

PROFITABILITY AND COMPARATIVE ADVANTAGE OF THE RICE GROWING SECTOR IN SRI LANKA

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Agriculture plays an important role in the economic growth and development of most developing countries in the world. The Agricultural sector in Sri Lanka contributes about 17% to GDP and 35% to total foreign exchange earnings.

Many economists have warned about an impending global food crisis during this millennium. Under these circumstances, the World Bank has recommended a transformation of the Sri Lankan agricultural sector.

The World Bank study suggests that the existing agricultural sector in Sri Lanka has experienced a comparative disadvantage. It also recommends that it is necessary to re-structure the traditional agriculture, which is now experiencing a comparative disadvantages. The main objective of this study is to analyze the validity of the World Bank recommendations. In this context, the study will concentrate on paddy and a few other crops in different zones and districts.

The main hypotheses of my study are:

1. Paddy has become a non-profitable crop.
2. There is no comparative advantage in paddy cultivation and the Sri Lankan farmer will have to move away from paddy cultivation towards more profitable crops.

Four districts from the dry and wet zones were selected for this study and average production cost of each district was calculated. Input/output ratio for the alternative crops (other than paddy) cultivated in paddy lands have been calculated for each district. These ratios are used to compare the comparative advantages of paddy with the alternative crops.

Economic tools such as comparative cost, opportunity cost, and input - output ratio were used for estimating the profitability and comparative cost. An analysis of data from Anuradhapura, Polonnaruwa, Kurunegala, and Ampara districts in the dry zone shows that the input-output ratio is 1.2 whereas in wet the zone districts (Kandy, Gampaha, Kalutara, and Kegalle) this ratio is 0.87. The dry zone districts also experience positive economic profits, as compared with the negative economic profits in the wet zone.

The World Bank policy prescription seems to have been based on a macro economic framework. However, when we analyze these policies using a micro-economic approach, the relevance of these policies become less important. Hence it is obvious that there is a comparative advantage in the districts of the dry zone whereas it is not in the case of the wet zone. Therefore, policies should be made more in favor of promoting rice cultivation in the dry zone, while discouraging it in the wet zone.