

CONSTRUCTION ECONOMY (AFTER 1977)

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The construction industry like transport, manufacturing and services, is an important sector of the economy. The construction industry consists of a group of activities related to one another by the nature of their products, technologies and institutional settings. In the past few years the construction industry has become an important segment in our Gross Domestic Product (GDP).

According to the Annual Report of the Central Bank the total contribution by this sector to the GDP in the period of 1977-1982 amounted to Rs. 5,486 million (at 1970 prices) (4.8% of the total GDP). The most significant feature of the construction industry during this period was the massive rate of growth it experienced in 1978, 1979 and 1980. Growth rates during those years were 28.3%, 20.9% and 11.0% respectively. The average annual growth rate for the period was 20.06%. A large part of this increase could be attributed to the construction of major capital assets such as dams etc.

But after 1981 there was a significant decline in the growth rate of the Construction industry. For example in 1981 and 1982 the rates were 3.0% and 2.0% respectively.

After the liberalisation of the economy allocations of resources was done on a market oriented basis and was therefore more efficient economically.

Exchange controls and import quotas with a few exceptions were removed. Under the new pricing policy domestic prices were allowed to change in order to reflect the fluctuations in international prices. Liberalisation also resulted in the increase of foreign investment. Foreign aid increased substantially during this period from US\$ 203.9 million in 1977 to US\$ 385.2 million in 1981. Private sector savings also increased as a result of the high rate of interest.

Favourable investment climate, substantial tax concessions and other incentives resulted in creating a high level of external and internal private sector investment in the economy. The boom in the construction industry was a result of these developments. This further stimulated economic growth indirectly, through backward and forward linkages with the other sectors of the economy such as trade, banking, insurance, manufacture, transport, power generation, irrigation, building industry etc.

The construction industry also contributed considerably towards the fixed capital formation in Sri Lanka. 40%-45% of the fixed capital formation had taken place within the construction industry. This rapid increase of construction activities helped to mitigate the unemployment situation in the country to a considerable extent. The number of persons directly employed in the construction industry, increased from 106,000 in 1971 to about 200,000 in 1981.

The Civil Engineering component in the construction sector went up from about 30% of the total activity in 1978 to 50% in 1982. This increase took place largely due to the Accelerated Mahaweli Development Programme, activities connected with the GCEC and the Integrated Rural Development Programme.

But this boom in the construction industry also resulted in increasing and complicating some of our economic problems. The degree of inflation in the construction industry was higher than that of the economy as a whole. This also had an adverse impact (both direct and indirect).

The other important aspect was the high demand for skilled manpower in the construction industry. This problem was further aggravated due to the migration of the skilled personnel such as masons, carpenters, plumbers etc. to the Middle-East. Wages and salaries of these categories increased and it adversely affected the cost of the construction sector. And due to the dearth of suitably skilled workers, training became a top priority. The training institutions (vocational training centres of the labour Department, N.A.B. etc) which were in operation before the construction boom could not produce adequate skilled workers to meet the new demand for manpower in the construction sector after the boom and therefore several steps were taken by the Government and by various non-governmental organisations to provide this necessary training. The Ministry of Local Government, Housing and Construction established a Construc-

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tion Industry Training Programme (CITP) with financial assistance from the World Bank for this purpose. Masons, carpentors, plumbers, electricians, heavy equipment operators and mechanics etc., were trained under this programme and they were provided with tool kits at the end of the training programmes. All these resulted in the increase of the number of skilled workers.

However, the construction industry experienced a slump after 1981. This was largely due to the completion of major construction projects which came under the Accelerated Mahaweli Programme. As a result the contribution of the construction sector to the GDP decreased as depicted in the following table.

But after 1986 construction industry started to show a slight improvement. This was a result of the Million Houses Programme which was launched in the year 1984

Table 1
Annual GDP and the output of the Construction Sector
(At constant 1982)

	1982	1983	1984	1985	1986	1987	
1988							
GDP	94,679	99,375	104,395	109,570	114,261	115,922	119,050
Growth	-	5.0	5.1	5.0	4.3	1.5	2.7
Construction Output	7,959	8,039	8,030	8,070	8,191	8,338	8,463
Annual Growth Rate	-	1.0	0.1	0.5	1.5	1.8	1.5
Proportion of Construction in GDP	8.4	8.1	7.7	7.4	7.2	7.2	7.1

Source: Central Bank of Sri Lanka