



Export Oriented
Manufacturing and
Job Creation in Sri
Lanka

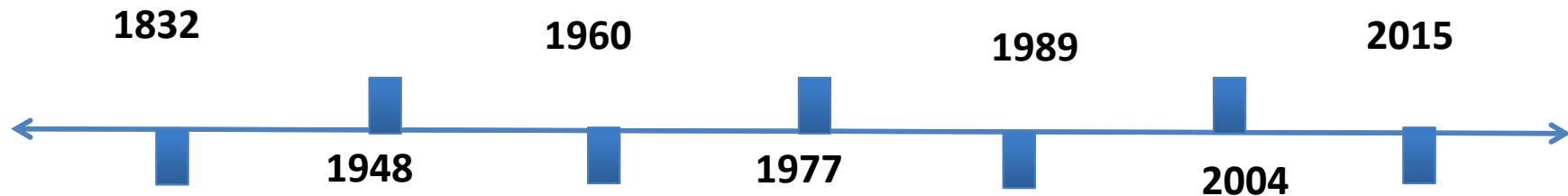
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Outline

- Sri Lanka's post-independence growth trajectory has been shackled by volatility instigated by policy uncertainty
- Export-oriented manufacturing has gained considerable importance since the liberalization of 1977
- However, Sri Lanka continues to depend excessively on labor intensive production processes vis-a-vis apparel manufacturing
- Labor generation has been constrained due to:
 - Skills mismatches
 - Languid labor force participation rates for women
 - Excessive regulations
 - Public sector preference



Reform Periods



1832: Colebrook-Cameron Commission

1948: Independence

Circa 1960: The commencement of Import-Substitution era

1977: First wave of liberalization reforms

1989: Second wave of liberalization reforms

2004: Alignment to nationalist policies/ reversion back to Inward Substitution

2009: End of the Civil war

2015: Emergence of a new coalition Government



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Overview of Export Oriented Manufacturing

Sectoral Composition of GDP

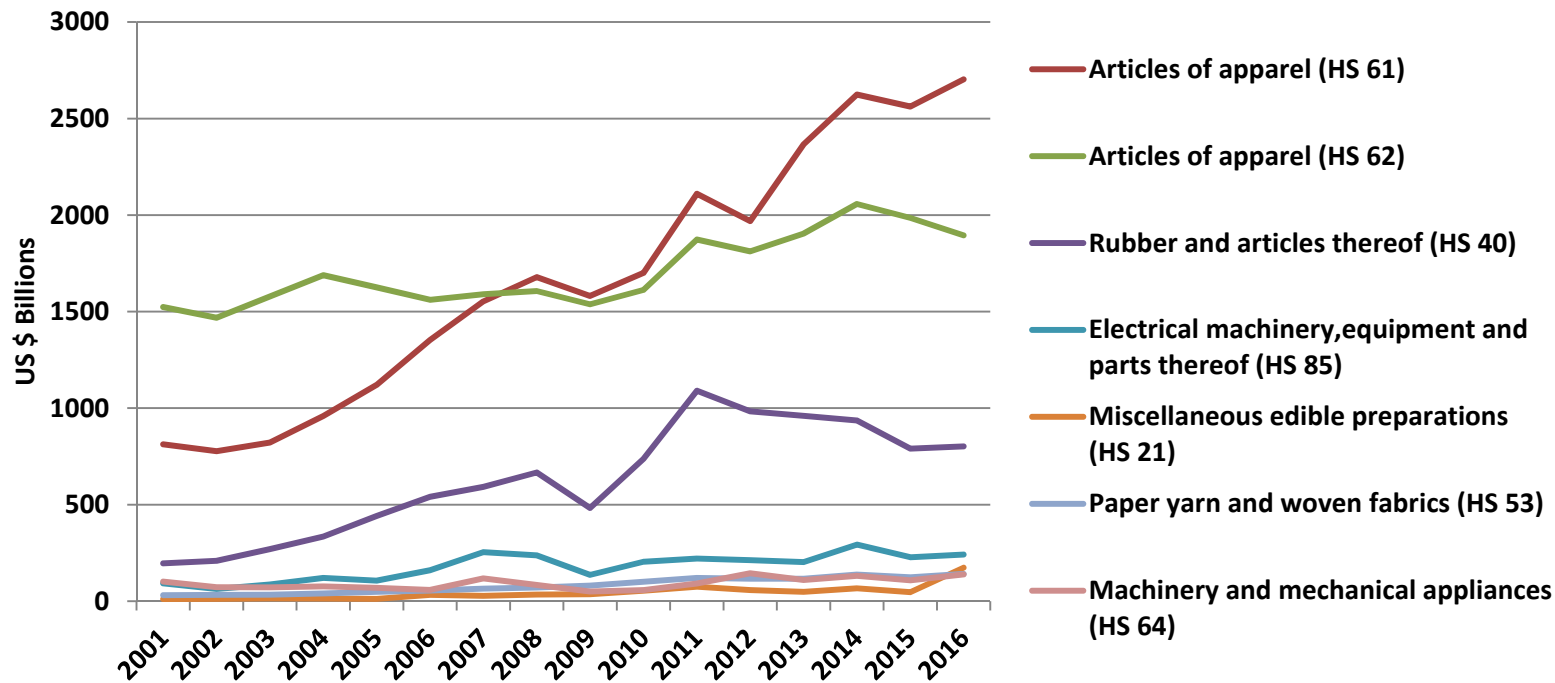
Year	1975	1980	1985	1990	1995	2000	2004	2010	2015
Agriculture	30.4%	27.6%	27.7%	26.3%	23%	19.9%	12.7%	8%	8.2%
Industry	26.4%	29.6%	26.2%	26%	26.5%	27.3%	30.2%	26.6%	27.3%
Services	43.2%	42.8%	46.1%	47.7%	50.5%	52.8%	57.3%	54.6%	57.3%
Manufacturing a	13.1%	18.3%	18.2%	17.4%	20.4%	15.8%	16.3%	17.3%	15.4%

