

Inter Linkages among Agriculture, Industry and Service Sectors: Empirical Evidence from the Provinces of Sri Lanka

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Three main pillars of the Sri Lankan economy are agriculture, industries and service sectors. This study examines the causal linkage among agriculture, service and industry sectors. The service sector was the highest contributor to GDP of 58.3 percent, followed by the industrial sector at 25.9 percent and the agricultural sector at 6.9 percent by the end of 2021. Sri Lanka is striving to achieve upper middle-income status while maintaining a positive growth rate and low inflation. GDP growth rate for the year 2022 has been reported as 7.8 percent of negative growth rate. Agriculture, Industry and Services activities declined by 4.6 percent, 16.0 percent and 2.0 percent respectively, in the year 2022. A negative GDP growth rate, often referred to as an economic contraction, is a significant economic challenge for the country. To address these problems, governments often implement various economic policies such as fiscal stimulus, monetary easing, and structural reforms to stimulate economic activity and promote recovery. By capitalizing on the interlinkages between the agriculture industry and the service sector, countries can create a resilient and diversified economy that is better equipped to withstand negative GDP growth periods and promote overall economic well-being. Annual data from 1999 to 2020 for nine provinces of Sri Lanka were used to develop a Panel Vector Error Correction Model for this study. The results of this study show that there is a positive relationship between the agricultural sector and manufacturing sector and a negative relationship between the agricultural sector and service sector. It indicates that agriculture and manufacturing sectors contribute each other for their growth. Agriculture and service sectors compete each other for labor and capital goods. Manufacturing and service sector contribute each other for their growth. These findings will aid in the development of sound strategies for promoting economic development across all provinces by central government and local governments.

Keywords: Economic growth, Gross domestic product (GDP), Panel vector error correction model, Relationships among sectors, Sectors of Sri Lankan economy.