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INDUSTRIAL DEVELOPMENT REVIEW SERIES

SRI LANKA

Prepared by the
Regional and Country Studies Branch
Division for Industrial Studies

Preface

This series of industrial development reviews on developing countries is prepared within the framework of UNIDO country studies by the Regional and Country Studies Branch of the Division for Industrial Studies.

The reviews provide a survey and brief analyses of the respective country's industrial sector, as an information service to relevant sections within UNIDO and other international agencies as well as aid agencies in developed countries concerned with technical assistance to industry. It is expected that the reviews will prove a handy, useful information source also for policy-makers in the developing countries as well as for industrial entrepreneurs, financiers and economic researchers.

The reviews draw primarily on information provided by the UNIDO data base and material from national and international statistical publications. Since up-to-date national statistical data usually are not complete, it is evident that the reviews will need to be updated and supplemented periodically. To supplement efforts underway in UNIDO to improve the data base and to monitor industrial progress and changes on a regular basis, it is hoped that the appropriate national authorities and institutions in the respective countries and other readers will provide UNIDO with relevant comments, suggestions and information. Such response will greatly assist UNIDO in updating the reviews.

The present Review was prepared on the basis of information available at UNIDO headquarters at the end of 1985. It is divided into two rather distinct parts. Chapters 1 and 2 are analytical in character, giving first a brief overview of the country's economy and its manufacturing sector and then a more detailed review of the structure and development of its manufacturing industries. Chapters 3 and 4 contain various kinds of reference material on national plans and policy statements relevant to industrial development, on the more important governmental and other institutions involved in industrial development and on the country's natural, human and energy resources for industrial development. The Review also contains relevant basic indicators

and graphical presentations of manufacturing trends as well as statistical and other appendices.

It should be noted that the reviews are not official statements of intention or policy by Governments nor do they represent a comprehensive and in-depth assessment of the industrial development process in the countries concerned.

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EXPLANATORY NOTES

Regional classifications, industrial classifications, trade classifications and symbols used in the statistical tables of this report, unless otherwise indicated, follow those adopted in the United Nations Statistical Yearbook.

Dates divided by a slash (1970/71) indicate a crop year or a financial year. Dates divided by a hyphen (1970-71) indicate the full period, including the beginning and end years.

References to dollars ($) are to United States dollars, unless otherwise stated.

In tables:

Three dots (...) indicate that data are not available or are not separately reported;
A dash (-) indicates that the amount is nil or negligible;
A blank indicates that the item is not applicable;
One dot (.) indicates that there is insufficient data from which to calculate the figure.
Totals may not add precisely because of rounding.

Basic indicators and graphical illustrations of manufacturing trends contained in this Review are based on data derived from the UNIDO data base, international organizations and commercial sources.

THIS REPORT IS BASED UPON INFORMATION AVAILABLE AS AT END OF 1985.

The following abbreviations are used in this document:

ADB	Asian Development Bank
APO	Asian Productivity Organization
cif	cost, insurance, freight
CISIR	Ceylon Institute of Scientific and Industrial Research
CPDC	Centrally Planned Developed Countries
EEC	European Economic Community
FIAC	Foreign Investment Advisory Centre
fob	free on board
FRG	Federal Republic of Germany
GCEC	Greater Colombo Economic Commission
GDP	gross domestic product
GNP	gross national product
GOBU	Government-owned Business Undertakings
IDA	International Development Association
IDB	Industrial Development Board
ILO	International Labour Office
IPZ	Investment Promotion Zone
ISIC	International Standard Industrial Classification
LIAC	Local Investment Advisory Committee
LSSP	Lanka Sama Samaja Party
MFA	Multifibre Arrangement
MVA	manufacturing value added
NAB	National Apprenticeship Board
NDB	National Development Bank
NERDC	National Engineering Research and Development Centre
NIBM	National Institute of Business Management
Rs	Sri Lankan Rupees
SITC	Standard International Trade Classification
SLBDC	Sri Lanka Business Development Centre
SLEDB	Sri Lanka Export Development Board
SLFP	Sri Lanka Freedom Party
STR	Special Drawing Rights
UK	United Kingdom
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
UNP	United National Party
USA	United States of America

BASIC INDICATORS 1
The economy

GDP (1984):						$5,431 million[a/]
Population	Number:					15.6 million (mid-1984)
	Growth rate:					1.2 per cent (1984)
						1.7 per cent (1973-1983)
	Labour force:					6.1 million (mid-1984)
GNP per capita :						$340 (1984)
Average annual real growth rate of GDP (per cent) :	1965-73	1973-83	1983	1984	1985[b/]	
	4.2	5.2	5.0	5.1	5.0-5.5	

Structure of production:	1965	1984
	Percentage Shares	
Agriculture	28	30
Industry	21	26
Manufacturing	17	15
Services	51	44

Average annual rate of inflation (per cent):	1965-75	1975-80	1983	1984	Dec.1984
	5.8	9.9	14.0	16.6	9.5

Currency (Rupee equivalents to $1):	Dec. 1980	Dec. 1981	Dec. 1982	Dec. 1983	Dec. 1984	Nov. 1985
	18.0	20.5	21.3	25.0	26.3	27.4

a/ Based on the 1984 average exchange rate of 25.44 Rs/$.

b/ Estimate.

BASIC INDICATORS 2
Resources and transport infrastructure

Resources		
Cash crops (leading products by volume)	:	Tea, rubber, coconuts
Livestock (total numbers in thousands, 1982)	:	Cattle (1,699), buffaloes (879), goats (512), sheep (28), pigs (75), poultry (6,249)
Fisheries (total catch)	:	169,347 metric tons (1984)
Forests	:	2.9 million hectares; 44.2 per cent of total area
Mining (leading products by volume)		Gem stones, graphite, mineral sands (ilmenite, rutile, zircon)
Energy production		
major source[a/]	:	Hydropower
share of total production:		100 per cent (1983)
share of total consumption:		25 per cent (1983)
Transport		
Roads	:	27,000 km (1983) (thereof 19,000 km surfaced)
Railways	:	1,944 km (1983)
Ports	:	Colombo, Trincomalee, Galle
Main Airports	:	Katunayake (Colombo), Jaffna, Trincomalee, Batticaloa

a/ Excluding non-commercial sources.

BASIC INDICATORS 3
Foreign trade and balance of payments

Exports:	total value:	$1,468 million (1984)[a/]
	main goods :	Tea, textiles & garments, rubber, petroleum products, coconut
	main destinations:	USA, UK, FRG, Japan, Pakistan
Imports:	total value:	$1,869 million (1984)[a/]
	main goods :	Crude oil, machinery & equipment, cotton yarn & textiles, transport equipment
	main origins:	Japan, Saudi Arabia, UK, USA, Singapore
Balance of payments:		Current account deficit $31 million (1984)
Gross international reserves:		$720 million (Dec. 1984) or 4.5 months of import coverage
External public debt: total:		$2.4 billion (1984)
percentage of GNP:		44.5 per cent
Debt service:		
percentage of GNP:		5.9 per cent (1984)
percentage of total exports:		17.2 per cent (1984)
		21.7 per cent (first half 1985)

a/ Adjusted for values of ships & aircraft not recorded in the Customs return.

BASIC INDICATORS 4
The manufacturing sector

Manufacturing value added:	$748 million (1982)[a/]				
MVA per capita :	$49.2 (1982)[a/]				
Employment in manufacturing:	416,800 (1981)				
as percentage of total labour force:	10.1 per cent				
MVA per employee :	$1,795				
Structure of MVA[b/] (Percentage share)	1973	1980			
Mainly consumer goods	49.7	49.1			
Mainly intermediate goods	36.4	42.4			
Mainly capital goods	14.0	8.4			
Average annual real growth rate of MVA[d/] :	1970-77	1977-81	1982	1983	1984
	1.0	4.6	4.8	0.8	12.3
Trade in manufactures[c/]					
Total value - exports:	$259 million (1982)				
- imports:	$935 million (1982)				
Share of manufactures[c/]					
- in total exports:	26.0 per cent (1982)				
- in total imports:	52.8 per cent (1982)				

a/ In constant 1975 US $.

b/ Based on current prices.

c/ SITC 5 to 8 less 68.

d/ Including export processing of tree crops.

