

# HUMAN CAPITAL AND ECONOMIC GROWTH IN SRI LANKA

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**Abstract:** Does a loss of skilled personnel in Sri Lanka reduce its potential for economic growth and development? Talent shortage is a crisis for conflict driven countries and becomes a challenge to most post-conflict countries. During the 30-year conflict, most Sri Lankans migrated due to political, economic, educational, social, cultural and environmental factors in search of security, stability and opportunity. As a consequence of the war, Sri Lanka has scarce resources, a growing population, and a developing economy. In order to promote peace and work towards sustainable development, it is vital for Sri Lanka to find creative ways to retain the best talent and also attract human capital. A skilled workforce is one of the greatest assets for a post-conflict country during the development process. Sri Lanka is gradually transitioning to become a knowledge-based economy; therefore, various sectors need to adapt to changing demands and provide practical solutions where necessary in order to reduce the skills gap and overcome any challenges hindering economic growth and sustainability.

**Keywords:** Human Capital, Talent, and Knowledge-Based Economy

## Introduction

Knowledge-based economies are primarily based on production, distribution, and use of knowledge and information effectively, given the fact that over 50 percent of gross domestic product (GDP) in major Organization for Economic Co-operation and Development (OECD) economies is now knowledge-based (OECD, 1996). Societies that are transitioning from a conflict zone to a peaceful environment may require a longer period of time to enter into a knowledge-based economy after bearing heavy economic costs during the war period. Basically, Sri Lanka is experiencing a loss of productivity and investment as well as misallocated resources due to many years of conflict and civil war.

## Economic Conditions

The decades-long conflict was mainly financed by government expenditures, particularly capital expenditures leading to a reduction in future economic growth conditions. Renner (1984) points out three major costs of war pertaining to the economy: damage and destruction, lost potential output, and cost of additional military expenditures; however, it is important to take into consideration the loss of human capital, which also has a profound effect on the national economy of a developing country (Figure 1).

**Figure 1: Economic Costs of War**



For example, prior to the conflict in 1983, the defense budget was less than one billion Rs (two percent of GDP); whereas, during the conflict period in the 1990s, the defense budget increased to over 49 billion Rs (six percent of GDP) (Rupesinghe, 1998).

### ***Knowledge Demands***

According to Samuelson (2001), four wheels of growth that are essential for development include: human resources, natural resources, capital formation, and technological change and innovation. In 2012, Sri Lanka ranked 101 out of 142 countries according to the Knowledge Economy Index based on the following categories: knowledge, knowledge economy, innovation, education, information and communication technology, and economic incentive regime (Table 1).

**Table 1: Knowledge Economy Ratings**

	<b>Sri Lanka</b>	<b>South Korea</b>	<b>Singapore</b>
Knowledge	3.49	8.65	7.79
Knowledge Economy	3.63	7.97	8.26
Innovation	3.06	8.8	9.49
Education	4.61	9.09	5.06
Information & Communication	2.8	8.05	8.78
Economic Incentive Regime	4.04	5.93	9.66
<b>Rank</b>	<b>101</b>	<b>29</b>	<b>23</b>

Source: World Bank, 2013

Unfortunately, the Sri Lankan economy relied heavily on investments in physical capital as oppose to Singapore and South Korea that advanced to a knowledge-based economy mainly driven by technological progress specializing in semiconductors and biotechnology products (Dayaratna-Banda, 2013). Keep in mind that investments in physical capital seem to raise economic growth temporarily; thus, Sri Lanka needs a favorable business environment, vibrant information infrastructure, efficient innovation system, and competent human resources.

Moreover, knowledge economies are effective in utilizing knowledge as the key engine of growth. For example, South Korea introduced the Brain Korea 21 (BK21) in 1999 as a National Human Development Project to improve research capabilities of universities, and they also developed creative and high-quality research and development programs. As a result of a seven-year project, South Korea accomplished the following objectives:

- Improvement in student selection methods and administrative systems in universities to become more research oriented institutions;
- Enhancement of research capabilities by introducing pay for performance based on professors' research achievements to create a more favorable environment to conduct research;
- Allocation of financial support for the development of high-caliber researchers (master and doctoral programs), international exchange programs, and innovative curriculum development projects (Suh and Chen, 2007).

Developed countries continuously recruit talented personnel to advance their economies because they are primarily focused on creating, disseminating, and using knowledge to enhance growth and development. For instance, there is a high demand for skilled labor in OECD countries because employers are constantly searching for talented and knowledgeable individuals to join their workforce. OECD (1996) mentions four out of the six knowledge criteria listed above as know-what, know-why, know-how, and know-who; however, it is also worth including know-where and know-when as part of the criteria in examining the length and whereabouts of how knowledge can be examined and utilized successfully to advance economies (Table 1).

