

# Globalisation Qualifications and Livelihoods



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## Report Number 2

Shifts in the Livelihood Structure of Sri  
Lanka following Economic  
Liberalisation

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Lifelong  
Education &  
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Development

## Preface

This research report is one of a series completed within the DFID-funded research project 'Globalisation, Qualifications, Livelihoods and Youth'. The research examines the impact of globalisation on livelihoods, education and qualifications, and on the aspirations of youth for education, qualifications and livelihoods.

The research arises from the need to monitor the impact of globalisation – operationalised via policies of economic liberalisation – on the access of the poorest social groups to livelihoods, education and qualifications in different country contexts. Economic liberalisation is changing the nature of the livelihood structure and the economic demand for skills and qualifications. It is also changing the types of educational and qualifications provision within specific national settings. These in turn impact on the aspirations of youth for livelihoods, education and qualifications. The realisation of those aspirations is increasingly conditioned by the ability to pay, as policies of economic liberalisation encourage private sector, market driven provision, especially at the post-primary level. This research explores the impacts of economic liberalisation on the structure and volume of livelihoods, education and qualifications on the one hand, and on the aspirations of youth, on the other. In particular it seeks to explore differential impacts of economic liberalisation on members of different social groups.

The fieldwork has been undertaken mainly in Sri Lanka and Zimbabwe. A smaller study was undertaken in Zhejiang Province, China and a study of UK suppliers of qualifications to Sri Lanka and Zimbabwe was undertaken to explore the interdependent, cross border nature of qualifications supply.

Research Report no 2, by Siri Hettige of the University of Colombo, examines shifts in the livelihood structure of Sri Lanka following the policies of economic liberalisation introduced from 1978. Because of the focus on impact and change the study necessarily examines the livelihood structure in the period prior to liberalisation. This study is based mainly on analyses of secondary sources.

This research was supported by DFID. The views expressed are those of the author and do not necessarily represent DFID's own policies or views. Any discussion of the content should be addressed to the author via the email address listed below.

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## Abbreviations

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FTZ	<i>Free Trade Zone</i>
GCE	<i>General Certificate of Education</i>
A LEVEL	<i>Advanced Level</i>
O LEVEL	<i>Ordinary Level</i>
GDP	<i>Gross Domestic Product</i>
HSC	<i>High School Certificate</i>
JVP	<i>Janatha Vimukthi Peramuna</i>
LTTE	<i>Liberation Tigers of Tamil Eelam</i>
N.E.S.	<i>Not Elsewhere Stated</i>
NWRI	<i>Nominal Wages Rate Index</i>
SLBFE	<i>Sri Lanka Bureau of Foreign Employment</i>
SLFP	<i>Sri Lanka Freedom Party</i>
SSC	<i>Senior School Certificate</i>



## **Executive summary**

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This report examines changes in the livelihood structure of the country brought about by economic liberalization. The salient findings of the research will be discussed under eleven sections. They are:

1. Shift of employees from the state sector to the private sector
2. Relative wage rates in the public and the private sectors
3. Decreasing livelihood opportunities in the rural agricultural sector
4. Employment opportunities in the manufacturing and service sectors
5. Changing composition in value added in industrial production and other sectors
6. Changing patterns of employment and unemployment
7. Changing patterns of unemployment and under-employment
8. Issue of child and old age dependency
9. Foreign employment opportunities
10. Composition and dynamics of unskilled and semi-skilled labour markets
11. Issue of unequal access to employment opportunities in the private sector

### **1. Shift from the State Sector to the Private Sector**

The adoption of liberal economic policies by the regime that came into power in 1977 resulted in a significant expansion of livelihood opportunities outside the state sector. Corporate sector employment before economic liberalization was relatively insignificant compared with state sector employment. While over one million persons were employed in state sector institutions, only 283,457 persons were employed in the private corporate sector. On the other hand, the state sector has remained highly significant as a source of employment in the years following liberalization, though the relative significance of the private sector has also increased over the years. Employment data in the 1990's shows that the relative significance of private sector employment has increased, while the relative significance of public sector employment has declined.

### **2. Relative Wage Rates in the Public and Private Sectors**

It is evident from the data that wage rates in all sectors have increased, particularly after economic liberalization. It should however be noted that the rate of increase has varied between different occupations, in particular, between the public and private sectors. These variations are significant in view of the fact that employment opportunities in the private sector expanded after liberalization.

### **3. Livelihood Opportunities in the Agricultural Sector**

Agricultural employment recorded its peak in 1973 when it accounted for 54.5% of the employed population. It recorded a significant decline immediately following the implementation of liberal economic

policies, when it went down to 48.3% in 1978/79. In 1996/97 it had declined to 37.7% which was a substantial reduction from a peak of 54.5% in 1973.

#### **4. Employment Opportunities in the Manufacturing and Service Sectors**

Manufacturing represented an insignificant share of employment in the 1960's. For instance, it was only 7.3% in 1963. Employment in manufacturing increased marginally in the early 1970's. However, following economic liberalization, manufacturing became an increasingly significant area of employment. It reached nearly 17% by the mid 1990's.

Service sector employment has also increased more rapidly than the manufacturing sector. If we assume that many of the state sector employees are also engaged in service sector activities, i.e. education, health etc., the service sector accounts for a very large proportion of employment.

#### **5. Changing Composition in Value Added in Industrial Production and Other Sectors**

Data indicates that there are significant variations in value added not only over time but also across different sectors, though overall there is a decline in value added after economic liberalization. It is also noteworthy that a significant decline in value added is recorded in sectors, which account for a large proportion of economic production such as textiles and garments, food and beverages and petroleum and chemical products.

The decreasing value added in many production sectors is a reflection of the fact that the country is heavily dependent on the import of raw materials, machinery and spare parts in the fast expanding areas of activity.

#### **6. Changing Patterns of Employment and Unemployment**

The overall unemployment rate has declined significantly after economic liberalization. While the rate of unemployment has consistently been higher among females, the gap has narrowed significantly in the last few years.

Labour force participation rates remained consistently divergent for men and women for many years. Male labour force participation has remained around 50%, both before and after economic liberalization. It is important to note that the gender gaps in labour force participation have narrowed significantly after economic liberalization.

Another important pattern in the employment structure of the country is the increase in casual and self-employment following economic liberalization. Before economic liberalization, in 1973, the proportion of

economically active population in the category of 'casual workers' was around 21%. By 1996/97, the proportion was as high as 30%.

There has been a substantial increase in self-employment after economic liberalization. This is also a reflection of the expansion of the informal sector during the same period.

Looking at the data on casual and self-employment, the conclusion we can reach is that the informal sector recorded a substantial expansion after economic liberalization.

### **7. Changing Patterns of Unemployment and Under-employment**

Unemployment was a major political issue at the 1977 general elections as the rate stood at about 20% of the labour force at the time. In relation to the data collected, it is important to note that the unemployment rate came down steadily after economic liberalization, from a high of about 20% in 1973 to about 14% in 1978. It came down further to about 10% in 1996. However, the unemployment rate continues to be high among those with higher educational qualifications.

As regards under-employment, there is a marginal reduction in both urban and rural areas though it has recorded a substantial reduction in the estate sector after the privatization of the plantation management.

### **8. Issue of Child and Old Age Dependency**

Data shows that the overall dependency ratio in the country has declined steadily over the last several decades. This is a reflection of the phenomenon referred to as the 'ageing of the population'. A significant pattern here is that the child dependency ratio has declined significantly, while old age dependency has increased over the same period.

### **9. Foreign Employment Opportunities**

Foreign employment opportunities expanded rapidly after economic liberalization. Foreign employment was insignificant as a source of wage employment before economic liberalization. Several years after economic liberalization, it became the most significant source of income, particularly for women. The majority of Sri Lankan migrant workers fall into the 'unskilled' category. Though there is a significant increase in the proportion of skilled workers from about 15% in the mid 1990's to about 20% towards the end of the decade, it is a relatively small proportion.

Migration for overseas employment does not seem to be a significant livelihood option for unskilled male youths as most of the male youths migrating overseas appear to be skilled workers. This is not the case for female youths as they can migrate overseas, particularly as housemaids, without acquiring any specialized skills.

## **10. Composition and Dynamics of Unskilled and Semi-skilled Labour Markets**

Economic liberalization in 1977 that led to an expansion of the economy resulted in a significant reduction in unemployment in the country by creating employment in unskilled and semi-skilled categories. As mentioned earlier, this is true for both overseas employment as well as FTZ factory work, which constitute the bulk of the work made available for women. Many young men found semi-skilled employment in the hospitality trade, security services, retail trade and personal services.