BASIC INDICATORS 5
Trade in manufactured goods

In 1982

MANUFACTURED EXPORTS[a/] total value: $259 million

Principal manufactured exports (per cent of total)		Destination (in per cent)					
		Developing Countries	Developed Market Countries				Centrally Planned Developed Countries
			Total	USA	EEC	Japan	
Clothing	(63.9)	4.23	95.72	61.43	29.08	0.57	0.04
Non-metallic mineral manufactures, n.e.s	(15.2)	23.14	76.85	9.29	26.37	30.04	0.00
Tar and chemicals from coal, petroleum, natural gas	(3.9)	46.66	53.34	0.00	0.00	53.34	0.00
Rubber manufactures, n.e.s.	(2.7)	19.19	75.45	14.35	57.36	0.52	5.19
Fertilizers, manufactured	(2.7)	99.66	0.34	0.00	0.00	0.34	0.00

MANUFACTURED IMPORTS[a/] total value: $935 million

Principal manufactured imports (per cent of total)		Origin (in per cent)					
		Developing Countries	Developed Market Countries				Centrally Planned Developed Countries
			Total	USA	EEC	Japan	
Machinery, other than electric	(17.4)	13.76	83.77	17.21	40.82	16.99	0.44
Textile yarn, fabrics, made up articles	(14.8)	55.93	25.32	0.41	2.78	21.59	0.08
Transport equipment	(14.7)	14.93	84.10	16.73	16.96	45.15	0.50
Electrical machinery, apparatus and appliances	(12.4)	20.40	77.67	6.18	28.04	39.15	0.17
Iron and steel	(5.2)	11.99	82.62	1.40	20.03	35.07	1.01

a/ SITC 5 to 8 less 68.

BASIC INDICATORS BOX 6
Inter-country comparison of selected indicators

	Unit	Indonesia	Malaysia	Philippines	Singapore	Thailand	Sri Lanka
I. Demographic indicators							
Population (mid-1983)	million	155.7	14.9	52.1	2.5	49.2	15.4
Population growth (1973-83)	per cent per annum	2.3	2.4	2.7	1.3	2.3	1.7
Infant mortality (1983)	per 1000	101	29	49	11	50	37
Area	'000 km^2	1,919	330	300	1	514	66
Density (1983)	persons/km^2	81	45	174	2,500	95.7	233
II. Economic indicators							
GDP (1983)	$ billion	78.3	29.3	34.6	16.6	40.8	4.8
GNP per capita (1983)	$	560	1,860	760	6,620	820	330
GDP growth (1973-83)	per cent/annum	7.0	7.3	5.4	8.2	6.9	5.2
Agriculture (1983)	per cent of GDP	26	21	22	1	23	27
Industry (1983)	per cent of GDP	39	35	36	37	27	26
Manufacturing (1983)	per cent of GDP	13	19	25	24	19	14
Services (1983)	per cent of GDP	35	44	42	62	50	47
Exports of goods and non-factor services (1983)	per cent of GDP	25	54	20	176	22	29.5
Gross domestic investment (1983)	per cent of GDP	24	34	27	45	25	29
External public debt (1983)	per cent of GNP	28.9	38.6	30.4	7.6	18.0	43.7
III. Industrial indicators							
MVA (1982)	million $ at constant 1975 prices	6,072	3,287	5,510	2,431	4,837	581
Share of MVA in GDP (1983)	per cent	13	19	25	24	19	14
Growth of MVA (1973-83)	average annual per cent	12.6	10.6[a]/	5.0	7.9	8.9	3.4
MVA share in world manufacturing value added (1981)	per cent	0.29	0.13	0.28	0.13	0.23	0.0
Share of manufactured [b]/ exports in total exports (1982)	per cent	3.6	22.8	22.9[c]/	48.2	25.9	26.0

a/ 1970-82.
b/ SITC 5-8 less (67 + 68).
c/ Excluding export processing zones.

With a GNP per capita of roughly $340 in 1984, Sri Lanka is among those developing countries with a relatively low average income ranging between India and Pakistan in this regard. After the country's exceptionally high real GDP growth of 8.2 per cent in 1978 which was the immediate consequence of the adoption of a liberal economic policy approach, growth rates in recent years have declined to the 5-6 per cent range with 5.1 per cent in 1984. Provisional figures indicate a 1985 GDP growth of slightly less than 5 per cent which is likely to be repeated also in 1986. Leading growth sectors were construction, following major public investment programmes in the late seventies (Accelerated Mahaweli Scheme; Urban Housing programme; Katunayake Investment Promotion Zone) and services whereas manufacturing as a whole has been characterized by a below-average growth performance except for 1984, when a record growth of 12.3 per cent was reported. Accordingly, 1984 was the first year that saw an increasing GDP share of manufacturing (up to 15.1 per cent) after 6 consecutive years of share declines (from 23.1 to 14.3 per cent). Excluding, however, export-processing activities (tea, rubber, coconut) the remaining segments of manufacturing, in particular factory industries, were among the most dynamic sectors of the economy.

Structural changes within manufacturing have, accordingly, in the recent past tended to favour factory industries at the expense of export-processing industries, the former having contributed some two thirds to total MVA in 1984.

At the branch level, tobacco has become the single most important branch in terms of its MVA share, followed by food products. Ranking third are textiles which, however, achieved the highest increase in their relative importance by almost doubling their share in total MVA from 8 to 15 per cent between 1973-1982. A drastic loss in importance, on the other hand, affected the capital goods industry. The overall picture thus emerges that the manufacturing sector of Sri Lanka has continued to be dominated primarily by agro-based industries (food, beverages and tobacco) with a combined MVA share of 46 per cent (1982), by labour-intensive industries such as textiles and by resource-based industries such as non-metallic mineral products. These five manufacturing branches plus petroleum refineries generated almost 80 per cent of total MVA in 1982.

Sri Lanka's manufacturing sector is further characterized by a high importance of public sector industrial enterprises which have contributed 56 per cent to total MVA in 1983 (more than half thereof by the State Petroleum Corporation alone). The share of public sector industries has thus remained rather large despite of the fact that the Government has been pursuing a liberal, market-oriented industrial policy approach and has often stressed the relatively low production efficiency of public industrial enterprises (high capital intensity coupled with low labour productivity). Several policy steps have, however, recently been taken by the Government to improve their performance.

Industrial exports (excluding tea) have shown impressive growth rates during the last 10 years and in 1984 accounted for 34 per cent of total exports as compared to only 14 per cent in 1974. This dynamic development is,

however, almost exclusively to be explained by textiles and garments exports which surged up as a consequence of foreign investment in Sri Lanka's export-processing zone at Katunayake. In general, inflows of foreign investment - both under the authority of the Greater Colombo Economic Commission and the Foreign Investment Advisory Committee - have assumed a significant role in the country's industrialization strategy.

Economic planning activities are strictly confined to public sector planning based on resource allocation within a five year framework (revised annually) as documented in the Public Investment Programme. Private sector activities are only subject to indirect policy instruments such as incentives, taxes and tariffs the structure of which the Government has recently been trying to rationalize. The basis for the present economic and industrial policy approach was laid in 1978 when the country's new United National Party Government decided to undertake sweeping economic reforms the salient features of which included: increased liberalization of imports, establishment of the legal and institutional framework to attract foreign investment, reduction in price controls and introduction of a unified and floating exchange rate, removal of state import monopolies and lowering of corporate and personal taxes.

A most remarkable aspect of Sri Lanka's development status is the country's exceptionally good record on the most essential social indicators such as life expectancy, infant mortality or literacy. The country disposes of a well-educated industrial labour force so that human resource constraints in general should not be among those factors hampering further industrialization. Shortages of skilled labour in some specific fields (partly due to external worker migration) are, however, emerging and call for increased efforts in the area of vocational training and technical education.