Source: Central Bank, Annual Report, Various Issues

- Sri Lanka's industrial component – including manufacturing – has been effectively leapfrogged by the services sector
- Manufacturing sector development has been irregular, with growth magnitude contingent upon prevailing policy emphasis



Composition of Manufacturing Exports

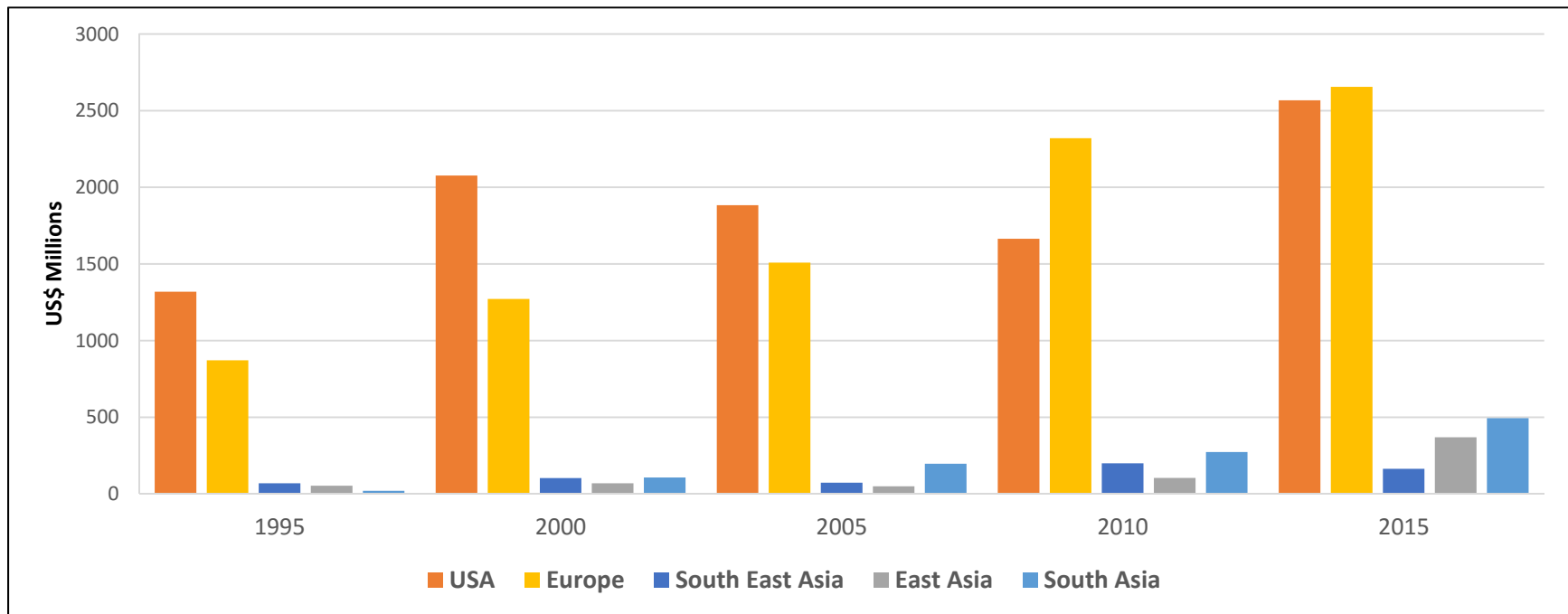


Source: UN COMTRADE Statistics <https://comtrade.un.org/data/>

- The island nation continues to wield a minimally diversified export basket with only two products – both from the apparel sector – wielding export revenue above the US\$ 1 billion threshold.



Primary (Regional) Export Destinations



UNCTAD, 2016, UNCTAD Statistical Database, Merchandise trade matrix – product groups, exports in thousands of dollars, annual

- Sri Lanka has increasingly moved towards Asian markets since the turn of the decade particularly
 - The principal export to these destinations includes pneumatic tires, electronics and select articles of apparel.