## **11. Issue of Unequal Access to Employment Opportunities in the Private Sector**

As regards employment opportunities for youth coming from diverse backgrounds, the corporate private sector that expanded after economic liberalization cannot be considered as a monolithic entity. It is true that many of the private establishments that came into being created a number of unskilled and semi-skilled job opportunities. On the other hand, expansion of the private sector after economic liberalization created job opportunities at higher levels, such as junior and senior managerial positions in addition to a host of white collar jobs. This is particularly true in the case of city-based service sector firms in areas such as banking, export/import trade, insurance, real estate, plantation industry, hospitality, advertising, telecommunication and the construction industry.

The owners and managers of private firms, usually coming from westernized urban upper and middle class families have tended to recruit English speaking youth who have attended prestigious urban schools or private international colleges, for managerial and white collar jobs. It is not possible for Swabhasha-educated<sup>1</sup> youth with public education to compete for white collar jobs in the private and corporate sectors.

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<sup>1</sup> Educated in the indigenous language.

## **Shifts in the Livelihood Structure of Sri Lanka Following Economic Liberalization**

### **1.0 Introduction**

This report is prepared as part of a study on globalization, qualifications and livelihoods in Sri Lanka. The study seeks to investigate how youth from different social backgrounds secure qualifications and livelihoods in the changing economic environment brought about by globalization and economic liberalization that has been underway for over two decades in Sri Lanka. This report is intended to examine the changes in the livelihood structure of the country caused by economic liberalization. It provides an analysis of available data on the shifts in the livelihood structure of Sri Lanka over the last twenty-five years. The shifts will be set within the change in the economic policy regime after 1977, from one of state domination and control to a liberal regime guided by market forces.

Sri Lanka's post-independence economy became more and more state-dominated from mid 1950's onwards, following the election of a left-leaning regime in 1956. While many privately owned economic enterprises were taken over by the state, steps were also taken to establish public enterprises in diverse sectors such as banking, trade, public utilities, manufacturing and economic infrastructure. Private enterprise was not actively promoted as the dominant public perception at the time was that private entrepreneurs were exploitative and unjustly amassed wealth. These circumstances facilitated the emergence of a dominant state sector, almost at the expense of the private sector. The latter could provide only very limited livelihood opportunities. This situation encouraged many people to look for opportunities in the state sector, and in fact, state sector employment became the ultimate aspiration of upwardly mobile youth. This naturally led to intense competition among youth for much desired state sector jobs. It was only a matter of time before such competition began to have significant political implications.

Access to state sector employment was already a significant social issue during the British colonial period. The colonial official language policy prevented Swabasha-educated youth from entering the public service. Language policy thus became a serious political issue soon after political independence in 1948. The SLFP which advocated the removal of English as the official language and its replacement by the Sinhala language became very popular among lower class, rural Sinhala voters.

Replacement of English with Sinhala, the language of the majority community as the official language, opened up employment opportunities in the state sector to those who had their education in Sinhala. This removed the monopoly of the English educated, urban elite who hitherto dominated the state sector. The English educated elite gradually became confined to a stagnant private sector which continued to favour

English-educated high school leavers hailing from westernized, urban backgrounds. On the other hand, vernacular educated, monolingual Tamil youth hailing from underprivileged, rural backgrounds became marginalized from both the private as well as the state sectors. Given the limited livelihood opportunities in the private, corporate sector, many English-educated persons sought to migrate to western countries looking for better life chances.

In spite of the expansion of the state sector in the two decades following independence, it could not meet the growing demand for employment due to two reasons. Firstly, Sri Lanka's population grew rapidly after 1946 leading to a steady expansion of the labour force. Secondly, a corresponding expansion of the education system in the country led to a rapid growth in the number of youths leaving schools and universities with educational certificates and higher job aspirations. The result was a high rate of youth unemployment, particularly among those with higher educational qualifications. The fact that the economy remained stagnant due to diverse circumstances made matters worse. A hostile international economic environment characterized by unfavourable terms of trade, rising energy prices, and a deteriorating balance of payment situation resulted in widespread poverty, scarcity of consumer goods, and high rates of under-employment and unemployment. Given this situation, state-led development policy of the pre-1977 United Front Government came under widespread criticism, particularly from the main opposition party at the time, which had consistently advocated a pro-private sector development policy. Popular dissatisfaction was so widespread in the mid 1970's that it was a matter of time before the advocates of liberal economic policies gained enough popular support to defeat the incumbent regime. In the following sections we examine in greater detail the main hypotheses that have guided the research on Shifts in the Livelihood Structure of Sri Lanka following Economic Liberalization. They are:

- A decrease in the proportion of opportunities for persons working in the public sector,
- An increase in the proportion of opportunities for persons engaged in the private sector,
- An increase in the proportion of opportunities for persons employed in foreign firms,
- A decrease in the proportion of opportunities for persons working in the agricultural sector,
- An increase in the proportion of opportunities for persons working in the informal sector,
- An increase in the proportion of self-employment opportunities,
- An increase in the proportion of unskilled and semi-skilled jobs,
- An increase in the proportion of women in the labour force,
- A greater proportionate increase in employment in the private sector among youth from higher social groups.

The discussion in the report is divided into eleven sections. The first section examines the shift of employees from the public to the private sector. The second section examines relative wage rates in the

public and the private sectors. Section three looks at the decreasing livelihood opportunities in rural agriculture. Section four is devoted to an examination of employment opportunities in manufacturing and services. Section five provides a discussion on the changing composition of value added in industrial, production and other sectors. Changing patterns of employment and unemployment are discussed in section six, followed by an examination of unemployment and under-employment in section seven. Section eight deals with the issue of child and old age dependency in Sri Lanka. Section nine examines foreign employment opportunities for Sri Lanka, after economic liberalization. The next section looks at the composition and dynamics of unskilled and semi-skilled labour markets, and finally in section eleven, the issue of unequal access of employment opportunities after economic liberalization is discussed.

## **2.0 Shift from the State Sector to the Private Sector**

As mentioned before, the adoption of liberal economic policies by the regime that came into power in 1977 resulted in a significant expansion of livelihood opportunities outside the state sector. Even though the state sector did not expand after 1977, the relative significance of state sector employment did not decline in the next decade or so due to a number of reasons. Firstly, the patronage system of politics that has been in place for many years was not abandoned by the new regime due to its obvious political advantages; ruling party leaders, Members of Parliament and officials continued to provide employment to party supporters in state institutions, usually disregarding the fact that such recruitment led to over-staffing. Secondly, several large public investment projects undertaken by the new regime required the recruitment of additional staff. Finally, social sector programmes in the country were not curtailed in spite of the liberal economic environment and these programmes helped maintain a large pool of employees, i.e. education, health, poverty alleviation, housing, and public administration. The establishment of Provincial Councils in 1987 as part of the government's effort to devolve power to the regions led to the creation of elaborate provincial bureaucracies and this no doubt resulted in the recruitment of additional employees at the provincial level.

As *Table 1* shows, private corporate sector employment before economic liberalization was relatively insignificant compared with state sector employment. While over one million persons were employed in state sector institutions, only 283,437 persons were employed in the private corporate sector. On the other hand, the state sector has remained highly significant as a source of employment in the years following liberalization, though relative significance of the private sector has also increased over the years.

Table 1

**Employed Persons in Sri Lanka by Sector Before and After Economic Liberalization<sup>2</sup>**

Year	Government*	Semi-government*	Private*
1977	422647	617033	283437
1978	446085	652472	321951
1979	470118	747034	315972
1982	484802	784370	345679
1987	513300	752700	NA
1989	588500	749700	425784
1991	652959	654000	687086
1992	653959	637271	NA
1993	676403	618793	NA
1994	699898	625666	NA
1995	737504	569484	NA
1996	752194	409278	NA
1997	762067	309633	NA
1998	790492	300654	NA
1999	822122	296248	NA
2000	856665	299615	NA

Source: Annual Reports 1982-2000, Central Bank of Sri Lanka

\* 'Semi-government' refers to production or service institutions wholly or partly owned by the state. These are different from government institutions, departments, provincial and local government institutions which come under the 'government' category. 'Private' refers to the private corporate sector which comprises of medium and large- scale enterprises.

Table 2 provides data on the composition of the economically active population. Table 1 gave the breakdown of the employed population into government, semi-government and private/corporate sectors. It did not include data on the categories of 'Employers', 'Self-employed' and 'Unpaid Family Workers'. On the other hand Table 2 shows that the relative significance of private sector employment has increased in the 1990's. During the same period, the relative significance of public sector employment has declined.

