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# DEVELOPMENT OF THE CONSTRUCTION INDUSTRY AND ITS INTERCONNECTION WITH THE DEVELOPMENT OF NATIONAL ECONOMY OF SRI LANKA

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**Abstract**. The construction industry forms an important part of any economy, and development of the construction industry could be of high significance for economic development. The construction industry includes the production of construction objects, consumption of resources, investment that contribute to the creation of employment places and also to the economic development of Sri Lanka. The aim of the research is to analyse the development trends of the construction industry and its interconnection with economic development in Sri Lanka. Particular focus of the research is placed on interconnection between the construction industry and economic development. Historical analysis, logical access and other methods have been used in the research. The analysis includes theoretical and practical aspects: actual tendencies and historical overview.

***Keywords:*** *Construction, economic development, industry, national economy, real estate market, Sri Lanka.*

## INTRODUCTION

The construction industry plays an important role in the economy of any country. Any changes in the economy may affect also other sectors, including the construction sector, and vice versa. When the construction sector works at maximum capacity, a huge amount of labour force is active. The development of the construction industry and economy depend also on the related regulations. The actual situation within the construction industry of Sri Lanka and policies related to the construction industry are important for the economic development of the country.

The construction industry covers a large diversity of activities, operations and sectors, such as construction of buildings, roads, railways, repairs, other related construction works (Lursoft IT, 2022). According to Crosthwaite (2000), the economic stage of countries could be classified by gross national income (GNI). At the same time, regulations and economic development of local and international markets may also influence the economic growth and income. Statistical indicators of construction, construction outputs and share of the construction industry in gross domestic product (GDP) of the economy of Sri Lanka, as well as other indicators that characterise the construction industry, economic development and their changes, are important. The increase of economic development boosts other construction and infrastructure related developments.

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The aim of the research is to analyse the development trends of the construction industry and its interconnection with economic development in Sri Lanka. The research includes also aspects of the interconnection between the construction industry and economic development in general. Historical analysis, logical access and other methods have been used in the research. The importance of the agriculture sector of Sri Lanka is also highlighted in the research. The indicators of GDP of several other sectors are shown in Table 2. The data on construction and GDP include the information from the Department of Census and Statistics of Sri Lanka; research includes the information from scientific publications and other sources.

## 1. ECONOMIC OVERVIEW

The history of economic development of the Asian countries is large and important. According to Maddison Project (2010), before the rapid growth of various industrial sectors that happened in the 18th century, the Asian economies contributed around 60 % of total global GDP. Thereafter the Asian economy has fallen from 60 % to 10 % in 1950 (Maddison Project, 2010). The Asian economies showed good economic results in development, but the growth of Asian economies is not a smooth path that showed, for example, the currency crisis in 1997. Up to now, healthy construction projects are the part of the strength of the economy of Asian and other countries.

The word "construction" originates from the word "construct", which means: *to build something*; the term "construction" is defined as "building physical facilities and development of other related activities" (Wells, 1984). According to Raftery (1991), construction output can be considered as a major needle for construction activities.

Table 1 shows the historical overview of GDP and construction output in Sri Lanka in the period of 1970–1974.

**Table 1.** GDP and Construction Output in Sri Lanka (1970–1974)
(Ganesan, 1978)

| Year | GDP (Annual) | GDP Growth, % | Construction Output | Contribution to GDP, % |
|---|---|---|---|---|
| **1970** | 130 M.$ | 3.85 % | 15.0 M.$ | 11.54 % |
| **1971** | 130 M.$ | 1.31 % | 15.0 M.$ | 11.54 % |
| **1972** | 136 M.$ | –0.41 % | 14.5 M.$ | 10.66 % |
| **1973** | 143 M.$ | 7.06 % | 17.0 M.$ | 11.89 % |
| **1974** | 149 M.$ | 3.85 % | 13.7 M.$ | 9.19 % |

According to Table 1, during the mentioned period the contribution of the construction sector was at a good rate of almost 12 % in 1973 and in the following year the construction sector went down to 9 %. Until 1990, the construction growth had an upward and downward trend, while GDP had an upward (average) trend

(Ramachandra & Zainudeen, 2006). According to Wells (1984), industrial and infrastructure sectors significantly contribute to the output of construction, and if this relationship occurs well in the country, gross domestic product and per capita income, for example, could grow faster in the middle-income countries.

In 2018, the value of the construction industry in Myanmar was more than USD 9.5 billion, and the contribution to country's GDP was around 16.5 % in 2019 (Flintrop, 2019). According to the Central Bank of Sri Lanka (CBSL, 2018), the contribution of the fourth largest sector – construction – to GDP of Sri Lanka was around 6–7 % in 2004. Contribution of the construction sector of Sri Lanka to the country's GDP was nearly 10 % at the end of 2013 (NDB, 2013). According to the Department of Census and Statistics of Sri Lanka (2019), the economy grew by 3.3 % during the first nine months of 2018.

New residential, commercial, mixed development and infrastructure projects are regularly constructed in the Asian countries. According to Burger (2015), People's Republic of China was going to spend around 7 % of the total budget for infrastructure projects every year; India and Vietnam planned to show very good results in 2015–2020.