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Manufacturing Sector: Basket of Exports Diversity

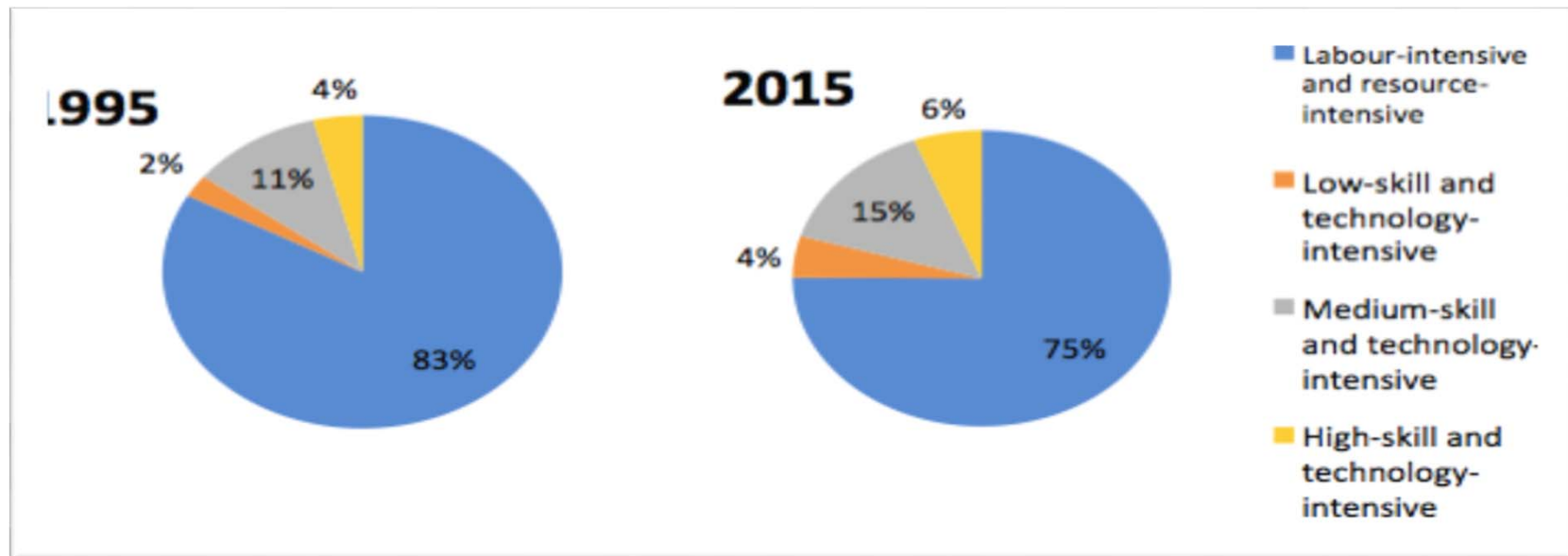
	Number of Export Products		Diversification Index	
	1995	2015	1995	2015
Malaysia	248	254	0.517	0.440
Sri Lanka	173	196	0.749	0.730
Viet Nam	199	251	0.670	0.551

UNCTAD, 2016, UNCTAD Statistical Database, product concentration and diversification indices by economy

- Over the given 20 year period, Sri Lanka has been able to expand its export portfolio by 13 percent.
 - In comparison, Malaysia and Vietnam have enlarged export baskets by 2 per cent and 26 per cent respectively.
- The island nation has made miniscule headway in diversifying its export portfolio; in two decades, the index has improved by a mere 0.02 points
 - In comparison Malaysia and Vietnam's export diversification initiatives have led to a drop amounting to 0.07 and 0.11 points respectively.



Manufacturing Sector: Labor and Technology Intensiveness



UNCTAD, 2016, UNCTAD Statistical Database, Merchandise trade matrix – product groups, imports in thousands of dollars, annual

- Sri Lankan manufacturing sector faces a deficit of high skilled labor and technology intensive industries.
- Medium-skilled and technology intensive” industries have expanded over the twenty year period.



Sri Lanka: Labor Market Constraints

Labor Market: Overview

Indicator	Total	Male	Female
Population (15 years and over)	15,468,203	7,168,508	8,299,695
Labor force in age group	8,354,841	5,369,143	2,985,698
Labor force participation rate	54%	75%	36%
Employed population	7,830,976	5,097,798	2,733,178
Employment rate	94%	95%	92%
Unemployed Population	350,903	144,966	203,027
Unemployment rate	4.20%	2.70%	6.80%
Not in Labor Force	7,113,362	1,799,365	5,313,997
Average Wage (US\$)	190.4		