Sri Lanka is richly endowed with agricultural resources which are dominated by tea, rubber and coconut as the major plantation tree crops. The further processing of these resources within the country (rubber and coir products) has been accorded highest priority both to reduce dependence on sharply fluctuating world market prices and to increase domestic value-added and employment.

Mineral resources are of minor importance, with the notable exception of precious and semi-precious gemstones which have recently contributed some 5-8 per cent to total exports.

All in all it appears that Sri Lanka's current stage of economic development is faced with a number of crucial simultaneously emerging constraints and perils. Among these are to be mentioned in particular that public budget deficits have increased to the point where investment cutbacks seem unavoidable; that the completion of the Mahaweli headworks will prevent the construction sector from continuing its role as engine of growth; that foreign investment in the Investment Promotion Zone seems to be levelling off and - most important of all - that the persistent threat of increasingly violent ethnic conflicts is seriously jeopardizing the country's future development.

1. THE SRI LANKAN ECONOMY

1.1 Economic structure

Sri Lanka, formerly known as Ceylon, became independent in 1948 by way of a peaceful transfer of power after it had been under Portuguese, Dutch and British colonial rule for more than three centuries. Part of its economic heritage is a large export-oriented plantation sector which is dominated by the three major export crops tea, rubber and coconuts which are primarily grown in the humid south-western zone of the country. Further minor plantation crops include cocoa, pepper and cinnamon.

With a per capita GNP of $340 in 1984, Sri Lanka ranges among those developing countries with a relatively low average income. Its GNP per capita thus is substantially higher than e.g. that of India but, on the other hand, considerably lower than that of Pakistan (Table 1). A most remarkable fact of Sri Lanka's development status is its exceptionally good record - both in absolute terms and in particular relative to its per capita income - on essential social indicators such as life expectancy, infant mortality or literacy.

Compared with nine further Asian countries (Table 1), most of which have higher incomes per capita, Sri Lanka has achieved the second highest life expectancy of 69 years, being close to developed country standards, and the third lowest infant mortality rate, surpassed only by Malaysia and Singapore.[1/]

Population (total of 15.6 million in mid-1984) is rather unevenly distributed but not as unevenly as is the case in many other developing countries. The south-western humid zone hosts a fairly dense rural population and contains the country's capital, Colombo. With slightly over

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1/ For a detailed discussion of Sri Lanka's achievements in fulfilling basic human needs and of their potential trade-off with economic growth, cf. Isenman, P., 'Basic Needs: The Case of Sri Lanka', World Development, Vol. 8 (1980), pp. 237-258.

Table 1. Comparison of basic indicators of selected Asian countries, 1983

Country	Population mid-1983 (million)	Area ('000 km^2)	GDP ($bn)	GNP per capita ($)	Life expectancy at birth (years)	Infant mortality rate (per '000)
Sri Lanka	15.4	66	4.8	330	69	37
Bangladesh	95.5	144	10.6	130	50	132
India	733.2	3,288	168.2	260	55	93
Nepal	15.7	141	2.2	160	46	143
Pakistan	89.7	804	25.9	390	50	119
Indonesia	155.7	1,919	78.3	560	54	101
Malaysia	14.9	330	29.3	1,860	67	29
Philippines	52.1	300	34.6	760	64	49
Singapore	2.5	1	16.6	6,620	73	11
Thailand	49.2	514	40.4	820	63	50

Source: World Bank, World Development Report 1985.

600,000 inhabitants, less than 4 per cent of total population lives in the capital. This must be considered a relatively low share compared to other developing countries. About one quarter of the total population lives in urban areas, three quarters accordingly in the countryside.

Turning to the sectoral structure of GDP (Table 2), it must be concluded that no consistent pattern of structural change at the sectoral level[1/] of the economy can be observed over the past two decades. What has not taken place in Sri Lanka is a major transformation from a basically agrarian to a rapidly industrializing economy, which has been a standard development trend for many third world countries in their more recent economic history. On the contrary, the 1965-84 figures for Sri Lanka bear witness to a slight decline in the share of manufacturing[2/] in GDP from 17 to 15 per cent, i.e. aggregate national account data reveal a certain degree of de-industrialization.[3/] Between 1977, when manufacturing peaked at a GDP share of 23.1 per cent, and 1983 this sector has lost 9 percentage points and it was only in 1984 that the continuous fall of manufacturing's share in GDP was reversed. The opposite trend was experienced by the construction sector which kept its GDP share between 1965 and 1977 only to more than double it in the past seven years to 8.1 per cent. Taking the industrial sector as a whole it may hence be stated that construction was able to partly offset the weak performance of manufacturing without providing, however, full compensation.

The agricultural sector's share in GDP has remained roughly constant over the past two decades, with a small increase from 28.2 per cent in 1965 to 29.8 per cent in 1984. After the services sector had rapidly lost in relative importance between 1965 and 1975 (from 50.5 to 43.2 per cent), it has, notwithstanding minor fluctuations, maintained exactly this share over the last 10 years.

1/ For an analysis at the branch level within the industrial sector, cf. section 2.1.

2/ A peculiarity of the Sri Lankan National Accounts Statistics has to be noted here: they include the export-processing activities of the plantation sector under manufacturing.

3/ As measured by sectoral shares in GDP, not by absolute figures.

Table 2. Distribution of GDP (percentage shares) by sector of origin, 1965, 1970, 1975-1984 (at current prices)

Year	Agriculture	Mining & Quarrying	Manufacturing	Utilities	Construction	Services
1965	28.2	0.5	16.8	0.6	3.4	50.5
1970	26.3	0.7	16.7	0.8	5.6	47.9
1975	30.4	1.8	20.1	0.6	4.0	43.2
1976	29.0	2.3	20.0	0.6	4.2	43.9
1977	30.7	1.7	23.1	0.6	3.3	40.6
1978	30.5	1.8	20.0	0.6	4.9	42.3
1979	26.9	1.9	19.1	0.8	6.5	44.8
1980	27.6	2.0	17.7	1.0	8.9	42.8
1981	27.7	1.9	16.2	1.0	8.8	44.3
1982[a/]	26.8	2.4	14.6	1.2	8.5	46.5
1983[a/]	28.7	2.5	14.3	1.3	8.8	44.5
1984[a/]	29.8	2.3	15.1	1.2	8.1	43.5

Source: UNIDO data base; Central Bank of Ceylon, Annual Report 1984.

a/ Provisional.

In summarizing structural changes that have occurred at the sectoral level it can be said that they have over the past ten years been confined to a reduction in manufacturing's GDP share accompanied by an increase of almost the same magnitude in the GDP share of the construction sector.

The geographical distribution of manufacturing production will be elaborated in more detail in section 2.5. Suffice it to note here that manufacturing activities are geographically extremely concentrated: Two thirds of all manufacturing enterprises[1/] generating more than 80 per cent of MVA in 1980 were located in just two of the country's 22 districts, i.e. in Colombo and Gampaha. Regional disparities in economic development are

1/ Referring to reporting units in the Survey of Manufacturing Industries.

further exacerbated by the fact that the humid south-western zone accounts for some three quarters of Sri Lanka's cultivated land.

The importance of foreign trade transactions (for a detailed analysis of trade in manufactures see section 2.3) has been increasing over the past 10 years (Table 3). Between 1975-1984, the share of export in GNP went up from 16.7 to 25.2 per cent, the import share from 22.2 to 31.7 per cent and the share of total foreign trade accordingly from 38.9 to 56.9 per cent.This increasing involvement in and thus dependence on the international division of labour is a direct consequence of the country's shift to an export-oriented outward-looking industrialization strategy in 1978 (see section 1.2). In that particular year the share of foreign trade in GNP surged up to more than 70 per cent from 40 per cent in the previous year. In the same year the merchandise trade balance once more reported a deficit after showing a small surplus in 1975 and 1976. Throughout the years 1979-1983 there remained a substantial deficit which reached its maximum GNP share in 1980 with -23.8 per cent. In this regard, 1984 was of some significance as the merchandise trade deficit was reduced to only -6.5 per cent of GNP. This was largely due, however, to exceptionally high tea prices.