Table 2

**Status of Employment in Sri Lanka by Sector and Category (%)**

Period	Public sector employees	Private sector employees	Employers	Self-employed	Unpaid family workers	Total
1990	21.5	33.7	1.8	29.2	13.8	100
1991	22.9	39.5	2.2	25.4	10.0	100
1992	20.0	40.0	1.6	27.1	11.2	100
1993	17.4	42.8	2.0	27.4	10.4	100
1994	16.4	44.3	2.3	27.2	9.8	100
1995	15.6	44.3	2.5	28.3	9.4	100
1996	15.0	45.8	2.3	26.8	10.0	100
1997	15.1	44.3	2.3	28.8	9.4	100
1998	14.5	41.2	1.9	28.9	13.6	100
1999	14.4	43.1	2.0	28.3	12.2	100
2000	13.6	43.2	2.3	27.6	13.3	100

Source: Annual Reports 1999, Central Bank of Sri Lanka

<sup>2</sup> Note: Central Bank reports do not provide data on private sector employment after 1992. However, these reports indicate a decrease in public sector employment and an increase in private sector employment in relative terms. For instance, the share of public sector employment decreases from about 23% in 1991 to about 13% in 2000. On the other hand, the share of private sector employment increases from about 33% in 1990 to about 44% in 2000 (Central Bank reports).

The implementation of post 1977 liberal economic policies did not take place in a socio-political vacuum. In fact, the post 1977 period has been one of the most socially and politically turbulent periods in the recent history of Sri Lanka. The outbreak of ethnic violence leading to the intensification of the violent separatist struggle in the North and East led by the LTTE, anti-systemic political campaign in the South led by the JVP and the suppression of political opponents and critics by the government, all contributed immensely to persisting social and political instability in the 1980's and the early 1990's. While it is not easy to determine the actual impact this situation had on the process of economic growth, it is reasonable to assume that continuing social and political instability had a negative impact on economic growth. On the other hand, the implementation of liberal economic policies continued to produce many significant economic and social outcomes. Some of these outcomes are discussed in the pages that follow in the light of available empirical data.

## **2.1 Wage Rates in the Private and Public Sectors**

*Table 3* provides data on changes in wage rates among different occupational categories from the 1950's. As is evident from the data, wage rates in all sectors have increased, particularly after economic liberalization. It should however be noted that the rate of increase has varied between different occupations, in particular, between the public and private sectors. These variations are significant in view of the fact that employment opportunities in the private sector expanded after liberalization.

It is noteworthy that the highest wage rate increase between 1973 and 1999 has been recorded in the agricultural sector. This is no doubt a reflection of the difficulty in retaining labour in the rural, agricultural sector due to the exodus of labour from rural areas to urban industry and services. The next highest increase in wage ratio is recorded in the state sector. Unlike in the private sector, wage and salary revisions in the state sector are often done across the board. Therefore, when salaries of higher grade officers are revised, a corresponding increase at lower levels is usually effected. This is not necessarily the practice in private sector firms. As the data in the Table shows, the lowest rate of increase is recorded in the services sector. Even in industry and commerce, rates have been much lower than in the other areas.

The fact that the public sector workers have gained a much higher rate of increase than their private sector counterparts is all the more significant because the workers in state sector institutions also enjoy various other benefits which are often not available to private sector workers i.e. pensions, job security etc. This situation makes the public sector more attractive than private sector employment. This is an important issue in view of economic liberalization which is aimed at giving greater emphasis to private sector employment.

Table 3

**Wage Rates in the Public and Private Sectors**

Period	Workers in Wages Boards Trades								Government Employees							
	Workers in Agriculture		1. Workers in Industry and Commerce 2. Workers in Wages Boards Trades			Workers in Services			All non Executive Officers		All Minor Employees		All Central Government Employees		Govt. School Teachers	
	*NWR I(a)	(%)	NWRI	(%) NWRI	(%)	NWRI	(%)	NWRI	(%)	NWRI	(%)	NWRI	(%)	NWRI	(%)	
1952=100																
1953	101.5	1.5	101	1	101.5	1.5	101.5	1.5	-	-	-	-	-	-	-	
1957	108.5	7.0	102.9	1.8	107.8	6.2	107.8	6.2	111.2	11.2	116	16	113.8	13.8	113.9	13.9
1961	110.7	1.8	128.4	24.7	112.3	4.1	112.3	4.1	122.3	9.9	130.4	12.4	126.7	11.3	117.4	3.0
1965	116.3	5.0	132.8	3.4	118.2	5.2	118.2	5.2	122.3	0	130.4	0	126.7	0	117.4	0.0
1969	138.7	19.26	161.7	21.7	141.2	19.4	141.2	19.4	144.4	18	168	28.8	157.3	24.1	132.5	12.8
1973	168.1	21.9	199.7	23.5	169.9	20.3	169.9	20.3	163	12.8	194.2	15.5	180.1	1.1	144.3	8.9
1977	310.2	84.53	304	52.2	3085	81.1	308.8	81.7	209.2	28.3	266.1	37	240.4	33.4	184.7	27.9
1978=100																
1981	153.9	53.9	151	51	152.2	52.2	140.4	40.4	140.4	40.9	151.1	51.1	146.1	46.1	133.1	33.1
1985	273.5	77.7	203.9	35.0	247.9	62.8	190.7	35.8	264.4	87.6	303.2	100.6	284.3	94.5	247.3	85.8
1989	435.9	59.3	334.9	64.2	388.1	56.5	245.9	28.9	396	49.7	444.6	46.6	421.8	48.3	367.8	48.7
1993	803.7	84.3	528.7	57.8	685.8	76.7	365.9	48.8	622.1	57.0	728.3	63.8	675.5	60.1	567.1	54.1
1997	971.8	20.9	710.8	34.4	849.1	23.8	487.2	33.1	842.9	35.4	966.7	32.7	906.5	34.1	778.5	37.2
1999	1116	14.8	829.2	16.6	977.6	15.1	559.7	14.8	959.6	13.8	1029.1	6.4	1001.4	10.4	805.5	3.4

Source: Annual Reports 1973, 1975, 1986, 1999, Central Bank of Sri Lanka

\* NWRI - Nominal Wages Rate Index. (Central Bank Report-1996/97)

### 3.0 Livelihood Opportunities in the Agricultural Sector

Before the implementation of liberal economic policies, Sri Lanka's economy remained a predominantly agricultural one in terms of its contribution to *inter alia* GDP, share of employment and income. Government policies prior to 1977 emphasized the need for self-sufficiency in food and favoured rural agricultural development. The development of rural infrastructure, provision of various subsidies to rural agricultural producers, land reforms etc. were aimed at the development of rural agriculture.

By contrast, post 1977 economic reforms were implemented with the explicit objective of promoting urban industrialization. The establishment of Free Trade Zones was an integral part of this strategy. These industrial complexes were expected to attract surplus rural labour, thereby reducing the dependence on agriculture for employment and income. Encouragement of private investment in diverse fields was aimed at creating employment opportunities in non-agricultural sectors. Removal of restrictions on foreign exchange transactions and overseas travel was expected to facilitate mobility of labour beyond national borders.

Table 4

**Sectoral Distribution of Employment 1963-1997**

Area of Activity	1963	1973	1978/79	1981/82	1986/87	1996/97
Agriculture, forestry and fishing	53.0	54.5	48.3	51.2	47.7	37.7
Mining and quarrying	0.2	0.3	1.3	1.6	1.9	1.3
Manufacturing	7.3	9.3	13.8	12.4	13.4	16.8
Construction	1.9	1.8	5.3	5.2	5.7	6.8
Electricity, gas and water	0.6	0.3	0.5	0.3	0.6	0.7
Wholesale and retail trade	7.9	7.0	9.7	10.7	11.9	13.3
Public administration, defence and personal service	29.1	26.8	21.1	18.6	18.8	23.4

Source: *Consumer Finance and Socio Economic Survey 1996-1997, Central Bank of Sri Lanka*

Agricultural employment recorded its peak in 1973 when it accounted for 54.5% of the employed population. It recorded a significant decline immediately following the implementation of liberal economic policies, when it went down to 48.3% in 1978/79. In 1981/82, it once again recorded an upsurge. This is no doubt due to the implementation of the Mahaweli River Diversion Project under which over 100,000 families were settled in newly established agricultural settlements in the North-Central and Eastern Provinces. However, the proportion employed in the agricultural sector records a steady decline in the years that followed. In 1996/97, it had declined to 37.7%, which is a substantial reduction from a peak of 54.5% in 1973.