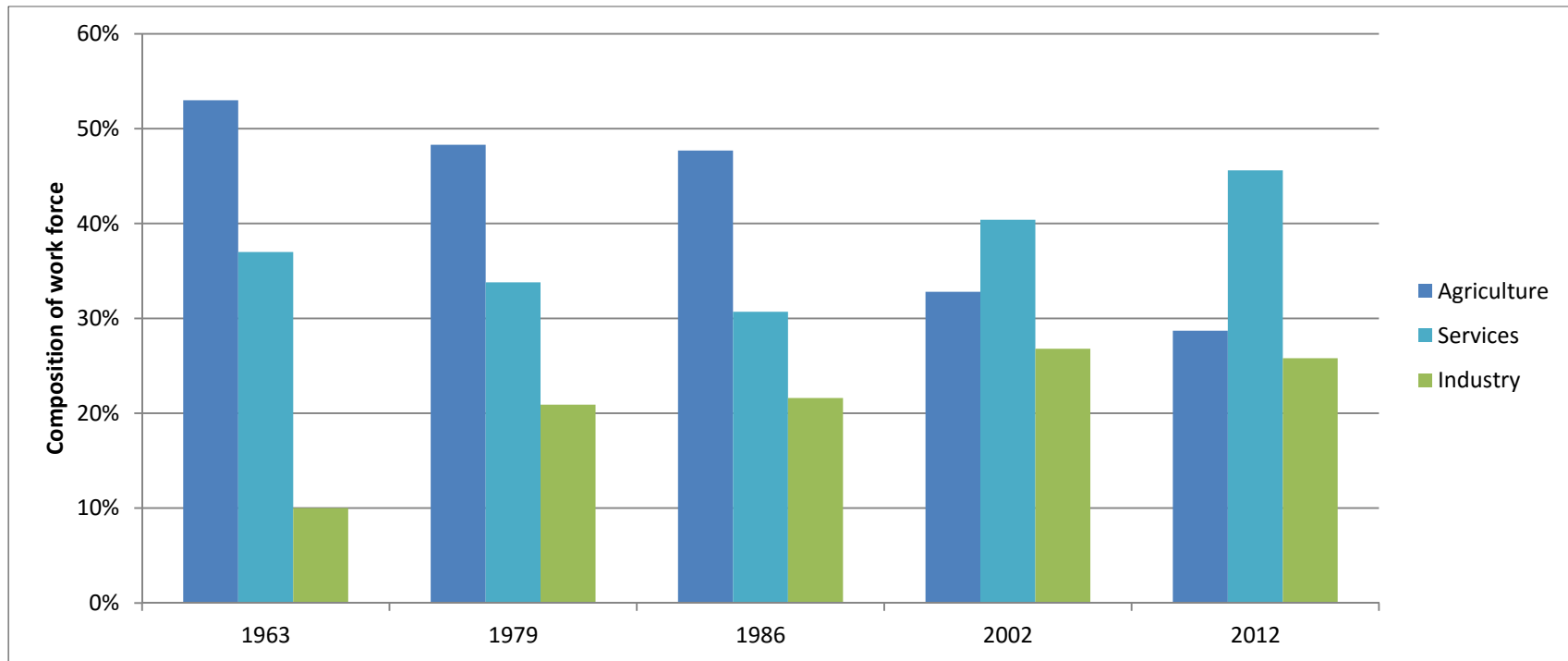
Source: Department of Census and Statistics 2017



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Labor Market: Sectoral Employment Trends



Source: Central Bank of Sri Lanka, Annual Report: 2016

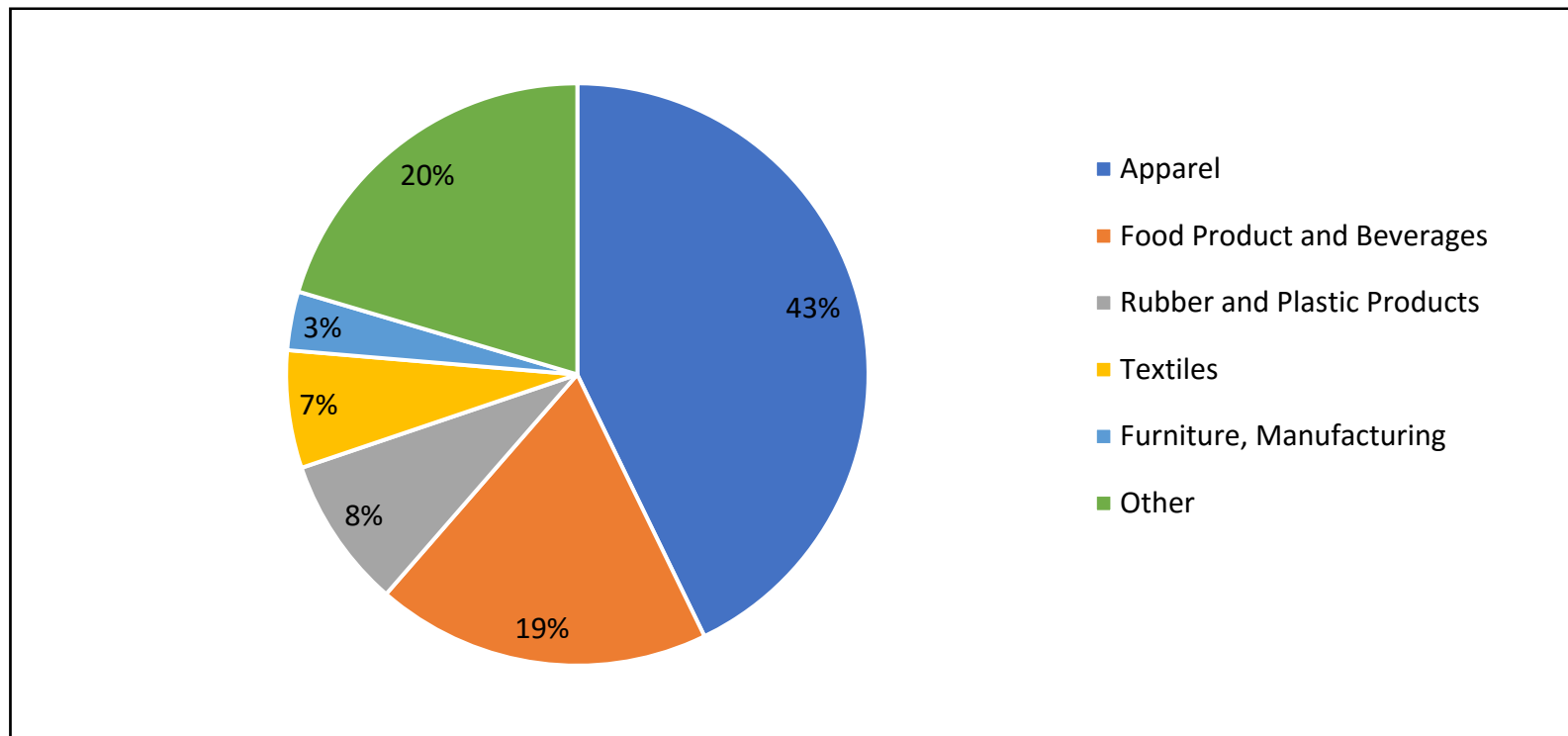
- Labor shifts from agriculture – especially over the past 25 years – have been absorbed mostly by the service sector.
- However, studies reveal that the labor elasticity of the manufacturing sector is significantly higher than the labor elasticity of the services sector.
(Chandrasiri 2011)