As can be seen from Table 4, trade in services has always been of minor importance whereas transfers have assumed a significant role in total foreign trade. In 1984, their order of magnitude was about 30 per cent of the value of merchandise exports. More than two thirds of total net transfers were accounted for by private sources consisting mainly of remittances from emigrant workers. It is only very recently that these remittances have become a major contributor to foreign exchange earnings second only to tea exports. Their future, highly uncertain development trend will be a major determinant for the overall balance of payments position of Sri Lanka. In 1984 for the first time in seven years, the country's current account balance reported only a marginal deficit of Rs 789 million.

Another important aspect of any country's basic economic structure concerns the relative roles that are being played by the private and the public sector. A detailed branch-wise analysis of this relationship within the manufacturing sector will be presented in section 2.4. At this stage

Table 3. Percentage share of exports and imports in GNP, 1975-84 (at current prices)

Year	Export[a/] share	Import share	Share of exports plus imports	Merchandise trade surplus (+) deficit (-) as share of GNP
1975	16.7	22.2	38.9	-5.5
1976	18.7	18.1	36.8	+0.6
1977	21.2	19.2	40.4	+2.0
1978	33.8	37.6	71.4	-3.8
1979	29.2	43.1	72.3	-13.9
1980	26.2	50.0	76.2	-23.8
1981	24.9	42.0	66.9	-17.1
1982	21.9	37.7	59.6	-15.8
1983	21.2	35.5	56.7	-14.3
1984	25.2	31.7	56.9	-6.5

Source: Calculated from Central Bank of Ceylon, Review of the economy, various issues.

a/ Export value adjusted from 1980 onwards.

Table 4. Balance of payments, 1975-84 (in Rs million)

Item	1975	1976	1977	1978	1979	1980	1981a/	1982a/	1983a/	1984b/
1. Merchandise	-1,421	-710	+350	-2,393	-7,288	-16,312	-15,616	-20,403	-20,168	-10,173
Exports (f.o.b.)	3,913	4,707	6,640	13,207	15,282	17,603	20,507	21,098	25,038	37,453
Imports (c.i.f.)	-5,334	-5,417	-6,290	-15,600	-22,570	-33,915	-36,123	-41,501	-45,206	-47,626
2. Services	+89	+112	+304	+119	+739	+859	+82	-314	-1,411	-1,558
Receipts	565	643	923	1,942	2,99?	4,605	6,019	6,962	8,033	8,609
Payments	-476	-531	-619	-1,823	-2,25?	-3,746	-5,937	-7,276	-9,444	-10,167
3. Goods and Services (1+2)	-1,332	-598	+654	-2,274	-6,549	-15,453	-15,534	-20,717	-21,579	-11,731
4. Transfers (Net)	+560	+548	+612	+1,242	+2,993	+4,541	+7,036	+8,873	+10,457	+10,942
Private (Net)	19	56	122	342	754	2,260	3,918	5,494	6,441	7,039
Official (Net)	541	492	490	900	2,239	2,281	3,118	3,379	4,016	3,903
5. Current Account Balance (3+4)	-772	-50	+1,266	-1,032	-3,556	-10,912	-8,498	-11,844	-11,122	-789
6. Non-Monetary Capital	+404	+591	+326	+2,600	+3,306	+6,585	+7,691	+10,954	+10,616	+8,561
Private Sector	-32	-109	-127	145	874	3,981	2,571	5,517	4,005	180
Public Sector	436	700	453	2,455	2,432	2,604	5,120	5,437	6,611	8,381
Overall Balance c/	-400	+531	+3,313	+1,862	+793	-2,967	-406	-1,009	+342	+7,062

Source: Central Bank of Ceylon, Annual Report 1984.

a/ Revised.

b/ Provisional.

c/ The overall balance includes 5 + 6 plus valuation adjustments, errors and omissions as well as SDR allocations.

only a brief look at the private and public sector's shares in total gross domestic capital formation is provided (Table 5). Generally speaking, the deviations in the private and public sector's share have never been very large, i.e. in no year between 1970 and 1982 was the share of either of them below 40 per cent. In the same period there was, however, a marked downward trend in the private sector's contribution to gross domestic capital formation, from 56.7 per cent to 47.7 per cent.[1/] This may seem a rather astonishing development considering the fact that in 1977 a new Government came to power that has since been committed to drastically enhance the role of private sector initiative. On the other hand, it has to be taken into account that these overall figures go far beyond purely industrial capital formation including also major infrastructural outlays such as the Mahaweli scheme, the Katunayake Investment Promotion Zone and the Public Sector Housing Programme which have been among the most prominent public investment programmes in the early 1980s.

1.2 Recent economic trends

Before considering the most recent trends and tendencies in Sri Lanka's economy some brief remarks on the country's recent political history may be in order as it has strongly influenced economic policy objectives and strategies and accordingly, Sri Lanka's economic performance.

Sri Lanka's post-independence political history has been characterized by a change in government following each general election since 1956 and all of these changes were followed by the adoption of distinctly different approaches to shape the country's economic system. The alternating sequence of UNP (United National Party) and SLFP (Sri Lanka Freedom Party) governments thus was accompanied by a swinging between liberal and socialist economic policy concepts which in the seventies became even more pronounced in their radically different outlook. The United Front government[2/] which came into power with the 1970 election clearly assigned a dominant role in all economic sectors (except tourism) to the public sector. Far-reaching economic changes

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1/ More recent data are not available, as from 1983 onwards the figures for private enterprises and public corporations have been lumped together.

2/ Coalition between the SLFP, the LSSP (Lanka Sama Samaja Party) and the Communist Party.

Table 5. Contribution of private and public sector to gross domestic capital formation, 1970-84 (Rs million at current market prices)

	1970	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
(1) Gross domestic capital formation	2,589	4,140	4,896	5,259	8,554	13,527	22,465	23,610	30,276	36,063	39,850
(2) Private sector	1,467	2,171	2,433	2,632	3,829	6,908	9,095	11,055	14,453	29,469	32,425
(3) Public corporations[a/]	514	466	493	772	2,002	2,875	7,681	8,549	10,952		
(4) Government & public enterprises[b/]	608	1,503	1,970	1,855	2,723	3,744	5,689	4,006	4,871	6,549	7,425
(2) as percentage of (1)	56.7	52.4	49.7	50.0	44.8	51.1	40.5	46.8	47.7	...	...
(3)+(4) as percentage of (1)	43.3	47.6	50.3	50.0	55.2	48.9	59.5	53.2	52.3	...	...

Source: Central Bank of Ceylon, Annual Report 1984.

a/ Autonomous state-owned enterprises.

b/ Public enterprises include railways, ports, harbour, warehouses, post and telecommunications. Since 1979, the ports, harbour and warehouses have become public corporations and are no longer included under public enterprises.

were introduced including the nationalization of the plantation sector in 1975 and the passing of the controversial Business Acquisition Act establishing the legal preconditions for the government's potential take-over of any private sector enterprise. It was in 1977, after a landslide election victory of the UNP, that the pendulum drastically swung back in the direction of reduced state control and deregulation of the economy and a renewed emphasis on a leading role for private sector activities. The salient features of the subsequent programme of economic reform included increased liberalization of imports, establishment of the legal and institutional framework to attract foreign investment, reduction in price controls and introduction of a unified and floating exchange rate, removal of state import monopolies and lowering of corporate and personal taxes.[1/]

The immediate result of the new outward-looking private sector-led strategy was almost a doubling in the growth rate of GDP which went up from 4.2 per cent in 1977 to 8.2 per cent in 1978 (Table 6). In subsequent years it declined again and has in the early eighties ranged between 5-6 per cent, a level that - under optimistic assumptions - the economy may be able to maintain in the near future. It has to be borne in mind, however, that the 1984 GDP growth figure of 5.1 per cent was essentially the consequence of both record tea prices and a two-digit growth of manufacturing which was based on rather specific preconditions (see chapter 2). Two further aspects emerge from Table 6: Firstly, the extremely high growth rates of construction between 1978-1980 (almost 30 per cent in 1978) which were due to major public development programmes, in particular the Mahaweli project, and secondly, the fact that services have recently shown the steadiest growth performance of all GDP components.

