

THE STRUCTURAL ADJUSTMENT POLICIES: SRI LANKA'S EXPERIENCE

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This paper consists of three parts. Part I discusses the adjustment policies followed by the less developed countries (LDCs) in order to overcome the economic stagnation those countries were facing for a long period of time. Those adjustment policies prescribed to different countries by the International Monetary Fund (IMF) and the World Bank (WB) include few common basic elements. The basic elements of those structural adjustment policies have been identified and the implication of adopting those policies has been discussed. Part II examines the salient features of the development model of High-Performing Asian Economies (HPAEs)¹ which can be considered as an alternative to the World Bank model. Part III of the study analyzes the experience of Sri Lanka in the past two decades of pursuing market friendly policies dictated by the World Bank.

PART I

ADJUSTMENT POLICIES OF THE LDCs

After a prolonged period of economic stagnation, many developing countries firstly in Latin America and secondly in Asia and Africa committed themselves to a series of adjustment policies aimed at economic growth. However, it should be mentioned that the decision to undertake those policies prescribed by the IMF and the WB has been reached not always consciously or deliberately. When a country felt that the costs of continuing with existing policies exceeded the expected net benefit by pursuing adjustment policies, the country took a decision to implement the adjustment policies. The expected net benefits can be conceived to consist of two major components - first, the expected external resource availability including debt relief, and second, the likely improvement in the domestic economic performance such as increased domestic savings, rise in export earnings, substitution of food imports by domestic production etc.

The structural adjustment programme involves two types of policies viz. the stabilization policies and the adjustment policies or in other words, demand side policies and supply side policies. The stabilization policies aimed at internal and external stability. Fiscal policies and monetary policies can be used to attain internal stability involving the reduction of budget deficits and raising interest rates. The external stability requires exchange rate devaluation with