**Table 2: Knowledge Criteria**

<b>Know ledge</b>	
<i>Know-what</i>	Knowledge about facts
<i>Know-why</i>	Scientific knowledge of principles and laws of nature
<i>Know-how</i>	Skills or capabilities of accomplishing tasks
<i>Know-who</i>	Formation of special social relationships to obtain access to experts and use their knowledge efficiently
<i>Know-where</i>	Specific locations where knowledge can be obtained and applied
<i>Know-when</i>	Certain time periods when knowledge can be produced and enhanced

Unfortunately, most people in Sri Lanka are trained to do menial jobs while a small portion of the population is allowed to climb up the educational and professional ladder to accomplish their goals and objectives. One of the main reasons for this wasted potential output is the common worker's inability to obtain access to higher knowledge and resources. Most executives and managers in large organizations may not encourage creativity in their work performance that is required to accelerate growth and development. Instead, they may have limited communication and interaction with their counterparts due to their higher authority, ranking, or power. Besides, training the workforce to share new ideas, express their thoughts and concerns, and make recommendations to further improve the current conditions would be highly beneficial in creating a talented pool of individuals.

In 1990, about 35 percent of employees were aged 40 or above; whereas, in 2012, this proportion increased to 52 percent demonstrating that Sri Lanka's workforce is gradually ageing over the years (Arunatikake, 2015). Keep in mind that a decrease in birth rates and an increase in the ageing population can lead to fewer people entering the workforce; therefore, Sri Lanka will not only face a shortage of manpower in many sectors within the country but will also lack required skills to advance its economy. Through the Professional Conversion Program (PCP), Singapore increased its retirement age to 67 to allow the ageing population to volunteer to be rehired in an area where there is a shortage in manpower (Dissanayake, 2015). As in the case of Sri Lanka, the elderly population (over 65 years) was comprised of 1.7 million in 2001 and the numbers are expected to rise to 3.6 million by 2021, which will comprise 16.7 percent of the total population, projecting one in four Sri Lankans to be elderly by 2041 (Ellepola, 2016).

***Development Prospects***

Development aims to promote harmony among human beings and between humanity and nature; therefore, human beings can engage in activities that support the heritage of present and future generations. Meanwhile, Sri Lanka ranked 79 out of 188 countries according to the Sustainable Development Index (2016) demonstrating a great need for human resources and financial support. For example, almost 33 percent of the workforce in Sri Lanka is involved in agriculture; thus, national reforms can be accompanied by a system of guaranteed prices, provisions of access to markets, and upgrading agriculture infrastructure, particularly in the irrigation system (Jafferjee and Senanayake, 2004).

Sri Lanka also requires effective development strategies, which not only identifies skill shortages in many sectors within the country but also takes into consideration of vocational and professional training requirements

as well as educational needs in both secondary and tertiary levels. For instance, Sri Lanka ranks above other countries in regards to primary education due to its high literacy rates and the quality of education offered. However, there is still a great need of improvement required in regards to secondary and tertiary education in order to create a major pathway to prospective job opportunities for youth and adults.

For instance, one Ph.D. is produced for every 5000 people in OECD countries; whereas, students enrolled in post-graduate programs in Latin America and the Caribbean represented 2.4 percent of overall tertiary enrollment compared with 12.6 percent in the United States (Kelegama, 2009). In order to shift the economic structure of Sri Lanka to align more in line with a knowledge-based economy, it is imperative to match the available skills and education with the needs of the labor market as a stepping-stone to improve the quality of higher education. Higher education institutions in Sri Lanka needs to further improve the quality of education, update research material, increase the number of publications, provide access to technology or computers, diffuse valuable information, make awareness of intellectual property rights, transfer essential skills, focus on time management, promote instructor training, encourage counseling and advising, allow effective entrance and exit exams, support personal and professional development programs, allocate funds for leadership building techniques, promote career advancement, and also create social and networking opportunities.

### **Conclusion**

Three dimensions of sustainable development include economic development, environmental sustainability, and social inclusion. To achieve economic growth, countries need to produce inclusive, universal, integrated, locally focused, and technology-driven techniques to meet the needs of the present population as well as consider possible concerns that might be confronted by future generations. Besides putting emphasis on university education, it is important for Sri Lanka to create a talented group of individuals, who are prepared to not only pass university entrance exams but also pursue graduate and post-graduate education. Thus, mobilizing a post-conflict society to fulfill the needs and challenges confronted by a knowledge-based economy is a challenging task. However, attracting a talented group of individuals, who are able to transfer their know-how to learn about know-what in understanding know-why as a focal point in strengthening know-who relationships in know-where locations during know-when time periods in order to successfully enter into and also promote a knowledge-based economy is a major advantage for Sri Lanka.

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