

**RARE**

**Output-Employment Gap: A Study Based on the  
Manufacturing Industrial Sector of Sri Lanka**

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## ABSTRACT

Policy makers believe that the manufacturing sector of a country is a major area for driving the economy and employment generation. However, it can be seen that the manufacturing sectors of both developed and developing countries have not been able to perform in this respect as expected by policy-makers, and rather service sectors have relatively expanded more, generating a higher volume of employment. In this background, this study attempted to study the trends in manufacturing sectors' output and employment generation of 43 selected countries based on the availability of secondary data including Sri Lanka over the years within the selected durations. These selected countries were studied by categorising them into three levels such as less-developed, developing and developed countries. Regression analysis based on historical data on value addition and labour absorption was carried out for the identification of trends between industrial output growth, labour absorption and projection of their future behaviour. As such this study found that there were three significantly different behaviours with regard to the value addition and labour employment in the manufacturing sectors of countries as their economies change from less-developed to developed status. The value addition grew at an accelerated pace for the manufacturing sectors of less-developed countries whose per capita productivity level is under USD 3,000 and developing countries whose per capita productivity level varies from USD 3,000 to 30,000, and became steady, growing at a linear pace, in developed countries with over USD 30,000 per capita productivity level. Labour employment in these three categories of countries also shows different trends from each other with accelerated growth in the first category of the countries, steady linear growth in the second category of countries and fast diminishing growth in the third category of countries. With regard to the Sri Lankan manufacturing sector the study found that output growth and labour employment are showing an increasing trend, however, with a diminishing projected growth rate from 2058. However, according to this study, Sri Lanka's value addition in the manufacturing sector is projected to be continuously growing at an accelerated pace, though showing an expanding output-employment gap towards the forecasted study period ended by 2070.

**KEYWORDS:** manufacturing sector, value addition and employment gap, less developed, developing and developed countries.