# Sri Lankan economic sovereignty: Insights of potentially alarming trends

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## Introduction

The relative magnitude of the citizen's ownership of an economy could be a reflection of the economic sovereignty of a nation. Hence, greater the sovereignty of a nation, the greater the ascendancy to conjoin the political reign and cultural roots to establish a country's identity in the world (Pick, 2011). It is in this paradigm that comparative economic development of low and middle-income nations may be analysed, where most such countries appear losing national ownership of their economy with the dawning of neoliberalism empowered by its prime agenda namely the economic openness.

Most of the countries in the world opted for opening their economies in the 1980s. Sri Lanka stepped into this system by liberalising her economy in 1978, becoming the first South Asian country to open up its economy to the rest of the world. While the balance score card pertaining to this strategic shift could be viewed and perceived at different angles, this study attempts to look at its impact on the nation's economic independence, a stated objective when the country gained political independence in 1948, and when it became a Republic in 1972.

There exists a prodigious vacuum of literature in this domain in both local and international arena of research. More importantly, there has not been conducted any systematic study with the major objective of perceiving the trends and magnitudes of national economies, including that of Sri Lanka, being affected by neoliberal economic strategies in respect of their economic sovereignty. Hence, the objective of this study was to contribute towards filling this research gap by bringing in empirically grounded insights.

## Methodology

The study was entirely based on time series secondary data for the period spanning from 1970 to 2016. The data were obtained from the Central Bank of Sri Lanka and World Development Indicators, published by the World Bank. Descriptive statistical trend analysis on macroeconomic variables such as Gross Domestic Product (GDP), Gross National Income (GNI), Net Factor Income from Abroad (NFIFA), Exports, Imports, Current Account Balance and Foreign Debt, was adopted as research methodology to derive inferences.

**Results and discussion**

Trade Balance as a percentage of GDP remained negative for the past 46 years with some general fluctuations. However, in 1977 Sri Lanka actuated a significant milestone by reporting a positive Trade Balance of 1 percent, apparently bearing the very fruits of import substitution polices during the preceding period (Figure 1).

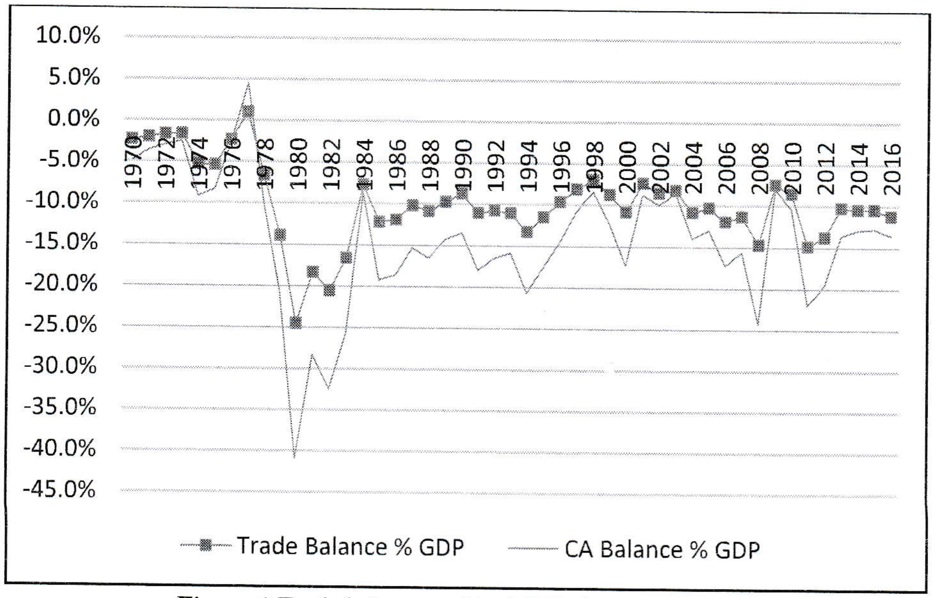


**Figure 1** Trade balance as % of GDP from 1970 – 2016
*Source: Author developed based on World Bank data*

Yet, in 1978, a new political regime with completely opposite trade policies, was granted power. The heavily negative trade balance during 1978 to 1983 evinces the myopic decision advocated by the liberal trade regime (Gunaruwan, 2017). Hence, this instigated the dramatic fall in Trade Balance, which provoked the subsequently observed external economic shocks.

Current Account balance as a percentage of GDP also indicated a similar trend pattern as that of the Trade Balance (Figure 1). This highlights the fact that negative Trade balance had a direct and significant influence over Current Account Balance during the post-liberalisation period in Sri Lanka.

NFIFA indicates a negative trend throughout the period under the study. The NFIFA as a percentage of GDP, which hovered just below zero percent during 2000 to 2009, experienced a greater decline in the negatives after 2009 (Figure 2).