#### **4.0 Employment Opportunities in the Manufacturing and Service Sectors**

As *Table 4* shows, manufacturing represented an insignificant share of employment in the 1960's. For instance, it was only 7.3% in 1963. Employment in manufacturing increased marginally in the early 1970's. This no doubt was due to the Import-Substitution Industrialization Programme that was implemented at the time. Under this programme, many state enterprises were established with technical support from the Soviet bloc countries, i.e. natural rubber products, paper, steel, textiles, chemicals etc. Yet, industrial production remained a much less significant avenue of employment compared with the agriculture, public service and even the service sectors.

Following economic liberalization, manufacturing became an increasingly significant area of employment. It reached nearly 17% by the mid 1990's. Yet, it is noteworthy that service sector employment has increased more rapidly than manufacturing. Service sector employment accounted for at least 21% in 1996 compared with 17% in the manufacturing sector. If we assume that many of the state sector employees are also engaged in service sector activities, i.e. education, health etc., the service sector accounts for a very large proportion of employment.

Export promotion and import liberalization being integral aspects of the liberalization package, it is natural that such a policy creates an environment conducive for the expansion of a host of service sector

activities such as retail and wholesale trade, shipping and forwarding, banking, insurance, imports, construction, transportation, telecommunication etc. Most of these are urban activities and facilitate rural urban migration. On the other hand, manufacturing activities would have also expanded faster if more foreign investment flowed into the country. Continuing political instability in the country no doubt militated against a steady inflow of such investment. It should be noted that the JVP led political violence that engulfed the South in the late 1980's might have discouraged foreign investors from establishing manufacturing plants.

Expansion of the economy following economic liberalization was not adequate to absorb the large number of unemployed and under-employed persons. Though unemployment came down in the first five to six years after economic liberalization, it still remained relatively high (See *Table 5*). This level would have been even higher if not for the mass exodus of workers to the Middle East. It is also noteworthy that the level of unemployment among youth with higher educational qualifications remained high indicating that the products of local educational institutions were not readily absorbed into the expanding sectors of the economy. This points to the fact that it was the less educated, semi or unskilled labour who were more readily absorbed by the above sectors of the economy. This does not however mean that some youth with higher levels of educational attainment would not have taken up positions at lower levels of the occupational hierarchies though such positions would not have been acceptable to them in the past.

Table 5

**Unemployment by Educational Attainment 1963-2000**

Year and Source	Labour Force ('000)	Education Levels ('000)		
		< Grade 10	O/L	A/L and above
1963 Census of Population	3464	209 (6.3%)	56 (1.6%)	n.a.
1971 Census of Population	4488	715 (15.9%)	113 (2.5%)	11 (0.24%)
1978/79 Consumer Finance and Socio Economic Survey	5521	593 (10.74%)	234 (4.2%)	47 (0.85%)
1981 Census of Population	5016	743 (14.81%)	126 (2.5%)	26 (0.51%)
1981/82 Consumer Finance and Socio Economic Survey	5282	346 (6.5%)	200 (3.7%)	63 (1.19%)
1986/87 Consumer Finance and Socio Economic Survey	6238	562 (9.0%)	310 (4.96%)	95 (1.5%)
1990 Quarterly Labour Force Survey	6001	598 (9.96%)	222 (3.69%)	134 (2.23%)
1992 Quarterly Labour Force Survey	5808	530 (9.1%)	202 (3.47%)	114 (1.96%)
1994 Quarterly Labour Force Survey	6032	435 (7.21%)	231 (3.8%)	131 (2.17%)
1996 Quarterly Labour Force Survey	6242	387 (6.1%)	184 (2.9%)	134 (2.14%)
1998 Quarterly Labour Force Survey	6660	302 (4.53%)	165 (2.47%)	140 (2.1%)
2000 Quarterly Labour Force Survey	6867	258 (3.75%)	143 (2.08%)	123 (1.79%)

Source: *Annual Report 2000, Central Bank of Sri Lanka*

## 5.0 Value Added in Industrial Production and Other Sectors

Table 6 gives data on the distribution of value added in different sectors of industrial production and economic activity over the last several decades. Since the proportion of value added in a particular area indicates the net gain from production for the country, the trends in the above regard over time and across different sectors deserve attention and analysis.

As the data indicates, there are significant variations in value added not only over time but also across different sectors, though overall, there is a decline in value added after economic liberalization. It is also noteworthy that a significant decline in value added is recorded in sectors which account for a large proportion of economic production such as textiles and garments, food and beverages and petroleum and chemical products.

The decreasing value added in many production sectors is a reflection of the fact that the country is heavily dependent on import of raw materials, machinery and spare parts in the fast expanding areas of activity. This is particularly so in textile and garment production as well as in the petroleum and chemical industries. Given the fact that the raw materials needed in these areas cannot be produced in the country, the prospect of increasing the value added here is not very great. This has implications for the employment market as the demand for skilled workers is unlikely to increase significantly. Therefore it is necessary to take measures to increase value added at least in the most significant areas of economic activity such as garments and textiles.

Table 6

### Value Added in Industry and Other Sectors (Rs. Million)

Industrial Groups	1969		1973		1983		1989		1995		1999	
	Value of Production	Value Added										
Manufacture of Food, Beverages and Tobacco	641.8	487.8	919.6	680.9	6998	3276	18458	10168	54927	29507	94687	44503
Textiles, Wearing Apparel and Leather Industries	267.1	146.9	420.8	192.9	5136	759	22072	5746	104602	24859	178844	55263
Manufacture of Wood and Wood Products including Furniture	18.0	10.4	43.0	17.9	522	284	667	496	1929	1177	2715	1390
Manufacture of Paper and Paper Products	62.3	21.8	101.0	39.2	901	388	1456	745	4595	2458	5854	2664
Manufacture of Chemicals, Petroleum, Coal, Rubber and Plastics Products	249.8	137.4	543.4	191.4	11888	1608	12041	3531	38321	6898	62590	13832
Manufacture of non-Metallic Mineral Products except Petroleum and Coal	123.3	69.0	190.0	125.9	1468	866	6007	1218	16740	9726	26830	13817
Basic Metal Products	28.8	4.8	53.2	8.2	302	81	792	77	1736	347	3046	777
Manufacture of Fabricated Metal Products, Machinery and Transport Equipment	226.2	81.4	347.1	140.1	1129	684	3182	1969	7977	4547	14305	7367
Manufactured Products *N.E.S.	9.5	2.5	33.2	13.5	90	41	231	117	5271	2319	9002	3799
Total	1626.8	962.0	2651.3	1410.0	28434	7987	64907	24067	236098	81838	397879	143412

Source: Annual Reports 1973, 1992, 1999, Central Bank of Sri Lanka

\* N.E.S. – Not elsewhere stated

## 6.0 Changing Patterns of Employment and Unemployment

There have emerged some significant patterns in the employment structure of the country after economic liberalization. These relate to changing employment status, female participation in the labour force etc.

Table 7 provides data on the employment status of economically active adult men and women. If we look at the first column, more males than females have always been employers. The proportions, however are not very large. On the other hand, the proportion of females in the 'Paid Employee' category has always been higher than that of males. It is noteworthy that the proportion of females in the category of 'Paid Employees' has recorded a decline after economic liberalization. The relative proportion remains higher for males as regards 'Own Account Workers' or the self-employed; males have always been higher in this category. As regards the category of 'Unpaid Family Workers', adult females have constituted a much higher proportion than their male counterparts. It is also noteworthy that the rate of unemployment among females has remained consistently higher, both before and after economic liberalization.

Table 7

### Employment Status by Gender (as a % of total employed)

Year	Employers		Paid Employees		Own Account Workers		Unpaid Family Workers		Regular Employees		Casual Employees		Contractual Employees		Self Employed	
	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F
1953	3.7	1.3	59.4	66.9	33.6	18.9	3.3	12.9	-	-	-	-	-	-	-	-
1963	2.9	0.5	60.6	82.2	31.3	8.9	4.7	6.7	-	-	-	-	-	-	-	-
1971	3.8	0.8	63.7	76.9	28.9	11.2	3.5	11.2	-	-	-	-	-	-	-	-
1973	1.68	0.83	57.17	73.39	36.12	14.8	-	-	-	-	-	-	-	-	-	-
1981	2.4	1.2	62.3	79.4	32.5	12.9	2.8	6.5	-	-	-	-	-	-	-	-
1985/86	3.0	0.9	57.2	58.4	29.6	17.7	9.2	23.0	-	-	-	-	-	-	-	-
1986/87	1.3	0.3	-	-	24.4	5.5	4.9	5.3	17.7	12.0	20.7	7.9	-	-	-	-
1990	4.4	1.2	59.5	55.6	28.4	18.1	7.7	25.1	-	-	-	-	-	-	-	-
1996/97	1.2	0.2	-	-	23.1	6.9	3.5	7.1	13.5	9.3	24.7	8.6	1.5	0.4	-	-

Sources: Census 1953,1963,1971,1981

Consumer Finance and Socio Economic Surveys 1973, 1986/87,1996/97

Labour Force and Socio Economic Survey 1985-86

Quarterly Labour Force Survey 1990

Table 8 gives some time series data on the rates of unemployment by gender. As is evident, the overall unemployment rate has declined significantly after economic liberalization. The declining trend has continued in the 1990's to reach 7.7% of the labour force in 2000.