Several macroeconomic indicators of Sri Lanka are shown in Table 2.

**Table 2.** Macroeconomic Indicators in Sri Lanka (Trading Economics, 2022)

| **Macroeconomic Indicators** | **Last** | **Previous** | **Unit** | **Reference** |
|---|---|---|---|---|
| **GDP Growth Rate** | 1.40 | 3.70 | percent | Dec 2017 |
| **GDP Annual Growth Rate** | –1.50 | 12.30 | percent | Sep 2021 |
| **GDP** | 80.71 | 83.98 | USD Billion | Dec 2020 |
| **GDP Constant Prices** | 2497489.00 | 2170052.00 | LKR Million | Sep 2021 |
| **GDP From Utilities** | 27510.00 | 26864.00 | LKR Million | Sep 2021 |
| **GDP From Transport** | 242280.00 | 161662.00 | LKR Million | Sep 2021 |
| **GDP From Services** | 1457016.00 | 1303929.00 | LKR Million | Sep 2021 |
| **GDP From Public Administration** | 112266.00 | 105558.00 | LKR Million | Sep 2021 |
| **GDP From Mining** | 48326.00 | 46875.00 | LKR Million | Sep 2021 |
| **GDP From Manufacturing** | 425455.00 | 323337.00 | LKR Million | Sep 2021 |
| **GDP From Construction** | **143035.00** | **137391.00** | **LKR Million** | **Sep 2021** |
| **GDP From Agriculture** | 178885.00 | 165176.00 | LKR Million | Sep 2021 |

According to Trading Economics (2022), the GDP from construction in Sri Lanka was 143 035 million LKR (Sri Lankan Rupee) (data on September 2021). The manufacturing activity, services and transport sector played a significant role in the economic development of Sri Lanka in the last years. For instance, Gunarathne et al. (2021) analysed how and to what extent the concept of circular economy appeared to inform about the sustainability and integrated reporting practices of corporations in Sri Lanka.

Agriculture is also a significant sector for the economy of Sri Lanka. For instance, Suresh et al. (2021) analysed how farming households' decisions to adapt to climate change affected agricultural productivity in the Batticaloa district of Sri Lanka. Weerasekara et al. (2021) considered the economic impact of climate induced disasters on agricultural, industrial and service sectors and their subsectors of Sri Lanka.

Practical aspects of the development of the economy and construction industry in Sri Lanka are presented further in the paper.

## 2. DEVELOPMENT OF THE ECONOMY AND CONSTRUCTION INDUSTRY IN SRI LANKA

Real GDP growth rates in Sri Lanka are shown in Fig. 1. Real GDP growth of overall economy of Sri Lanka showed positive indicators in the period of 2004 to 2018. The reason behind the GDP growth change downwards could be related to drought and flood disturbance that directly affected agriculture activities that were also significant for the economic development. Such sectors as construction, manufacturing and services could positively contribute to the healthy structure of the national economy in this period.

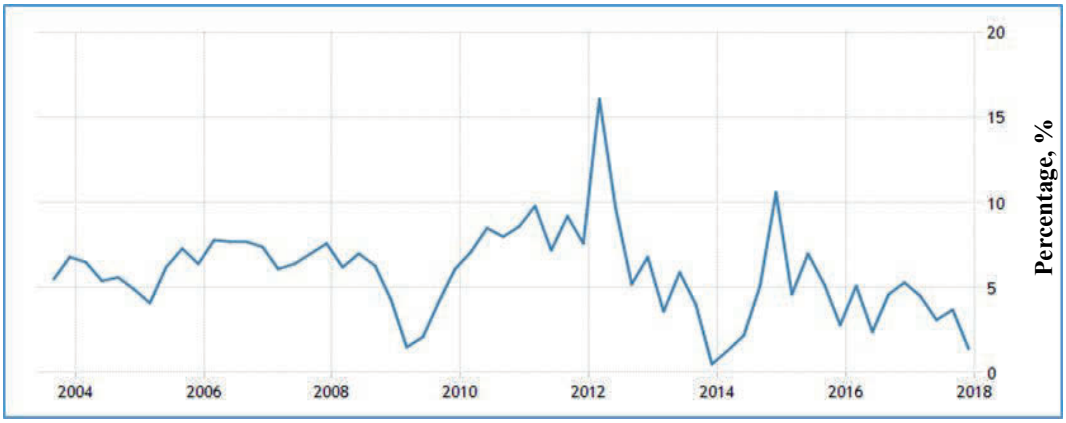



**Fig. 1.** Real GDP growth in Sri Lanka (Department of Census & Statistics, Sri Lanka, 2019).

Indicators of the GDP in the construction sector of Sri Lanka are regularly changing (see Fig. 2).

