

## The economy-wide impact of total factor productivity growth of manufacturing industries in Sri Lanka: A computable general equilibrium approach

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As the conventional wisdom suggests, productivity growth should enhance the living standard of people through increased growth. Given that Sri Lanka's growth engine (the manufacturing sector) is losing its low cost labour based export competitiveness, productivity improvements in the sector has emerged as the way out and the spill-over effects of manufacturing productivity should be reflected in other sectors of the economy. Otherwise, the policy thrust on manufacturing-based export led growth may lead to inequalities and counter productive economic and social issues.

This paper, using the computable general equilibrium (CGE) approach, analyses the short-run and long-run economy wide impact of total factor productivity (TFP) growth of manufacturing industries in the post-trade liberalization period. It also reviews such impacts at both macro and micro levels while shedding light on export competitiveness of Sri Lanka's manufacturing achieved through TFP growth.

The empirical analysis in this paper is the first of its kind to conduct a CGE simulation using empirically estimated TFP growth of manufacturing industries in Sri Lanka. The paper finds that in the short-run, the impact of productivity growth resulted in an increase in GDP growth, increased competitiveness and increased exports, while reducing domestic price level at the macro level. However, the long-run simulation did not produce consistent results. This paper also makes suggestions to improve the assessment of economy-wide impact of TFP growth using CGE approach.

**Keywords:** Economy-wide Impacts; Total Factor productivity; Manufacturing Industries; Productivity improvements; Export competitiveness