

**THE SMALL OPEN LOW WAGE EXPORT BASED ECONOMY :
IMPLICATIONS ON THE BASIS OF CURRENT
COALITION AND INFORMAL SECTOR THEORY**

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The small open economy which bases its development on export led growth and which attracts investment by means of low wages is an attractive model of wide acceptance. Its logical implications, given realistic conditions, are explored as a model theory. The particular model extensions worked out are based on coalition formation theory as developed by Mancur Olsen and an extension of De Soto's analysis of the informal sector, as may be expected in a labour surplus situation in a low wage developing economy. The analysis is developed as stylized facts and it is suggested that these may be of relevance in the case of Sri Lanka but no explicit empirical testing is done. Among the highlights of the analysis is a development of a Mancur Olsen type analysis of the Exporter lobby and an implication derived from De Soto's generalisations of large scale movements of labour out of the economy and the mechanisms which would be expected to arise based on the theory of informal development. These are theoretical exercises which bring out points of doubt with respect the mechanisms implied in the standard received macro economics of the model mentioned in the title. The paper begins with a brief statement of that model.