F – 03

The immiserising growth refers the driving down of the welfare of the growing economy to a lower than its pre-growth level as a result of continued deterioration of terms of trade (TOT). Sri Lanka, being a typical developing economy has been experiencing many conditions and problems, which are common to most of the other developing countries.

Sri Lanka has adopted the export-led growth strategy since 1977. This process was further strengthened in 1989 under the Structural Adjustment Policies. However, Sri Lanka has failed to achieve its expected goals of economic stabilization even at the end of the present century. Therefore this experience of Sri Lanka provides a major impetus to the immiserising growth hypothesis.

Main objective of this study was to test the validity of immiserising growth hypothesis to Sri Lanka in the period 1970-1997. Data extracted from annual reports of Central Bank of Sri Lanka were used in an econometric model to compute the change in TOT effect to estimate the change in welfare during the study period.

Empirical results confirmed the validity of the hypothesis in the case of Sri Lanka. TOT effect on changing the welfare has declined from 330 in 1970-77 to 858 in 1978-97 in constant US dollar terms. The policies directed at supply management of exports through export diversification and regional negotiations are vital for increase the price of exports and in turn to achieve a meaningful economic growth in the country.