The above trend has been true for both men and women. While the rate of unemployment has consistently been higher among females, the gap has narrowed significantly in the last few years.

Table 8

**Unemployment by Gender**

Year and Source	Labour Force ('000)	Unemployed ('000)	Unemployment Rate %	As a % of Labour Force by Sex	
				Male	Female
1963 Census of Population	3464	265	16.6	15.3	20.0
1968/69 Socio Economic Survey	4169	559	14.3	11.2	20.1
1971 Census of Population	4488	839	18.7	14.3	31.1
1973 Survey of Labour Force Participation Rates	4560	793	18.3	13.7	26.8
1975 Land and Labour Utilization Survey	4957	984	19.7	14.3	33.1
1978/79 Consumer Finance and Socio Economic Survey	5521	874	14.8	09.2	24.9
1981 Census of Population	5016	895	17.9	13.3	31.0
1981/82 Consumer Finance and Socio Economic Survey	5282	609	11.7	7.8	21.3
1985/86 Labour Force and Socio Economic Survey	5976	840	14.1	10.8	20.8
1986/87 Consumer Finance and Socio Economic Survey	6238	967	15.5	11.3	23.6
1990 Quarterly Labour Force Survey	6001	954	15.9	7.6	20.2
1992 Quarterly Labour Force Survey	5808	846	14.6	9.4	23.1
1994 Quarterly Labour Force Survey	6079	797	13.1	9.7	20.1
1996 Quarterly Labour Force Survey	6242	705	11.3	8.2	17.7
1998 Quarterly Labour Force Survey	6660	611	9.2	6.5	14.0
2000 Quarterly Labour Force Survey	6867	524	7.7	5.9	11.0

Source: Annual Report 2000, Central Bank of Sri Lanka

Table 9

**Labour Force Estimates 1946-2000**

Year and Source	Labour Force Participation (In thousands)			Crude Participation Rate (%)		
	Total	Male	Female	Total	Male	Female
1. 1946 Census of Population	2611	2041	570	39.2	57.8	18.2
2. 1953 Census of Population	2993	2268	724	37.0	53.1	18.9
3. 1963 Census of Population	3464	2742	722	32.7	49.8	14.2
4. 1968 Labour Force Survey	4150	3156	994	34.6	50.7	17.2
5. 1969/70 Socio-economic Survey	4169	3124	1045	38.6	57.3	19.5
6. 1971 Census of Population	4488	3312	1176	35.4	50.7	19.1
7. 1973 Survey of Labour Force Participation Rate	4560	3267	1293	34.4	48.5	20.2
8. 1975 Land and Labour Utilization Survey	4957	3490	1467	36.5	50.2	22.1
9. 1978/79 Consumer Finance and Socio-economic Survey	5521	3712	1809	38.0	50.4	26.2
10. 1980/81 Socio-economic Survey	5715	4109	1606	37.3	53.1	21.2
11. 1981 Census of Population	5016	3736	1280	33.8	49.4	17.1
12. 1978/79 Consumer Finance and Socio-economic Survey	5282	3843	1439	34.3	49.7	19.4
13. 1985/86 Labour Force and Socio-economic Survey	5972	4015	1957	38.9	52.7	25.4
14. 1986/87 Consumer Finance and Socio-economic Survey	6238	3225	3013	38.1	51.7	25.4
15. 1992 Quarterly Labour Force Survey	5808	3939	1869	48.2	66.5	31.7
16. 1996 Quarterly Labour Force Survey	6242	4201	2041	48.7	65.9	31.6
17. 2000 Quarterly Labour Force Survey	6867	4521	2346	50.7	67.3	34.0

Sources: Annual Reports 1973, 1975, 1986, 2000, Central Bank of Sri Lanka

*A Statistical Overview of Employment and Unemployment Trends, Statistical Abstract, Dept of Census and Statistics, 1992*

Labour force participation rates have remained consistently divergent for men and women for many years. As Table 9 shows, male labour force participation has remained around 50%, both before and after economic liberalization. On the other hand, female labour force participation rate remained much lower but had shown an upward trend even before economic liberalization. In fact, by 1975, the rate had increased to 22% while it was only around 15% in the 1960's. In the immediate aftermath of economic

liberalization, the rate declined to reach 17% in 1981. This may be attributed to loss of employment due to the rapid decline of the handloom textile industry following import liberalization leading to the import of cheaper textiles. However, by 1986, the rate of participation had increased to about 25%. Once again, the gender gaps in labour force participation have narrowed significantly after economic liberalization.

Another important pattern in the employment structure of the country is the increase in casual and self-employment following economic liberalization. Many employers in the service sector industries such as construction, tourism, transport etc. prefer to employ workers on a casual basis so that they do not have to honour long-term social security obligations. These are mostly unskilled or semi-skilled workers and therefore can be easily replaced in a labour market characterized by a high rate of unemployment, as in the case of many construction projects undertaken by small firms which employ workers on a project basis and release them once the construction project is over.

As *Table 10* shows, before economic liberalization in 1973, the proportion of economically active population in the category of 'Casual Employees' was around 21%. By 1996/97, the proportion was as high as 30%. This pattern is repeated in urban, rural and estate sectors. It is more pronounced in the estate sector where it doubled between 1978 and 1997. In the urban sector, casual employment increased by 50%. On the other hand, the 'Regular Employees' category contracted substantially over the same period. In the urban sector, the proportion declined from 37% in 1978 to 27% in 1997. In the estate sector, the decline was from 80% to 62%, whereas, in the rural sector, where it was only 20% in 1978, the decline was not so dramatic. It was 16% in 1997.

It is significant that corresponding to the changes outlined above, there has been a substantial increase in self-employment after liberalization. This is also a reflection of the expansion of the informal sector during the same period. As already mentioned, casual employment also increased during the same period. Some of these casual workers are operating in the informal sector as well. Since large-scale national surveys do not clearly identify informal sector workers, it is not possible to estimate the changes in this sector in a precise manner. Yet, looking at the data on casual and self-employment, it may be concluded that the informal sector recorded a substantial expansion after economic liberalization.

Table 10

**Changes in Employment Status by Sector (%)**

Sector	Year	Total	Self Employment	Employer	Employee	Unpaid Family Worker	Regular Employees	Casual Employees	Contractual Employees
Urban	1973	31.89	7.56	0.68	23.23	0.41	-	-	-
	1978/79	79.28	14.55	2.01	-	5.07	37.41	20.24	-
	1982	85.8	16.2	1.9	-	4.1	34.5	29.1	-
	1996/97	86.6	22.0	2.3	-	3.3	27.1	30.1	1.8
Rural	1973	35.44	14.32	0.56	17.14	3.42	-	-	-
	1978/79	85.43	24.58	1.24	-	15.51	20.21	23.89	-
	1982	88.0	23.9	1.0	-	9.5	19.4	33.3	-
	1996/97	89.8	29.5	1.2	-	11.1	16.1	30.1	1.8
Estate	1973	96.45	1.05	0.45	94.79	0.15	-	-	-
	1978/79	94.43	0.88	0	-	0.41	80.08	13.0	-
	1982	95.0	1.4	1.0	-	0.5	63.7	28.5	-
	1996/97	93.1	2.9	-	-	0.5	62.8	26.7	0.2
Total	1973	39.00	12.07	0.57	23.74	2.60	-	-	-
	1978/79	85.25	19.58	1.25	-	11.48	31.13	21.81	-
	1982	88.3	20.1	1.9	-	7.5	26.8	32.0	-
	1996/97	89.6	26.9	1.3	-	9.5	20.4	29.8	1.7

Source: Consumer Finance and Socio-economic Surveys 1973, 1978/79, 1982, 1996/97 Central Bank of Sri Lanka

## 7.0 Unemployment and Under-employment

Unemployment was a major political issue at the 1977 general elections. This was not surprising as the rate of unemployment stood at about 20% of the labour force then. One of the key promises of the major opposition party at the time was the creation of employment, particularly for youth. These jobs were to be found mostly in the industrial sectors, particularly in the FTZs. With the increasing availability of employment opportunities, both unemployment and under-employment rates were expected to come down. In fact, as *Tables 11* and *12* indicate the unemployment rate came down steadily after economic liberalization, from a high of about 20% in 1973 to about 14% in 1978. The unemployment rate came down further to about 10% in 1996.