There is some evidence that GDP growth in 1985 may again reach some 5 per cent with construction at the bottom end of the growth rates spectrum (completion of Mahaweli headworks) and agriculture being the leading

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1/ As will be shown in chapter 2, the relative importance of the public sector industrial enterprises has, however, remained very high.

Table 6. Growth rates of GDP by main sectors, 1970, 1975-1984
(Rs million, at constant 1970 factor prices)

	1970	1975	1976	1977	1978	1979	1980	1981	1982	1983[a/]	1984[a/]
Agriculture[b/]	3.8	-2.4	1.2	10.4	5.4	2.0	3.1	6.9	2.6	5.3	2.2
Mining	18.5	33.9	44.6	-9.8	20.2	5.3	4.9	4.2	4.1	7.8	1.5
Manufacturing	5.7	4.6	4.8	-0.6	7.8	4.6	0.8	5.2	4.8	0.8	12.3
Construction	14.4	-8.8	5.5	-9.6	28.3	20.9	11.0	-3.0	-2.0	1.0	-0.1
Services	2.8	4.8	1.0	4.7	7.6	7.8	8.0	6.4	7.0	6.8	5.8
GDP	4.3	2.8	3.0	4.2	8.2	6.3	5.8	5.8	5.1	5.0	5.1

a/ At constant 1982 factor prices.

b/ Includes forestry & fishing.

Sources: Central Bank of Ceylon, Annual Report 1984; World Bank, Sri Lanka: Recent Economic Developments, Prospects and Policies, Report No. 5038-CE, May 4, 1984.

sector with a production increase of some 8 per cent.[1/] Apart from assuming normal weather conditions this forecast is based on the precondition that the current fall of tea prices comes to a halt and that the ceasefire between the Government and the Tamil separatist movement can be maintained and will eventually lead to a negotiated solution of the ethnic conflict between the Sinhalese majority and the Tamil minority of the population.

This conflict which has repeatedly led to rioting and outbreaks of violence (1956-1964, 1977 and in mid-1983 when even a state of emergency was imposed) has had considerable negative repercussions on recent economic development. Not only has it shaken the confidence of foreign investors and tourists alike (tourist arrivals in the first quarter of 1985 were 14 per cent lower than in the same period 1984 and even 40 per cent down on the first quarter of 1983)[2/] but it has also caused huge increases in defence expenditure and poses a threat to the continuation of high foreign aid inflows.

These additional unproductive expenditures are a particularly untimely financial burden as huge budget deficits have in recent years been among the most disturbing features of the Sri Lankan economy, calling for tight restrictions on further Government spending. As a direct consequence of the ambitious public investment programme of the new Government, the GDP share of the budget deficit rose to a peak level of 23 per cent in 1980 which is extraordinarily high by international standards. By 1983 this share was reduced to 13 per cent, but the persistent high deficits have remained a major source of concern. In 1986 the budget situation is not only threatened by the unexpectedly high defence outlays (Rs 6.2 bn, equalling 3.5 per cent of GDP) but also by revenue shortfalls due to the fall in tea prices and by the need to finance larger than anticipated losses of public corporations. The resulting overall budget deficit of almost Rs 29 bn will have to be financed largely from domestic rupee loans which may lead to crowding-out effects thus pre-empting resources badly needed for private sector investment.

1/ Cf. Economist Intelligence Unit, Quarterly Economic Review of Sri Lanka, No. 3/1985.

2/ It is noteworthy that in 1983 foreign exchange earnings from tourism were of an order of magnitude equaling some 10 per cent of the value of merchandise exports.

Table 7. Total resources and their utilization, 1984-89
(at current Rs billion)

	1984	1985	1986	1989	Total 1985-89
1. Total resources	160.7	187.3	214.5	320.4	1,250.3
	(106)a/	(107)	(108)	(108)	(108)
(a) GDP at market prices	151.5	174.9	197.9	295.8	1,155.7
	(100)	(100)	(100)	(100)	(100)
(b) Net imports of goods and non-factor services	9.2	12.4	16.6	24.6	94.6
	(6)	(7)	(8)	(8)	(8)
2. Total Utilization	160.8	187.3	214.5	320.4	1,250.3
(a) Consumption	121.0	143.2	165.0	244.9	959.0
of which	(80)	(82)	(83)	(83)	(83)
-Private	107.7	129.7	148.8	220.6	864.6
	(71)	(74)	(75)	(75)	(75)
-Public	13.3	13.5	16.2	24.3	94.4
	(9)	(8)	(8)	(8)	(8)
(b) Investment	39.8	44.1	49.5	75.5	291.3
of which	(26)	(25)	(25)	(26)	(25)
-Private	15.9	18.0	20.2	39.3	136.0
	(10)	(10)	(10)	(13)	(12)
-Public	23.9	26.1	29.3	36.2	155.3
	(16)	(15)	(15)	(12)	(13)
3. Financing of Investment					
(a) National Savings	34.3	35.6	37.0	54.7	216.0
	(23)	(20)	(19)	(18)	(19)
(b) Foreign Savings	5.5	8.5	12.5	20.8	75.3
	(4)	(5)	(6)	(7)	(7)

Source: Ministry of Finance and Planning, Public Investment 1985-1989.

a/ Figures in brackets indicate percentages of GDP.

According to the latest Public Investment Programme which as the centrepiece of the planning process is prepared on an annual "rolling plan" basis[1/], total investment in the period 1985-89 will amount to Rs 291.3 billion of which Rs 155.3 billion, i.e. 53 per cent, are expected to be financed from public sources (Table 7). This would imply that the share of public investment in GDP would decrease from 16 per cent in 1984 to

1/ For further details on the planning process and its institutional framework cf. section 3.1.

12 per cent in 1989. The share of total investment in GDP would roughly remain at its present level (25-26 per cent); it is foreseen, however, that the share of national savings in total investment will decline from 86 per cent in 1984 to only 72 per cent in 1989.

Table 8. Employment, unemployment and labour force, 1970-84
(in thousand persons)

	1970	1977	1978	1982	1983	1984[a/]
(1) Employment	3,550	3,854	4,065	4,836	5,355	5,504
(2) Unemployment	747	1,284	1,193	1,059	945	896
(3) Labour Force	4,296	5,139	5,259	5,893	6,300	6,400
(2) as percentage of (3)	17.4	25.0	22.7	18.0	15.0	14.0

a/ Provisional.

Source: Ministry of Finance and Planning, Public Investment 1985-1989.

The unemployment rate, according to provisional figures, stood at 14 per cent in 1984 (Table 8). In view of the fact that in the late seventies it has gone up to well above 20 per cent (25 per cent in 1977) this can be regarded as remarkable achievement. Now that the overall growth rates of the economy have come down from their post-liberalization upsurge, it will be increasingly difficult, however, to productively absorb more than the roughly 120,000 annual new entrants to the labour force each year . An efficiently operating manufacturing sector could in the medium- and long term largely contribute to achieving this task. Before chapter 2 provides a detailed analysis of the structure and performance of Sri Lanka's manufacturing industries the following section gives a brief overview.

1.3 Overview of the manufacturing sector

The manufacturing sector which in 1984 contributed 15 per cent to Sri Lanka's GDP (only half of the agricultural GDP share) is composed of four different segments, namely the export-processing of plantation crops[1/] (tea, rubber, coconut), the factory industries (including only large-scale industrial units of the formal sector), the small-scale industrial sector and a residual category.

In the last 15 years the internal composition of the manufacturing sector has undergone substantial structural changes (Table 9). The share of 'export-processing' which stood at more than two fifths (41 per cent) of total manufacturing in 1970 decreased steadily to 30 per cent in 1981. In 1982, with the introduction of a new time series based on more realistic prices it drastically dropped to 21 per cent and has in the recent two years further declined to 19 per cent. Apart from a small share increase of 'other industries', the losses of 'export processing' have been reflected in corresponding gains of 'factory industries' which increased their share from 49 per cent (1970) to 55 per cent (1981), 65 per cent (1982) and finally to 67 per cent in 1984.