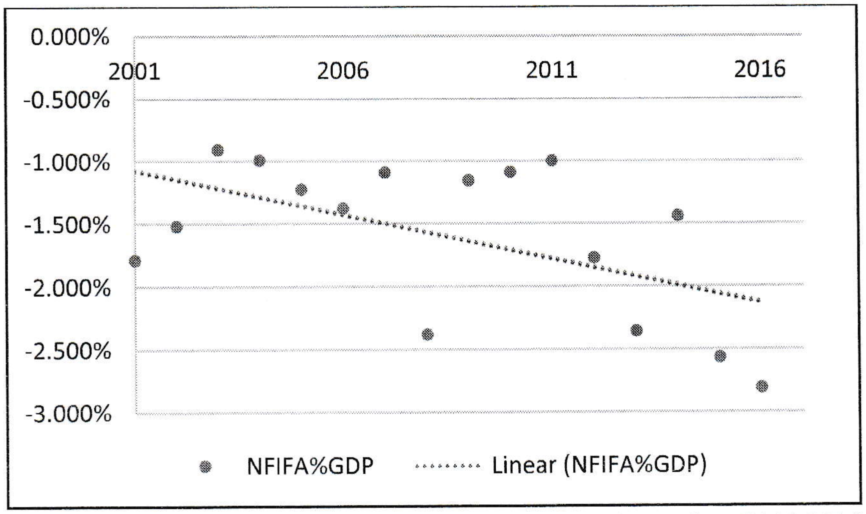


**Figure 2** Net factor income from abroad (NFIFA) as % of GDP from 2001-2016
*Source: Author developed based on World Bank Data*

Primary income received from, and paid to, the rest of the world as a percentage of GDP were analysed in segregation to identify their relative contribution towards the drop of NFIFA. The study reveals that primary income received from abroad as a percentage of GDP recorded a negative trend while Primary income paid to the rest of the world as a percentage of GDP has taken a significant upward trend during the post-conflict period (Figure 3).

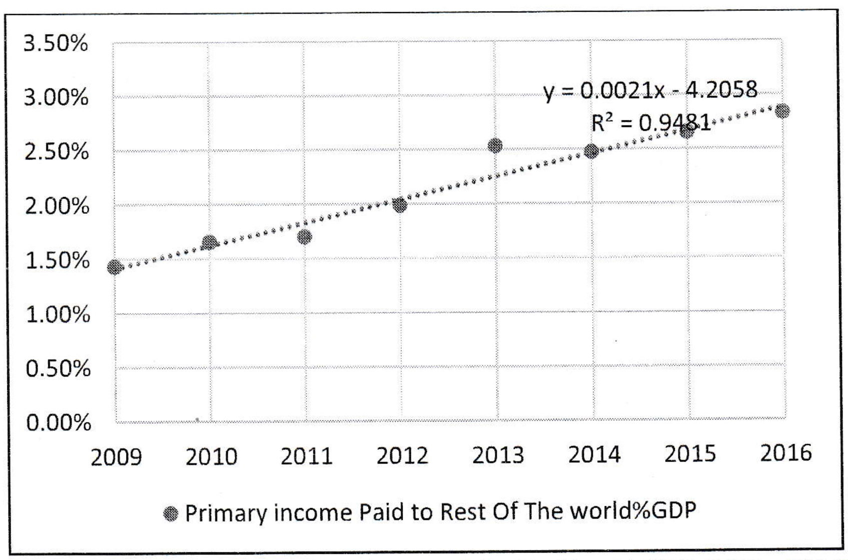


**Figure 3** Primary income paid to the rest of the World as % GDP (2009 – 2016)
*Source: Author developed based on CBSL Various Annual Reports*

The factor payments abroad include wage, interest and profit outflows from the economy, and factor payment ratio as a ratio of GDP reflects the share of domestic value added "expatriated", and thus, the level of the economy "owned" by foreign economic forces. This trend, therefore, is a clear indication that, day by day, Sri Lankans lose ownership of their country's economy.

Total External Debt and Public External Debt as a percentage of GDP also could be significant reflectors of the external dependence of the national economy. High external debt burden would risk the very economic sovereignty of the nation. Considering the time period spanning from 1970 – 2015, external debt ratio averaged around 25 percent prior to 1978, had a significant structural break to the upward direction in 1978, and increased gradually ever since to peak at 75 percent in 1988 (Figure 4).