The reduction in the rate of unemployment after economic liberalization cannot be attributed entirely to the creation of employment in the local economy. As is well known, foreign employment opportunities became widely available after 1977 due to increasing demand for unskilled and semi-skilled workers in the Middle East. It is estimated that today, over a million Sri Lankan workers are employed in the Middle East. This is a very large proportion of the labour force. Since they are not in the country, it is likely that they are not enumerated in the surveys conducted by the Census Department and the Central Bank.

The unemployment rate continues to be high among those with higher educational qualifications. This is evident from the data in *Table 11*.

Table 11

**Levels of Unemployment by Level of Education**

<b>Educational Level</b>	<b>1973</b>	<b>1978</b>	<b>1996</b>
No Schooling (Illiterate)	8.4	3.0	0.7
No Schooling (Literate)	7.8	2.8	0.0
Primary	14.1	6.7	2.3
Secondary	37.1	21.7	12.7
G.C.E.(O/L)	47.4	21.3	14.2
G.C.E.(A/L)	44.4	36.5	22.9
University Degree	16.2	5.3	9.3

Source: *Consumer Finance and Socio-economic Surveys, 1973, 1978, 1996, Central Bank of Sri Lanka*

It is clear from the above Table that the unemployment rate has come down in all educational categories. The highest rate of unemployment is recorded in the GCE (A/L) category with nearly 23% of them being unemployed. In the case of university graduates, the rate came down from a high of 16% in 1973 to 5% in 1978, to rise again to 9.3% in 1996. The figures for university graduates can be deceptive as successive governments took special care to keep their rate of unemployment to a bare minimum as it is a politically explosive issue. Special graduate placement schemes in the public sector often absorbed unemployed graduates. It is also noteworthy that many youths with Advanced Level qualifications found employment in public sector organizations through political channels. This no doubt helped keep unemployment levels down among those with Advanced Level qualifications. However, the unemployment rate among university graduates must be very high today as no graduates were recruited *en masse* in recent years due to financial and other constraints. As we have already seen, public sector employment has not contracted in recent years inspite of the emphasis placed on private sector job creation.

As regards under-employment, there is a marginal reduction in both urban and rural areas though it has recorded a substantial reduction in the estate sector. In the estate sector, there has been an attempt to rationalize labour use after the privatization of plantation management. Many under-employed workers in the estate sector have been able to find work/alternative employment in urban areas. In more recent years, many younger women have also found employment abroad, allowing those who are left behind to have more work opportunities on the plantations. It is also noteworthy that small holding farmers in the adjacent villages offer higher daily wages than plantation companies which are constrained by greater overhead costs and longer term statutory obligations to their employees.

Table 12

**Rates of Under-employment by Sector**

<b>Sector</b>	<b>1978/79</b>	<b>1981/82</b>	<b>1986/87</b>	<b>1996/97</b>
Urban	12.8	12.8	14.7	11.8
Rural	23.5	20.6	24.0	18.1
Estate	33.4	26.3	19.4	19.4
All Sectors	22.8	19.6	21.7	18.5

Source: *Consumer Finance and Socio Economic Surveys 1981/82, 1996/97, Central Bank of Sri Lanka*

**8.0 Child and Old Age Dependency**

As *Table 13* shows, the overall dependency ratio in the country has declined steadily over the last several decades. Rapid population growth after 1946 due to a high birth rate and declining infant and adult mortality resulted in a rapid increase in the size of the dependent population. For instance, the dependency ratio in 1963 was as high as 91%. However, these figures should not be treated mechanically as, in a developing country situation where a majority of people are engaged in agriculture and other self employment activities, not many people retire when they reach the statutory retiring age which is usually applicable to salaried public servants who constitute a minority of the labour force. It is also noteworthy that given the high school drop-out rate, child labour would not have been uncommon, particularly in rural areas and urban slums.

It is however important to note that the dependency ratio has declined steadily in the last few decades. This is a reflection of the phenomenon referred to as the 'ageing of the population'. A significant pattern here is that the child dependency ratio has declined significantly, while old age dependency has increased over the same period. This is no doubt also a reflection of the declining or already low birth rates in the country. It is important to note that more and more children stay longer in the education system without joining the labour force prematurely.

It can be concluded from the above that the declining birth rate has contributed to a significant reduction in the child dependency ratio, leading to an overall decline in the dependency ratio in the country. However, the decline has been checked to a considerable extent by the growing old age dependency which is the result of the gradual ageing of the population.

Table 13

**Child and Old Age Dependency Ratios**

Year	Sampled child population	Sampled elderly population	Sampled potentially employable population	Child dependency rate (%)	Old age dependency rate (%)	Total dependency rate (%)
1963	11622	2100	14946	77.7	14.0	91.7
1973	10971	2400	15216	72.1	15.8	87.9
1978/79	14224	3681	23659	60.1	15.6	75.7
1981/82	14081	3701	23669	59.5	15.6	75.1
1986/87	11105	4002	20906	53.5	19.1	72.2
1996/97	10046	5304	24578	40.9	21.6	62.5

Source: Consumer Finance and Socio Economic Survey 1996/97, Central Bank of Sri Lanka

**9.0 Foreign Employment Opportunities**

As already mentioned, foreign employment opportunities expanded rapidly after economic liberalization. While a booming oil economy in the Middle East led to a rapid expansion of the economies there, resulting in unprecedented prosperity for a large part of the indigenous population, the consequent increase in the demand for labour opened up employment opportunities for workers from Asian countries like Sri Lanka. Though it was insignificant as a source of wage employment before economic liberalization particularly for women, it became the most significant, single source of employment within several years after economic liberalization. For instance in 1975, only 1039 persons had migrated abroad for employment (See *Table 14*). Of them, only a small number of workers were female. In a few years following economic liberalization, numbers increased rapidly. With increasing numbers, the gap between men and women in terms of proportion also began to narrow down. In the early 1990's the proportion of female workers began to far outstrip that of male workers.

Foreign employment became attractive due to two main reasons. Firstly, the wages paid in the host country were much higher than those paid to comparable categories of workers in Sri Lanka. Secondly, many of the females migrating for foreign employment were either unemployed or casual workers. They were attracted to lucrative foreign employment which allowed them to make substantial savings or remit money to their families on a regular basis while being employed abroad.

Most of the female migrants are employed as domestic aids in Middle-East homes. This sort of unskilled, low status jobs are not attractive to young women with higher educational qualifications who naturally look for high status, white collar jobs with regular pay and other social security benefits. Thus, even if a few young women with higher educational qualifications migrate to the Middle East, they would consider themselves as grossly under-employed even though the wages they earn abroad may be substantial. On the other hand, salaried white-collar jobs like teaching in Sri Lanka carry comparable or higher wages than unskilled work in the Middle East.

Table 14

**Migration for Employment in Foreign Countries**

Period	Male	Female	Total
1975	-	-	1039
1976	524	5	529
1977	5402	231	5633
1980	14101	14543	28644
1995	46021	126468	172489
1999	62949	115103	178052

Sources: *Statistical Handbook on Migration – 1999, Sri Lanka Bureau of Foreign Employment*

*Annual Report 2000, Central Bank of Sri Lanka*

As the data in *Table 14* shows, about 65% of the migrants in 1999 were females. It is also evident that the proportion of male migrants has also increased over the last several years.

As mentioned earlier, Sri Lankan migrant workers mostly fall into the 'Unskilled' category. Though there is a significant increase in the proportion of skilled workers from about 15% in the mid 1990's to about 20% towards the end of the decade, it is still a relatively smaller proportion. In other words, migration overseas for employment is still not a significant alternative for young females with higher educational qualifications.