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Employment Composition in Manufacturing



Source: Department of Census and Statistics (2017)

Education and Skills Mismatches

- Sri Lanka possesses an aggregate literacy rate of 93.2% with 94.1% of men and 92.4% of women estimated to wield basic language proficiency as of 2015
- Mean years of schooling was approximated at 10.8 years, significantly higher than the South Asian average of 5.5 years
- However, educational progress appears to be persistently correlated with medium term unemployment

Age Group	1990	1995	2000	2005	2010	2015
20-24	40.3%	38.2%	44.4%	24.6%	20.0%	19.8%
25-29	19.3%	20.1%	18.4%	9.5%	9.8%	9.7%

Source: Quarterly Labor Force Survey (2017)



Education and Skills Mismatches: Employer Expectations

- Wide variance between employment perceptions of skill demand against skills available in the workforce:

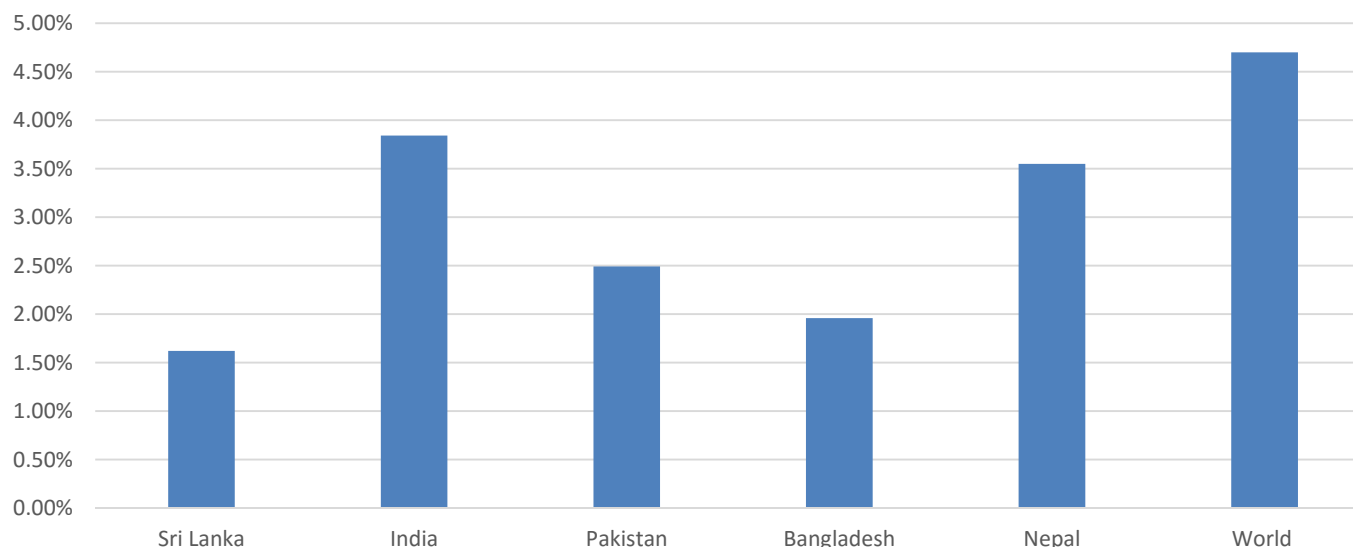
	Expected	Actual
Higher Secondary completion rates for skilled Workers	56%	17%
Secondary Level completion rates for low-skilled workers	70%	34%
English proficiency from high skilled workers	75%	22%
English proficiency from low skilled workers	40%	
Basic computer skills for high skilled workers	75%	23%
Basic computer skills for low skilled workers	38%	

Source: Dundar, et al., World Bank (2014) & LFS (2014)



Education and Skills Mismatches: State Funding Lapses

- State expenditure into education averaged at 1.935% of GDP over the past ten years. This falls well below global and regional averages



