

## The Structure of the Sri Lankan Economy

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*Sri Lanka is a small island economy without much of natural resources. In spite of a troubled domestic environment in recent times, the country has recorded an impressive performance in the areas of Average Life Expectancy, Adult Literacy rates, Infant Mortality Rates and similar indices of development. However, economic growth, sustained employment generation, reasonable price stability, balance in the external sector, and reduction in income inequality have not been adequate enough to propel the economy into the league of Developed Nations.*

*The objective of this paper is to study the inter-sectoral linkages of this economy using Multiplier Analysis to understand its structure by measuring the degree of interconnectedness of its different sectors, since the effectiveness of policy measures is expected to depend on the degree of interconnectedness of an economy. For this purpose, the Extended Input-Output Methodology combining the Leontief (1941) and Ghosh (1958) Models has been used.*

*The results show that the various sectors of the economy are weakly integrated, which is perhaps the reason why the effects of growth and development oriented policies have not percolated down throughout the economy. The development of strong inter-sectoral linkages is therefore a necessary prerequisite for the country's overall economic development.*

### I Introduction

#### *Historical Background*

The island of Sri Lanka is about 270 miles long and 150 miles wide as the crow flies. It lies like a pendant at the extreme southern tip of India. Small, with mountains in the center where tea plantations are situated and a coast-line fringed with sandy beaches that attract tourists from all over the world, the beautiful island with its luxuriant vegetation and striking scenery has been called the Pearl of the Indian Ocean. The people have been known for their warmth, hospitality and good humor, inviting tourists, travelers, researchers, field workers and Buddhist scholars.

Under British rule, the island enjoyed prosperity owing to its plantation economy that was the envy of most of its Asian neighbors. There was an efficient Education System and an elaborate Transportation system as well (Tambiah, 1986). Today, the country's performance in Education and Health sectors is outstanding. In between, since independence, the country has often been preoccupied with its internal disputes, which has affected her economic performance, and vice-versa.

#### *What Led to this Study*

Since the Second World War, there has been an increasing urge in the Developing Countries to find ways and means of ushering in rapid economic development. Sri Lanka

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