Table 15

**Composition of Migrant Labour**

Item	1995	1996	1997	1998	1999(a)
Employment placement					
<i>By source</i>	172489	162576	150283	159816	178052
Licensed agents	118692	115446	115043	112539	120218
Other	53797	47130	35240	47277	57834
<i>By sex</i>					
Male	46021	42112	37552	53867	62949
Female	126468	120464	112731	105949	115103
<i>By man power category</i>					
Housemaids	113860	110479	99429	85349	87191
Skilled labour	27165	24447	24578	31787	37145
Unskilled labour	23497	21735	20485	34109	43153
Licensed employment agencies (Year end)	477	464	520	385	500
Number of training centres					
<i>By *SLBFE</i>	12	5	15	17	20
<i>By private agents</i>	-	22	22	28	29

Source: *Annual Reports 1999, Central Bank of Sri Lanka*

\* SLBFE – Sri Lanka Bureau of Foreign Employment, Colombo

Given the sheer numbers involved, migration of labour no doubt has a major impact on livelihood opportunities of households, in particular, on women. It is certainly an option which many youths consider today, particularly those who hail from low income families and remain unemployed. On the other hand, given the cyclical nature of overseas migration, those migrants who happened to be in Sri Lanka at the time of a household survey are likely to be classified as unemployed, thereby artificially inflating the figures of unemployment. Given the fact that more than a million workers are employed overseas at any point in time, the numbers who have returned to Sri Lanka temporarily between two contracts are likely to be substantial, perhaps running into a couple of hundred thousand persons.

Migration for overseas employment does not seem to be a significant livelihood option for unskilled male youths. Most of the Sri Lankan male youth migrating overseas appear to be skilled workers. Therefore, those male youths who wish to secure overseas employment need to acquire marketable skills such as those of the construction industry or the hospitality trade. As indicated above, female youths wishing to migrate overseas can aspire to do so without acquiring any specialized skill.

#### **10.0 Unskilled and Semi-skilled Labour Markets**

As mentioned before, economic liberalization in 1977 leading to an expansion of the economy resulted in a significant reduction of unemployment in the country. On the other hand, much of the employment created was in unskilled and semi-skilled categories. As stated earlier, this is true for both overseas employment as well as FTZ factory work, which constituted the bulk of the work made available for women. As for men, the lower rung jobs in the construction industry did not require specialized training. Many young men also found employment in the hospitality trade, security services, retail trade and personal services. These jobs are semi-skilled at best.

Industries that were established after economic liberalization were mostly in the area of garment production. Investors with long term interests who would have established industries requiring skilled labour such as manufacture of electrical goods, machine tools, electronics, motor vehicles etc. did not come to Sri Lanka at least partly due to political instability and the worsening security situation in the country, and partly due to considerations of comparative advantage. The creation of jobs in such fields would have necessitated the provision of skills training in diverse fields. On the other hand, such industries would have been more stable over time providing opportunities to youth for long-term careers or professional development. The areas where employment opportunities became available for youth after liberalization did not offer long term career paths leading to specialized skills development and professional advancement. In fact, many young women employed in the FTZ factories and in overseas labour markets consider such employment as transitory and return to their villages after a relatively short spell of employment to get married and settle down as housewives or 'Unpaid Family Workers'. It is more than likely that these women who are still in the economically productive age do not actively look for

employment and therefore help artificially deflate female labour force participation figures. Their impact on these figures can be very significant due to their sheer numbers. Such important aspects of the labour market are not highlighted by existing national data sets produced by the Department of Census and Statistics or the Central Bank.

### **11.0 Unequal Access to Employment Opportunities in the Private Sector**

As regards employment opportunities for youth coming from diverse backgrounds, the corporate private sector that expanded after economic liberalization cannot be considered as a monolithic entity. It is true that many of the private sector establishments that came into being created many unskilled and semi-skilled job opportunities. While some of these are regular jobs, others are more casual in nature as in the case of those in the construction industry. On the other hand, the expansion of the private sector also created opportunities at higher levels such as junior and senior managerial positions in addition to a host of white-collar jobs. This is particularly true in the case of city-based service sector firms in areas like banking, export-import trade, insurance, real estate, plantation industry, hospitality, advertising, telecommunication and construction industry. Given the long-standing and persisting corporate culture in Sri Lanka, the owners and managers of private firms, usually coming from westernized, urban, upper and middle class families, have tended to recruit English speaking youths who have attended prestigious urban schools or private colleges, to managerial and white collar jobs. There is no shortage of such youths in the country today as more and more of them have come into the labour market after economic liberalization, thanks to the large number of international schools and private colleges that were established in urban areas. As is well known, affluent parents have given their children the type of English education demanded by the managers of private sector firms, either in the country or overseas. Monolingual Swabhasha-educated youth with educational certificates secured from the public education system can hardly compete for white-collar jobs in the private corporate sector and therefore, tend to pin their hopes on white-collar jobs in the state sector. No wonder anti-privatization slogans figure prominently in the political protest campaigns of university student organizations. When state sector enterprises are privatized, their new owners and managers hailing from urban elite families are more than likely to change the pre-existing recruitment policies. This appears to be the experience in many enterprises privatized after liberalization.

Sri Lanka's large plantations were in the hands of the westernized colonial elite before they were nationalized in the early 1970's. Once they were converted into state-owned corporations, their managers who were usually political appointees or public officials tended to apply public sector recruitment policies. In fact, many university graduates hailing from ordinary rural families secured managerial positions in the new corporations. The same plantations were privatized in the early 1990's and their new owners or managers are large, well-established private firms in Colombo. There is considerable evidence that the new owners have changed the recruitment policies again; the products of

the public education system are by and large sidelined to accommodate English-speaking youth hailing from more affluent urban families. A recent small-scale sample survey involving a number of public and private sector establishments conducted by the author also point to a similar pattern in their recruitment practices.

Table 16

**Employment Status by Level of Educational Attainment 1978-1996**

Sector	Level of Educational Attainment																				
	No schooling (illiterate)		No schooling (literate)		Primary		Secondary		G.C.E. O/L		G.C.E. A/L		Undergraduate		Graduate		Other		Total		
	1978	1996	1978	1996	1978	1996	1978	1996	1978	1996	1978	1996	1978	1996	1978	1996	1978	1996	1978	1996	
Self-employed	14.4	23.4	33.1	20.3	24.0	33.7	21.3	27.0	15.3	26.4	5.0	14.2	10.0	11.5	1.5	8.5	22.7	-	-	-	-
Employer	0.25	0.4	0.9	1.7	1.6	0.8	1.6	1.3	2.1	2.0	2.6	1.4	5.0	1.6	2.2	2.4	-	-	-	-	
Unpaid family worker	12.9	11.3	5.9	11.9	12.8	9.9	12.8	11.5	3.7	7.7	2.6	4.2	0.0	3.3	0.0	0.4	4.5	-	-	-	-
Regular employment	35.8	21.0	24	16.9	28.2	12.5	23.3	13.3	23.3	29.2	50.5	45.6	30.0	29.5	90.9	73.2	63.6	-	-	-	-
Casual employment	33.3	41.9	32.7	47.5	27.0	38.7	19.5	32.9	19.5	18.4	2.6	10.5	5.0	9.8	0.0	3.3	4.5	-	-	-	-
Contract	-	1.3	-	1.7	-	2	78.7	1.4	-	2.1	-	1.2	-	1.6	-	2.8	-	-	-	-	-
Total	97.0	99.3	97.2	100	93.3	97.7	21.3	87.3	78.7	85.8	63.5	77.1	50.0	57.4	94.7	90.7	95.4	-	85.2	89.6	
Unemployed/Not available for work	3.3	0.7	2.8	0.0	6.7	2.3	-	12.7	21.3	14.2	36.5	22.9	50.0	42.6	5.3	9.3	4.6	-	14.8	10.4	

Source: Consumer Finance and Socio-economic Surveys 1978, 1996/1997, Central Bank of Sri Lanka

What is the relationship between the level of educational attainment and the employment status of the adult population? Has there been a change in the above after economic liberalization? *Table 16* provides data on employment status of the employed population by level of educational attainment. The Table gives data for years 1978 and 1996. Since comparable data cannot be found for earlier years, we have to use 1978 data to determine the situation around the time of economic liberalization. 1996 data indicates the changes that have taken place after liberalization. Some data drawn from the 1973 Consumer Finance Survey can also be made use of in order to compare pre and post-liberalization situations (*Table 17*).