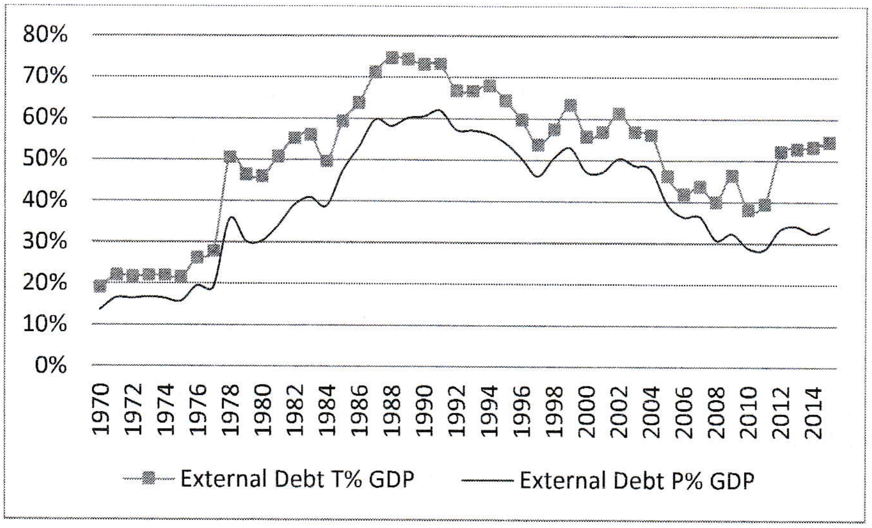


**Figure 4** External Debt (Total / Public) as % GDP from 1970 – 2016
*Source: Author developed based on World Bank Data*

This significant rise in external debt ratio is a manifestation of the augmentation of external debt of the economy at a faster rate than the GDP growth rate up to 1988. The two decades between 1988 and 2008 indicated a gradual improvement of the external debt ratio of the economy, which has once again taken an upward turn since the end of the internal conflict in 2009.

Rising ratio of foreign Debt Service Payments as a percentage of Exports is yet another indicator of the increasing external vulnerability of the national economy. Debt Service payments have surged during the post-conflict period, which appears to have peaked at 57 percent in 2014 (Figure 5).

The above analysis indicates several fundamental ailments in the Sri Lankan economy when it is perceived at a national economic view-point: First, the trade deficit appears to continue unabated, which could be recognised as the most fundamental and long-term weakness of the economy. Inadequate export growth and lack of policy focus to develop local industries to substitute for imports appear to be the crux of the matter (Gunaruwan, 2016). Next, over-dependence on external debt appears to have made the national economy vulnerable to external shocks and influences. Rising debt service payments, together with falling exports have made the country's ability of servicing foreign debt rather weak. Third, the rising factor payments abroad appear to prompt at augmenting foreign ownership of the country's economy, implying gradually weakened Gross National Product (GNP) GDP. All these, together, points at the trend of Sri Lankan national economy being increasingly at risk of losing its self-control.

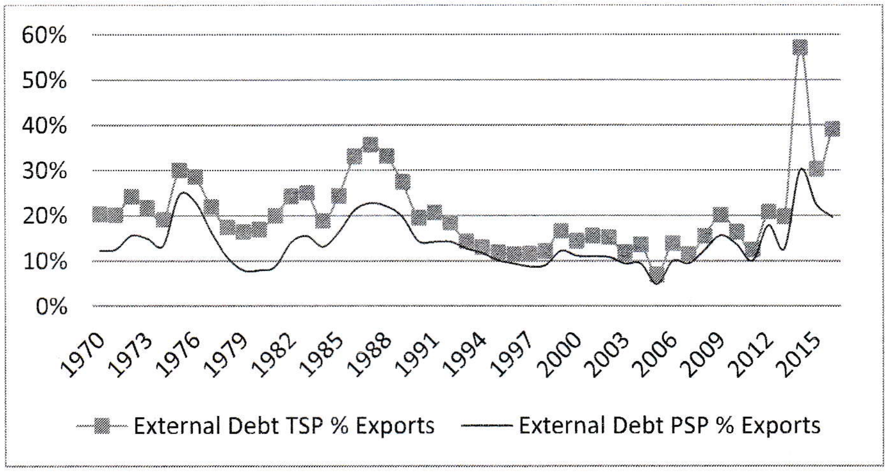


**Figure 5** External Debt Service Payments (Total /Public) as % exports (1970-2016)
*Source: Author developed based on World Bank Data*

## Conclusion

According to the findings of the study, liberalisation of the Sri Lankan economy in 1978 appears to have triggered an adverse economic process which has gradually driven the Sri Lankan economy towards losing its ownership. This trend, apparently leading to national economic destabilization, has adverse implications on the economic independence and sovereignty, leading to virtual threat to the very concept of Sri Lankan "Nation-State".

The study points at the necessity to look beyond the prescriptions of the mainstream economic doctrine which is more or less in force ever since initial liberalisation in 1977. An innovative economic policy paradigm, empowered by national economic orientation, appears to be necessary in order to prevent the economy dripping into incurably grave malaise.

***Keywords:*** *Economic ownership, external debt, GDP, GNI, NFIFA, Sri Lanka*

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