Source: World Bank, World Development Indicators (2013)

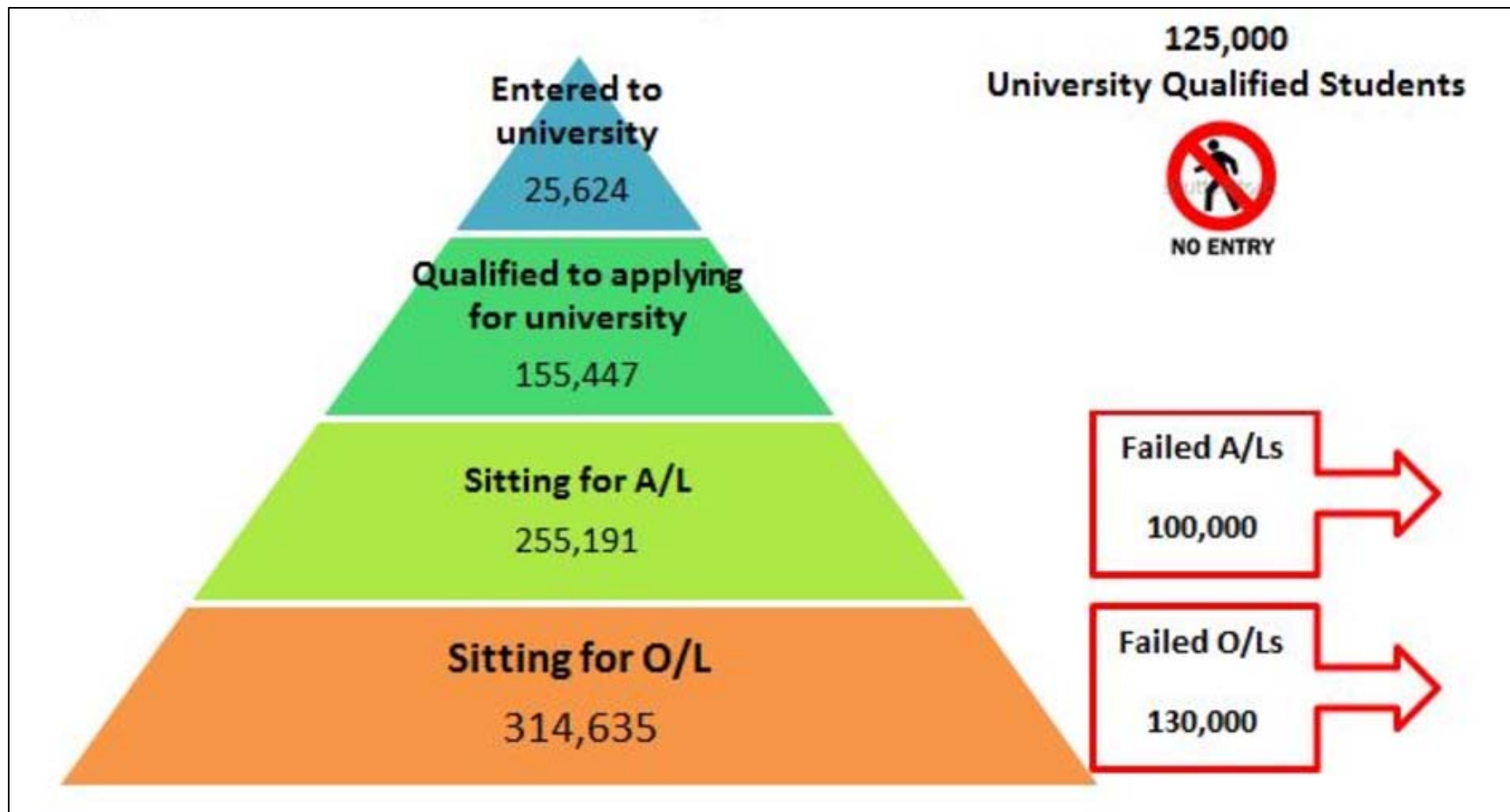
- To exacerbate issues, capital education in education has been constricted to a miniscule 0.43% over the past few years

Cont. of State Funding Lapses...

- Since 2010, capital exp. into Higher Education and Vocational Training averaged appx. 10% of the aggregate budget for educational activities
- The State has thus spent a miniscule 0.18% of GDP on post-secondary education capital expenditure since the turn of the decade
- Reduced investment has led to a bottleneck – as of 2014, only 17% of students passing secondary level examination gain entrance into universities
- Of the remainder, only 30% proceed to technical and vocational training
- Thus, in 2014 alone, approximately 140,000 youth – 53% of new entrants – entered the labor market with no more than general secondary education



Performance in National Exams (2015)



Prepared by Priyanka Jayawardena (IPS)



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Education and Skills Mismatches: Tertiary Sector Lapses

- Concerns have been raised over skills development, especially through the University system
- 57% of the 2015 national graduating class were from the “Arts” and “Commerce” streams (Dept. of Census and Statistics 2016)
- The curriculum of these disciplines lack depth in the quantitative and technical skills required by manufacturing firms. Limited opportunities available for these graduates in the other sectors
- Constrained funding capacity has led to a reduced emphasis on STEM fields. Heavy competition for the limited seats offered in national Universities for such programs