The conclusion can thus be drawn that while the relative importance of manufacturing in GDP has declined in recent years, the sector has managed to change its internal structure. 'Factory industries', i.e. more narrowly defined manufacturing production, have very clearly become the backbone of the manufacturing sector. Throughout the period 1977-84 their growth rate was roughly 2 percentage points above the sector's average (Table 9).

The projections presented in the Public Investment Programme 1985-1989 further support the trend just outlined: While the export processing of tea, rubber and coconut is expected to almost stagnate (1.8 per cent average annual real growth in 1984-89), for the remainder of the manufacturing sector the growth target was set at 8.6 per cent, i.e. manufacturing per se is assumed to be the leading economic sector in Sri Lanka's future development.

1/ These are included in the manufacturing sector only in the National Accounts Statistics while they are excluded in the Annual Surveys of Manufacturing Industries.

Table 9. Structure and growth of manufacturing according to broad industrial groupings, 1970, 1975-1984 (at constant 1970 factor cost prices)

	Percentage distribution of value-added											Average annual real growth rate		
	1970	1975	1976	1977	1978	1979	1980	1981	1982a/	1983a/	1984a/	1970-77	1977-82	1982-84
Total Manufacturing	100	100	100	100	100	100	100	100	100	100	100	1.0	4.6	6.4
- Export processing	41	37	36	35	33	33	30	30	21	20	19	-1.2	-0.4	2.4
- Factory industries	49	51	51	52	54	53	56	55	65	65	67	1.8	6.6	8.3
- Small industry	5	8	8	8	8	9	9	9	6	6	5	8.2	7.6	4.1
- Other	5	5	5	5	5	5	6	6	9	9	8	1.0	10.1	2.8

Sources: Calculated from Central Bank of Ceylon, Review of the Economy, 1983 and 1984.

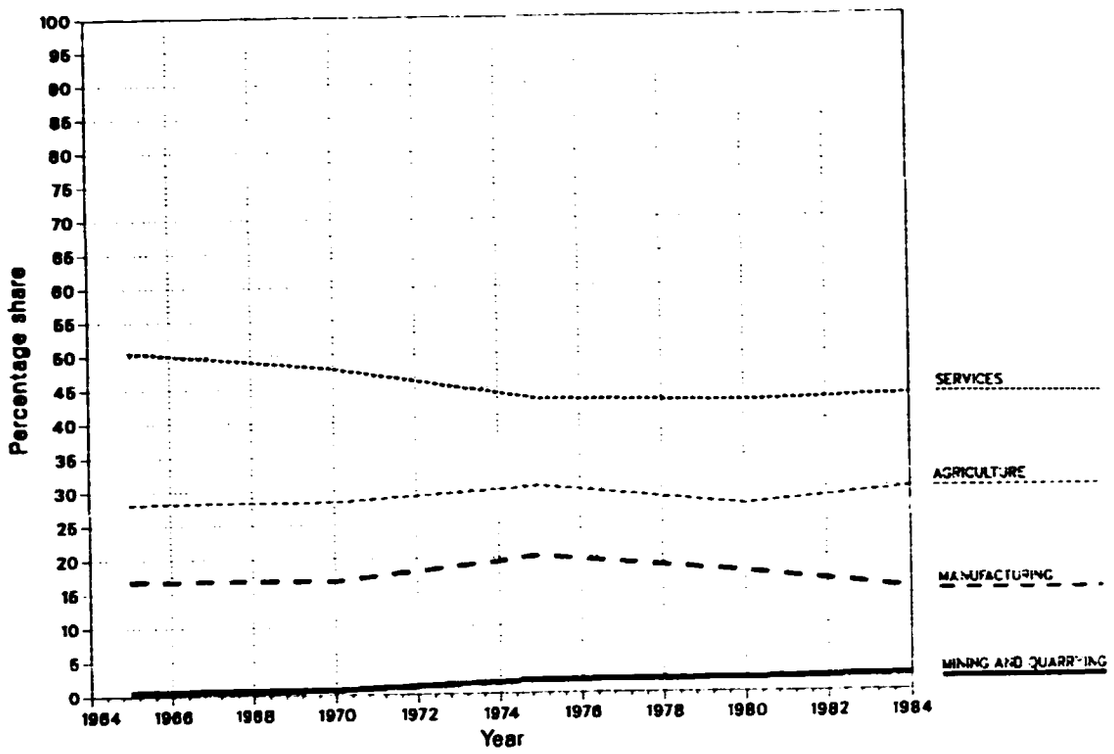
a/ At constant 1982 factor cost prices.

Sri Lanka's industrial sector is characterized by a large share of public sector owned enterprises accounting for some 60 per cent of industrial production and 40 per cent of industrial value-added. These public sector enterprises are concentrated in large-scale industrial production in the formal sector. To some extent it is indicative of Sri Lanka's industrial structure that the 30 largest industrial enterprises are almost exclusively either foreign-owned or state-owned (see Annex Table A-1) with the Ceylon Petroleum Corporation being the country's largest industrial enterprise.

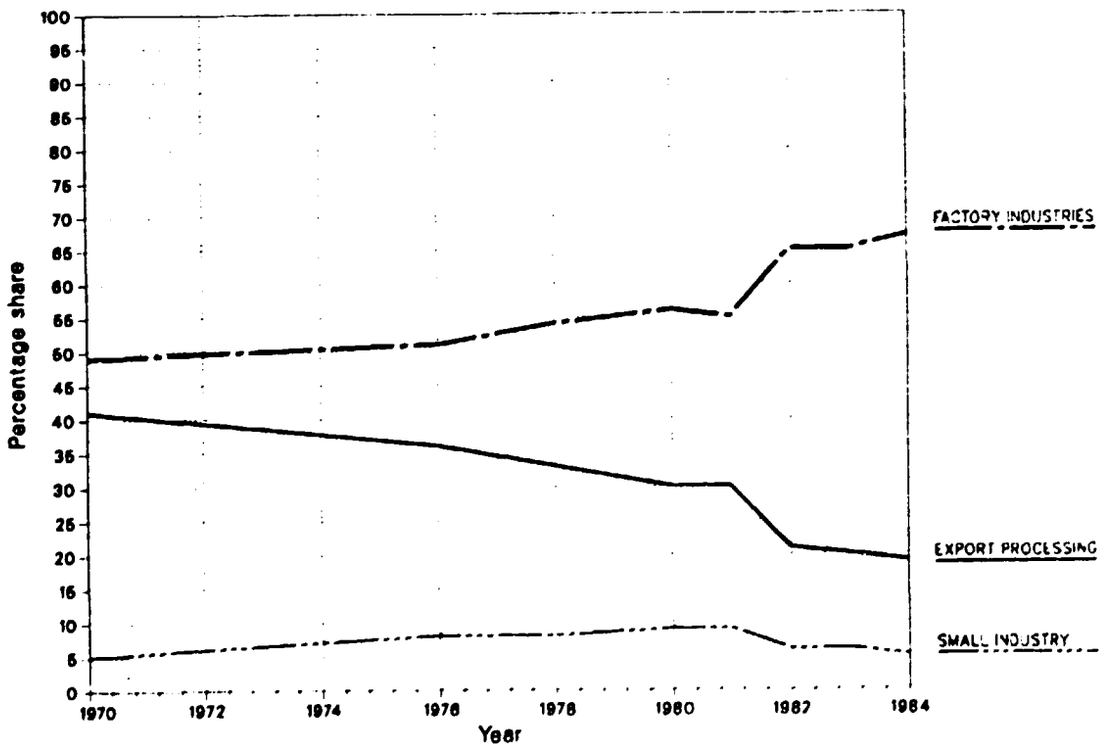
Industrial exports have significantly gained in importance among total exports. They have, however, increasingly become dominated by petroleum products (re-exports) and textiles and garments which taken together accounted for some 85 per cent of total industrial exports in 1984.

