Sri Lanka's Sources of Growth: The Application of Primal and Dual Total Factor Productivity Growth Accounting Approaches

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Abstract

Sri Lanka's high GDP growth performance since the opening of its economy in 1977 prompts the question of what have been the driving forces of its growth. Hence, this study aims to identify the sources of economic growth in Sri Lanka during 1980-2016 by calculating its Total Factor Productivity Growth (TFPG) using both Primal and Dual Growth Accounting Frameworks. This study is the first attempt in adopting the dual approach for Sri Lanka's data. Hence, it identifies the underlying reasons for the discrepancies in TFPG estimates between the two approaches. It also compares Sri Lanka's TFPG results with those of selected South and East Asian economies. Despite the limitations of growth accounting framework, the results show that the average annual primal TFPG for 1980-2016 is 2.3 percent, making up 45 percent of the 5.1 percent growth of total output. Alternatively, the corresponding dual TFPG is 3.6 percent. The results also show that both TFPG estimates follow a similar pattern. The higher dual TFPG is likely caused by market imperfections and government monopolies in Sri Lanka's economy. On the contrary, the lower primal TFPG is likely caused by inadequacies in estimating national accounts and an overestimation of the capital stock. Interestingly, Sri Lanka's TFPG estimates under both methods are higher than those in South and East Asian economies, except in Singapore and China. This study concludes that, Sri Lanka's growth has been driven by both productivity and capital accumulation. These findings will help Sri Lanka to formulate its future growth policies.

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