“ in the first four years after University Graduation, the proportion of unemployed graduates who found a job remained below 20% per annum”

Vodopivec and Withanachchi (2010)



Education and Skills Mismatches: TVET Initiatives

- Sri Lanka's Technical and Vocational Education and Training (TVET) programs – conducted by public and private sector organizations – have delivered success
- Over 20% of production workers in Sri Lanka receive training, compared with fewer than 10% of similar workers in India and less than 5% in Pakistan and Bangladesh (Byiers, et al. 2015)
- Critics however argue that TVET initiatives are designed to accommodate for labor intensive sectors that require a large pool of low skilled labor
- A significant number of training programs focus upon the influential Textiles and Garments (T&G) sector which has traditionally been labor intensive
- Shortages in higher level TVET programs is affirmed by ILO reports (2016) which indicate that only 2.2% of the workforce has been trained in middle-level skills

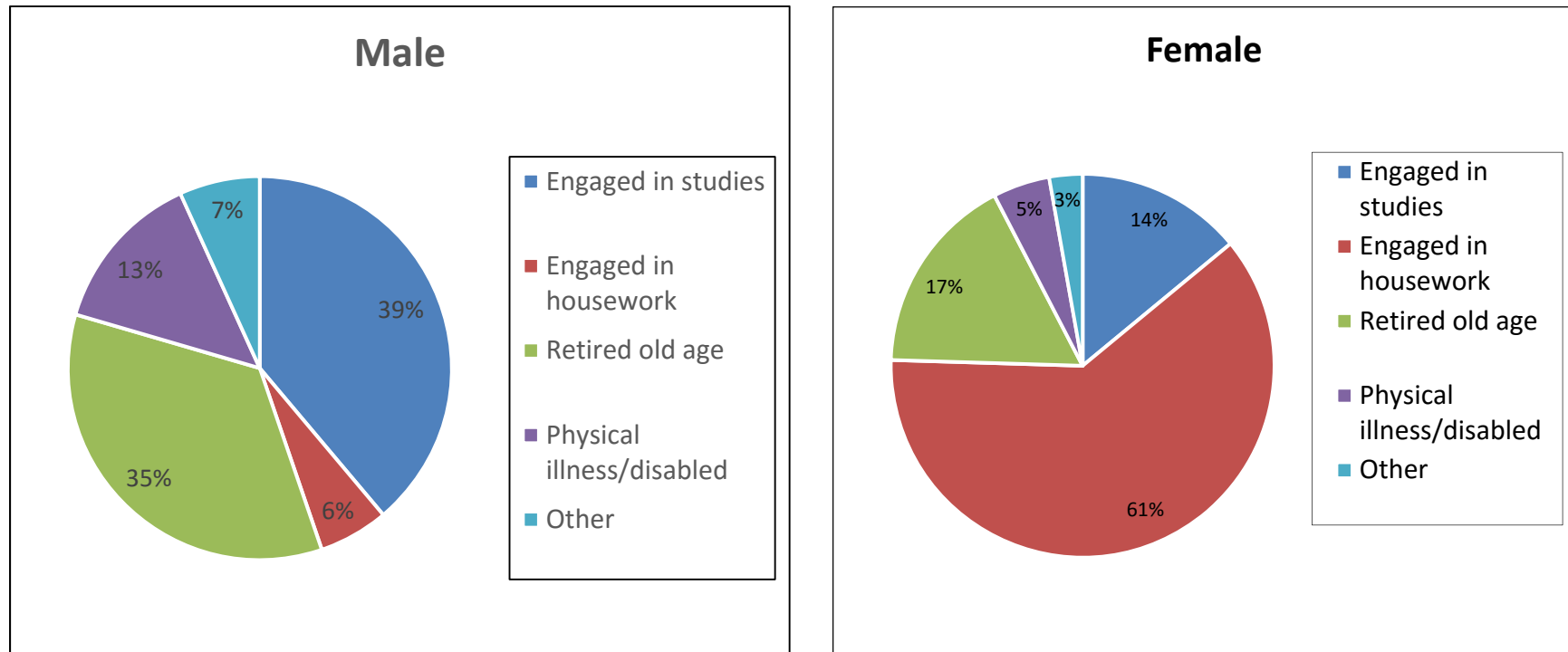


Gender Disparity in Workforce: Statistical Variances

- As per the most recent census , 13.6% and 2.7% of women completed Secondary Level and University education respectively
- In comparison, 10.9% and 2.5% of men completed Secondary Level and University education respectively
- Despite a better educational profile, participation rates for women is very low – as of 2016, female labor force participation rates stood at 35.9%
- While this fares well when compared to participation rates of fellow South Asian nations, its falls below world (53%) and East Asian (65%) averages (Development Indicators, World Bank)
- **Census estimates indicate that approximately 74.7% of the economically inactive population in Sri Lanka is composed of women**
- To exacerbate issues, the unemployment rate for women stood at 6.8% in comparison to 2.7% for males.