MANUFACTURING TRENDS

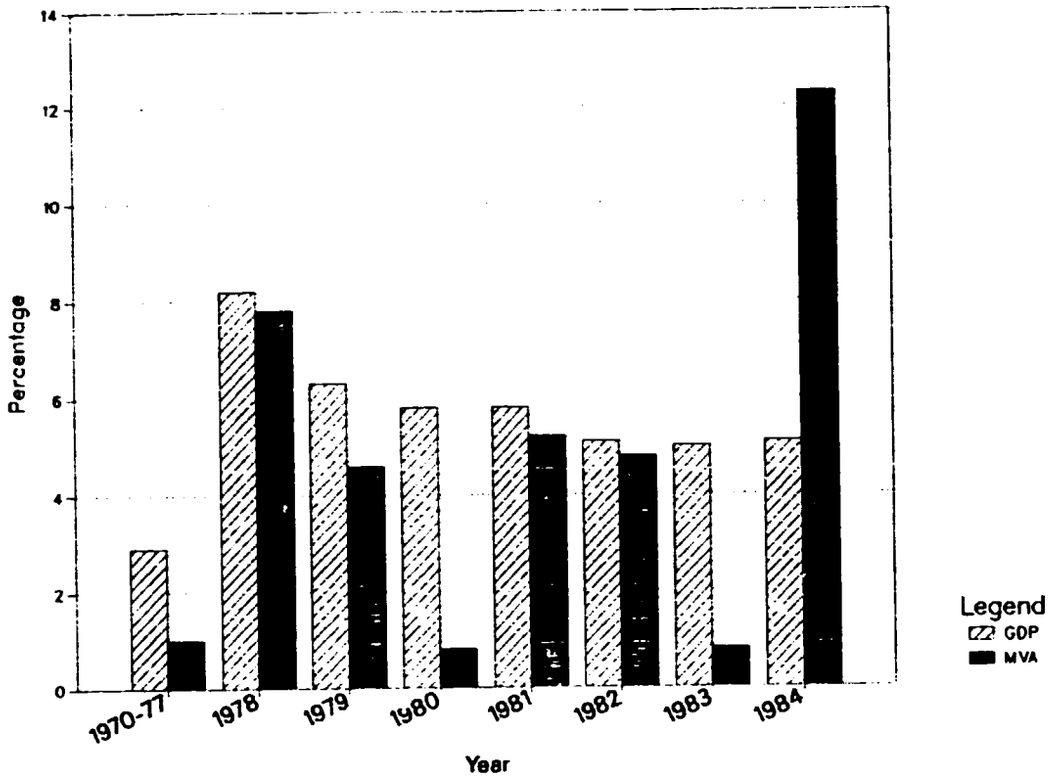
SECTORAL ORIGIN OF GDP, 1965-1984
(at current prices)



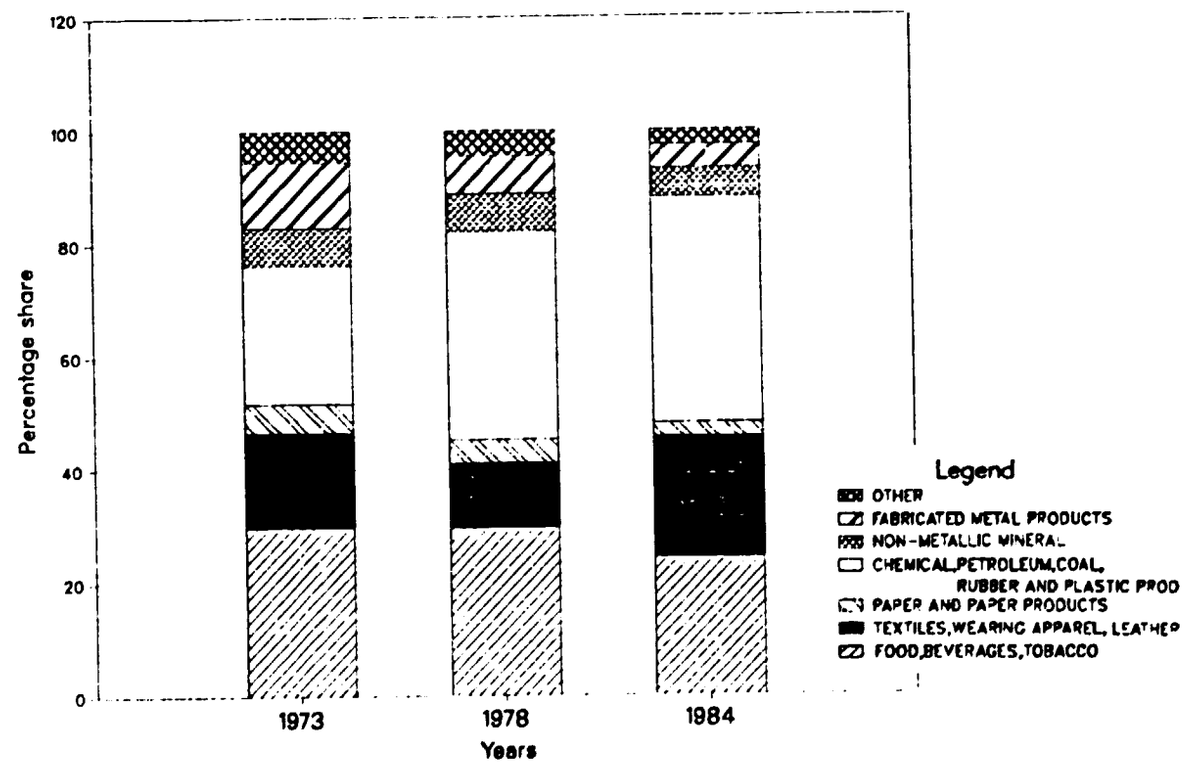
COMPOSITION OF MVA BY TYPE OF INDUSTRIAL ACTIVITY, 1970-1984