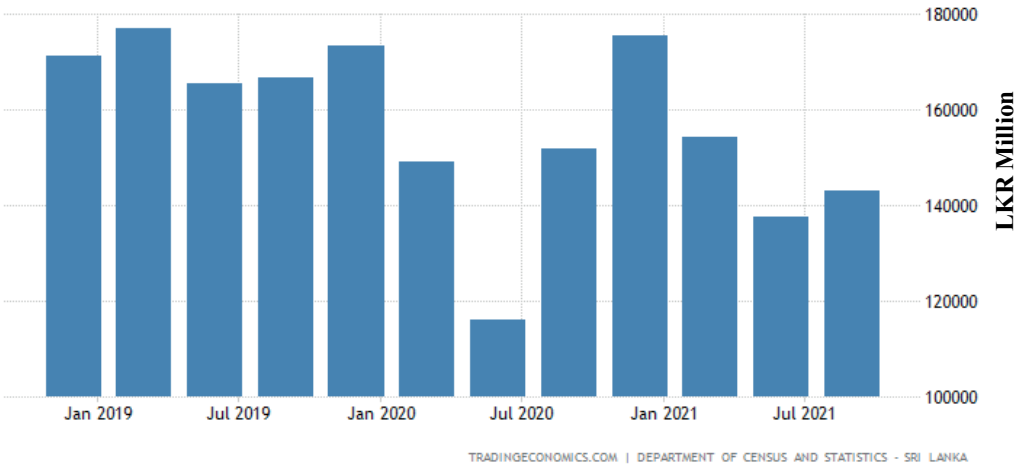



**Fig. 2.** GDP from construction in Sri Lanka, LKR million (Trading Economics, 2022).

According to Fig. 2, the indicators of 2019 in general had higher indicators than in 2020 and 2021. For instance, house prices in Colombo in the period of 2012–2018 were significantly higher than average house prices in Sri Lanka in general (Delmendo, 2019). The forecast of GDP growth compared to the previous year in Sri Lanka is shown in Fig. 3.

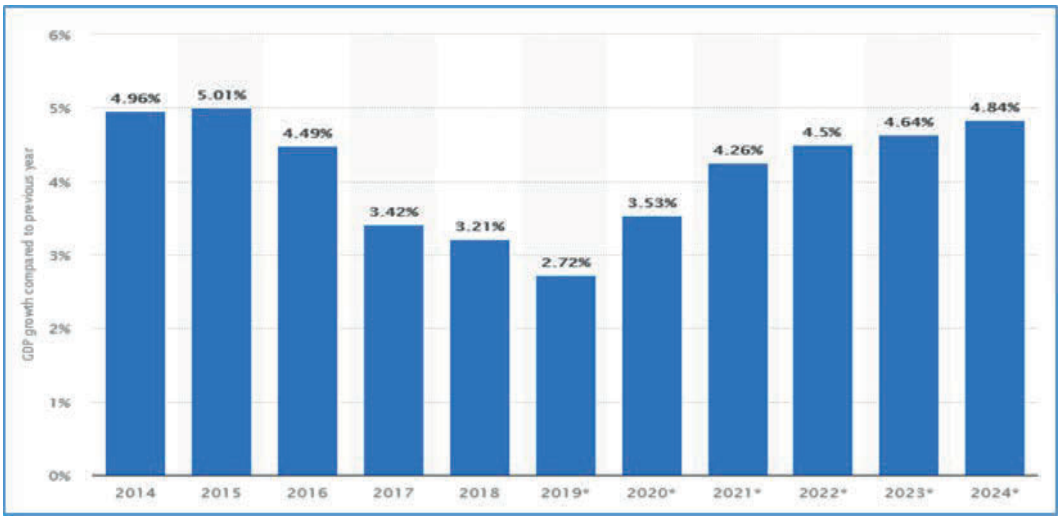



**Fig. 3.** Forecast of GDP of Sri Lanka compared to previous year, % (Department of Census & Statistics, Sri Lanka, 2019).

According to the Department of Census & Statistics of Sri Lanka (2019), the economic growth was expected to reach 3.7 % in 2021 supported by investments; total GDP of Sri Lanka was expected to increase to 4.26 % in 2021 and 4.84 % in 2024, and a target to achieve 6.5 % economic growth per year, with 6500 USD per

capita, was set. External and internal factors could affect the economic development within this period.

The increase of the economic growth in gross domestic product is also related to the changes in total income (Mankiw, 2010). The sustainability of fiscal policy was important for Sri Lanka because of rising budget deficit and high level of public debt (Rathnayake, 2020). The control of the transformation of natural materials, promotion of the minimal change through craftsmanship in construction and aesthetic improvement were given preference over to machine production in Sri Lanka (Dayarathe, 2018, p. 334), and could positively affect the development of the construction industry of Sri Lanka in the long term.

## CONCLUSION

Economic growth and development of the construction industry in Sri Lanka have been analysed in the research. The construction industry covers a large diversity of activities. For the economy of the country, it is significant to develop its main sectors that contribute to the national development and could also influence the employment aspects. The indicators of gross domestic product produced by the construction industry could help in the identification and evaluation of the significance of the construction industry for economic development of the country. The manufacturing activity, services and transport sector played a significant role in the economic development of Sri Lanka in the last years. The agriculture sector is also important for the national economic development of Sri Lanka. The future research could be related to a detailed analysis of the economic growth and development aspects of the construction sector in Sri Lanka.

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