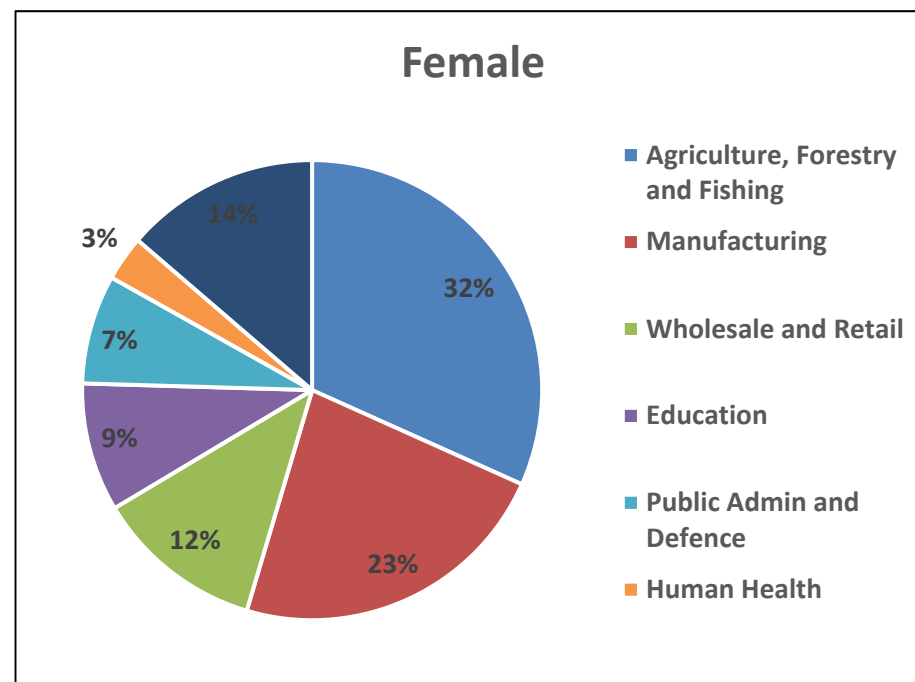
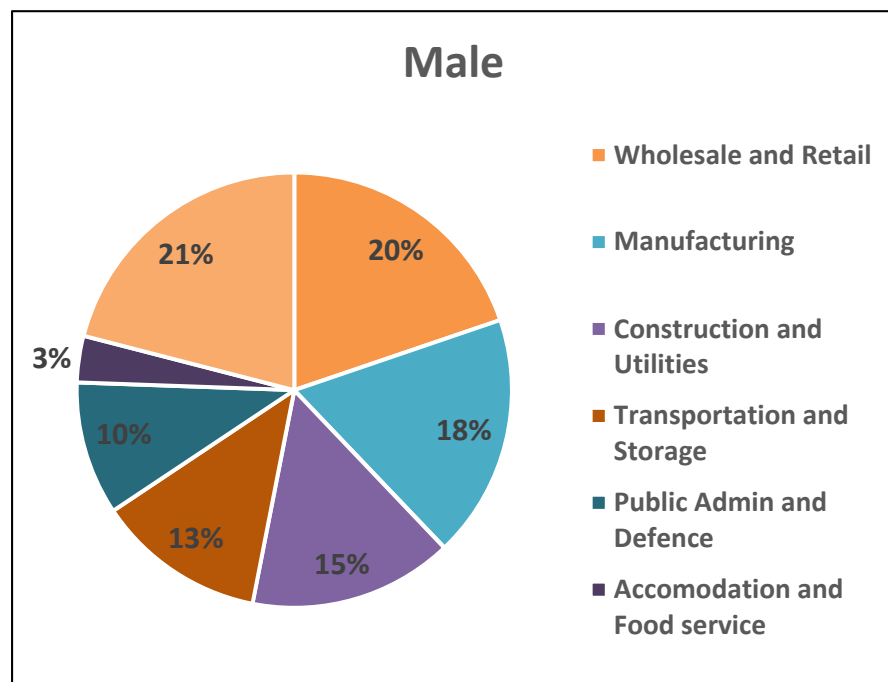


Gender Disparity in Inactive Workforce: Statistical Variance



- Much of the discrepancies in participation rates are funneled by a series discriminatory tendencies akin to those experienced in much of Greater South Asia
- Rigid societal norms in the form of marital and household duties encumber women's participation in formal employment as the Sri Lankan work culture rarely accommodates to extraneous expectations

Gender Disparity in Workforce: Sectoral Disparity



- A disproportionate number of women are employed in the primary sector due to a large cohort of female estate laborers
- Furthermore, a larger proportion of women are employed in manufacturing due to the wide prevalence of the T & G sector

A Future Course of Action?

- For Sri Lanka to embark on a sustainable growth trajectory, a concerted, consistent policy framework is an absolute necessity.
- Sri Lanka has to penetrate new export destinations to mitigate risks. New markets have to be opened for Sri Lankan exports. We note much enthusiasm in this field.
- The private sector needs to be incentivized to diversify product portfolios and to invest in R & D. Such initiatives can be coordinated with educational institutions
- A harmonized series of reforms in tertiary education practices is vital. The public education system needs to be aligned and must be cognizant of employer expectations.
- Promote female participation rates by aligning amenities provided with household constraints
- The establishment of industrial zones – especially in rural zones – will help boost labor generation and ensure that employment opportunities are more equitable and easily obtained.



Thank you



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