularly in the present context of global economic downturn. Thus, policy measures need to beintroduced, paying particular attention to fiscal consolidation, exchange rate management, and appropriate monitorypolicies. Similarly, structural policies are of primary importance in promoting employment intensivegrowth. This covers a wide range of policy interventions, including skills development, investments in researchand development, infrastructure facilities and institutional support.

ILO (2010), ISBN978-922-124475-2 (print); 978-92-2-124476-9 (pdf)