

F-01 : THE IMPACT OF OPEN ECONOMIC POLICIES ON THE FOOD PRODUCTION SECTOR IN SRI LANKA

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In Sri Lanka, the impact of economic policies advocated by the Government after 1977 on the food production sector has raised a number of questions pertaining to the future potential of the sector. In the post-1977 period, there has been large-scale investments on irrigation and opening up of new land for cultivation. The heightened liberalization of the economy also during the same period, had a considerable impact on production and distribution, particularly in the domestic food production sector.

The impact of the above primary policy changes on the domestic agricultural output, cropping patterns, input use and market relations have led to the emergence of a number of important issues : agricultural land base has already reached its frontier: paddy has stagnated at its technological plateau due to possibly decreasing investments on rice research : the cost function of all crop production has upwardly shifted. To overcome these constraints, successive governments have implemented remedial measures. However, these measures have not been successful, and the situation has become more complex.

This paper attempts to analyse the key policy issues relating to agricultural production and distribution in Sri Lanka, to suggest future directions in a policy environment that encourages the free play of market forces.

In order to understand the impact of present policies on efficiency of food production, the study examines the nature and extent of deviations of market efficiency or private profitability from economic efficiency or social profitability (in monetary terms) by comparing the market prices with the economic prices (efficient price) or border prices of inputs and outputs.

Using the Domestic Resource Cost as the measure of efficiency, the study evaluates the comparative advantage of using domestic resources in producing different food commodities. Incentives to producers are estimated with the Nominal Protection and Effective Protection Coefficients.

The analysis indicates that some of the crops for example, big onions and red onions which are highly protected and economically inefficient at the farmgate, get farmers a higher price than what they should get under a free market situation, but this does not mean that the crops are economically efficient whereas paddy, soya bean and green gram which are economically efficient under certain management conditions are taxed at the farm level. The result of the high level of protection given to some

crops can result in diverting limited resources, specially irrigated land from efficient crops such as paddy, chillies and soya bean to inefficient crops.

It is recommended that there should be a national production strategy for all crops, which could achieve a balance between the production and demand in the domestic growth and the economic prices in the long-run.