Table 17

**Employment Status by Level of Educational Attainment Before Economic Liberalization - 1973**

Educational Level	As a percentage of the work force					As a percentage of the population				
	Self employed	Employer	Employee	Unpaid family worker	Total employed	Self employed	Employer	Employee	Unpaid family worker	Total employed
No schooling (Illiterate)	24.4	0.6	60.6	6.0	91.6	3.9	0.1	9.7	1.0	14.7
No schooling (Literate)	34.1	0.6	54.0	4.5	93.2	18.1	0.3	28.6	2.4	49.4
Primary	29.5	1.2	49.3	5.9	85.9	10.1	0.4	16.8	2.0	29.3
Secondary	21.3	1.2	35.1	5.3	62.9	8.7	0.5	14.4	2.2	25.8
Passed GCE O/L / SSC	8.0	1.2	41.4	2.0	52.6	6.4	0.9	33.1	1.6	42.0
Passed GCE A/L / HSC	2.5	1.2	51.9	-	55.6	1.8	0.9	38.2	-	40.9
Passed degree	2.7	2.7	78.4	-	83.8	2.4	2.4	70.8	-	75.6
Other	-	-	-	-	-	-	-	-	-	-
Total	23.5	1.1	46.3	5.1	76.0	7.9	0.4	15.5	1.7	25.5

Source: Survey of Sri Lanka's Consumer Finance 1973, Central Bank of Sri Lanka

When comparing the two time periods in relation to types of employment, there are some clear patterns emerging from the data. Firstly, the category of 'Self-employed' has increased remarkably among those with low levels of educational attainment. Even for graduates, self-employment has become more acceptable; their proportion rising from 1.5% to 8.5%. Secondly, casual employment has become widely prevalent in almost all educational groups. The increase is more marked among those with lower levels of educational attainment. Thirdly, regular paid employment has become much less prevalent in lower educational categories. The only exception is in the case of those with GCE (O/L) qualifications where there is an insignificant decline from 19.5% to 18.4%. Finally, there is no clear pattern of change with respect to the category of 'Unpaid Family Workers'. There is some fluctuation in the proportion among those with lower educational levels; between nearly 13% to about 6%. In some cases there has been a marginal increase, whereas in others, the change has been a marginal decrease. The category is insignificant among people with a high level of educational attainment.

The only group of people among whom casual employment has not shown a rise while regular employment has increased are those with GCE (O/L) qualifications. This is no doubt due to the expansion of the security forces and the FTZ work force during the period. These have been the two most widely accessible sources of regular employment for those with GCE (O/L) qualifications. Even for university graduates, regular employment has become somewhat less accessible.

As mentioned earlier, there is no comparable data for the early 1970's as the Consumer Finance and Socio-economic Surveys conducted at the time did not use detailed employment status categories. For instance, paid employees were not classified into 'Regular' and 'Casual' employment categories. However, some of the categories used are comparable to later years.

If we consider the 'No Schooling Illiterate' category first, it is evident that 24% of them were self-employed in 1973. This figure initially comes down sharply in 1978, following economic liberalization, once again to rise to 23% by 1996. As for the category of 'No Schooling but Literate', self-employment represented 34% in 1973. This figure only marginally declines to 33% by 1978 and then goes down further to 20% by 1996. The proportion of self-employed among those with primary education was also high in 1973, i.e. 29.5%. This figure comes down to 24% by 1978 to rise again to 33.7% by 1996.

How do we explain very high rates of self-employment in the early 1970's? It is necessary to recall that the unemployment rate was high at the time and that the private sector was stagnant due to the state dominated economic policy in the early 1970's. It is reasonable to assume that many people with little education were compelled to engage in self-employment activities. Though unemployment was even greater among those with higher educational qualifications, many of them preferred to remain unemployed rather than take up low status work. Thus, one could argue that high rates of self-employment in the early 70's were supply driven. It should also be noted that, given the import restrictions prevalent at the time, many people could engage in cottage type industries producing a host of household goods, including handlooms, which were popular among rural women. As mentioned earlier, many of these industries were adversely affected by cheap imports. It is against this background that we have to understand the initial decline in self-employment by the late 1970's. On the other hand, liberal economic policy-led private sector oriented economic growth that followed also encouraged self-employment activities, no doubt of a different sort. Liberalization of imports encouraged retail trade, transportation, mechanical and electrical repairs etc. A rapidly expanding construction industry which required supplies of locally produced building materials led to the mushrooming of small-scale industries in all parts of the country such as timber sawing, brick making, sand-mining, lime burning, metal production etc.

What we observe after economic liberalization is an extension of self-employment into higher educational categories. In the early 1970's, only a small percentage of people with GCE (O/L) qualifications and above were engaged in self-employment activities. After economic liberalization more and more of those with higher educational certificates have tended to take up self-employment activities. There are several reasons for this upsurge in self-employment. Firstly, self-employment after 1977 was largely demand driven and therefore became more lucrative. This no doubt made self-employment more attractive to people even with higher educational attainments. As we have discussed elsewhere, (Hettige, 1996), greater consumption opportunities in a liberal economic environment encouraged many people to disregard status considerations in favour of higher incomes. Secondly, post 1977 regimes offered many incentives to encourage youths to take up self-employment activities, such as credit facilities, vocational training etc. Thirdly, some migrants returning from overseas employment invested their savings in self-employment projects. Even in the field of education, self-employment became a viable option for educated youth. As is well known, giving private tuition has become one of the most lucrative activities in

recent years. It seems reasonable to assume that many of the self-employed graduates, undergraduates and even those with only A/L qualifications are in fact giving private tuition to make a living. This was not a very attractive proposition before economic liberalization when not many parents had money to pay for private tuition.

As mentioned earlier, the 'Unpaid Family Worker' category did not show a clear pattern of change between 1978 and 1996. However, when these figures are compared with those for 1973, there is a very clear increase over time in almost all educational categories. This is no doubt linked to the expansion of self-employment activities already discussed. It should be noted that many of the self-employment activities established after economic liberalization are relatively more lucrative enterprises requiring the participation of several family members, including paid casual or regular employees. Family members engaged in such work are likely to be classified as 'Unpaid Family Workers' as they are not paid wages or salaries. Nevertheless, many of them are in fact gainfully employed. It is also noteworthy that agriculture continues to be an important economic activity in rural areas. There is in fact a resurgence of smallholder cash crop farming in many parts of the country, including tea cultivation in the wet zone villages. Given the shortage of labour in these areas due to migration and urban industrial employment, smallholder families are compelled to rely more on family labour. This no doubt contributes to the swelling of the category of 'Unpaid Family Workers'.

## 12.0 Conclusion

This report has examined the shifts in the livelihood structure of Sri Lanka following economic liberalization. Different dimensions of the shifts were examined in a number of sections.

The analysis of available data leads to the conclusion that the relative significance of private sector employment has increased, though the public sector remains a significant source of employment. The increasing significance of private sector employment however has not been matched by an equally significant increase in wages. The continuing high rate of unemployment and the continuing dominance of unskilled and semi-skilled employment have helped maintain wages at a lower level. Wages in the public sector have not stagnated; in fact, they have increased faster than in the private sector. Wages in the agricultural sector have also increased, indicating the difficulties in retaining or attracting labour for agricultural work. Though we do not have published data, individual company figures show that wages and salaries of higher, managerial grades in the private sector have increased substantially in relative and absolute terms (Hettige, 1996).

Restructuring of the economy following economic liberalization has led to a decline in employment in the agricultural sector, accompanied by a significant increase in employment in the industrial sector. Growth in employment is even more pronounced in the service sector. The expansion of the manufacturing

sector has not been accompanied by a significant increase in the value added, pointing to an increased dependence on import of raw materials and intermediate goods after economic liberalization.

Changes in the employment patterns after economic liberalization are significant. The most noteworthy of these are:

(a) Continued male domination of the categories of employers and the self-employed. Females continued to suffer from higher rates of unemployment and dominate the category of 'Unpaid Family Workers'. Though labour force participation among women has increased after economic liberalization, it is still much lower than that of males. (b) The increase in self-employment and casual employment. It is also significant that there is an overall decline in the unemployment rate though it still remains high among youth with educational qualifications.

Looking at child and old age dependency ratios, the decline in the former is remarkable though it is very much a reflection of the demographic changes that have taken place. There is a substantial increase in old age dependency over the last several decades.

As is evident from the data given in the report, there has been a rapid increase in the opportunities for employment abroad after economic liberalization. However, the largest proportion of opportunities has been in the area of unskilled employment for women.

Given the nature of the industrialization process and the expansion of the service sector, many of the new employment opportunities created after economic liberalization have been of either an unskilled or semi-skilled nature.

Finally, the relationship between the expansion of the private sector and the type of employment opportunities created by it is a complex one. On the one hand, the private sector has created many unskilled and semi-skilled jobs. On the other hand it also created many lucrative and prestigious white collar jobs. Yet, access to the latter type of employment has been by and large restricted to the more privileged, urban youth hailing from upper and middle class families.

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