ANNUAL GROWTH RATES OF GDP AND MVA[a/] 1970-1984

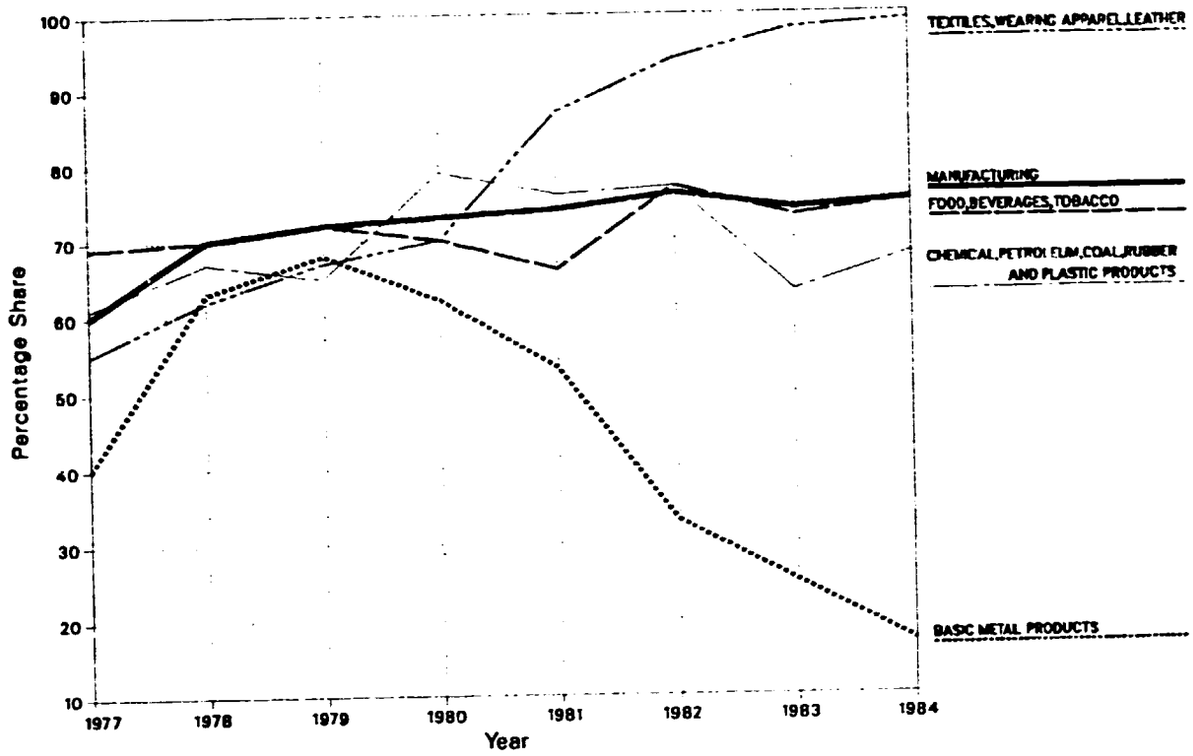


COMPOSITION OF MVA[a/] BY MAIN BRANCHES, 1973, 1978 AND 1984

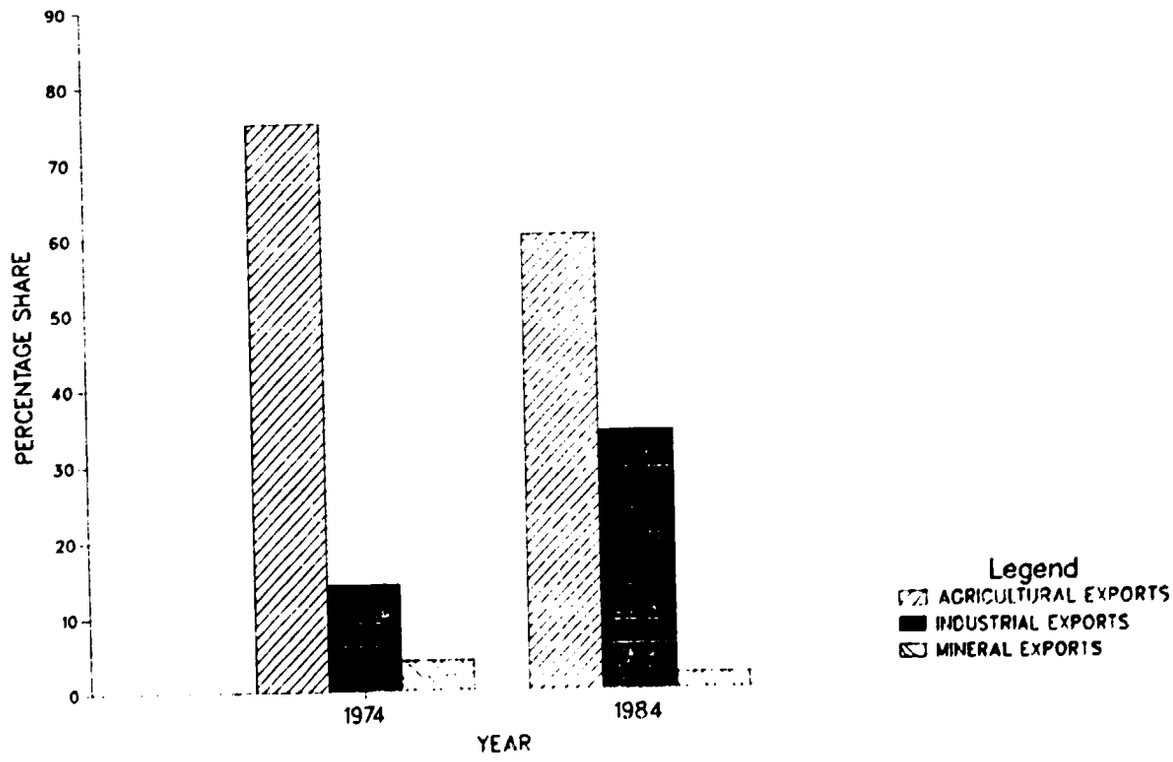


a/ Referring to registered manufacturing enterprises in the formal sector.

CAPACITY UTILIZATION IN INDUSTRY, SELECTED SUB-SECTORS, 1977-84

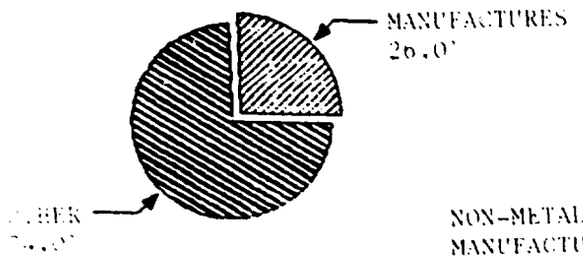


SRI LANKA'S CHANGING EXPORT STRUCTURE, 1974 AND 1984

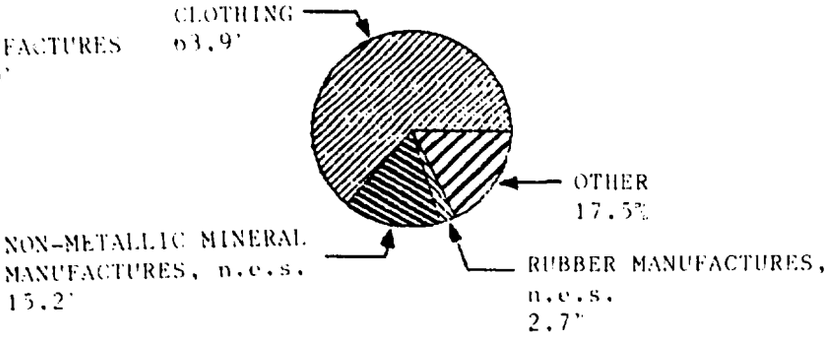


EXPORTS AND IMPORTS IN 1982

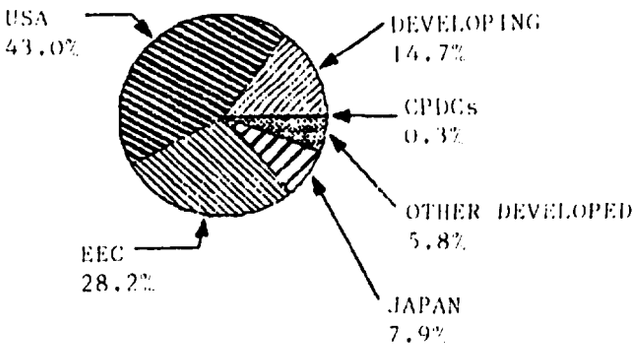
SHARE OF MANUFACTURES a/ IN TOTAL EXPORTS



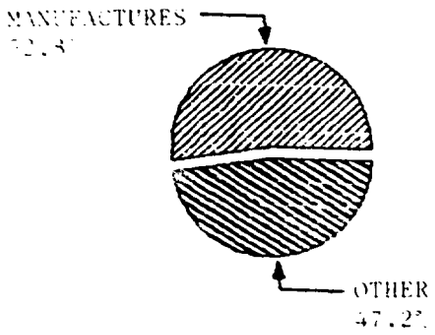
COMPOSITION OF MANUFACTURED EXPORTS



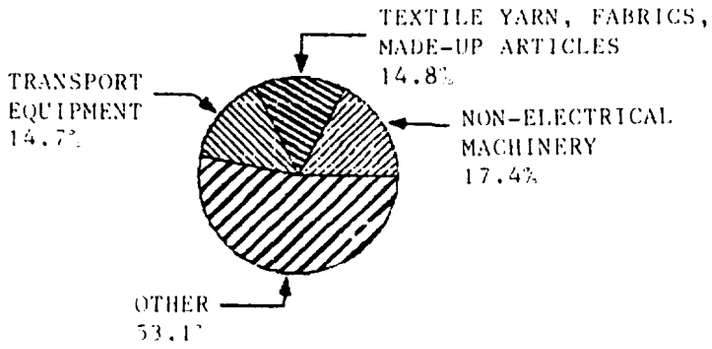
DESTINATION OF MANUFACTURED EXPORTS



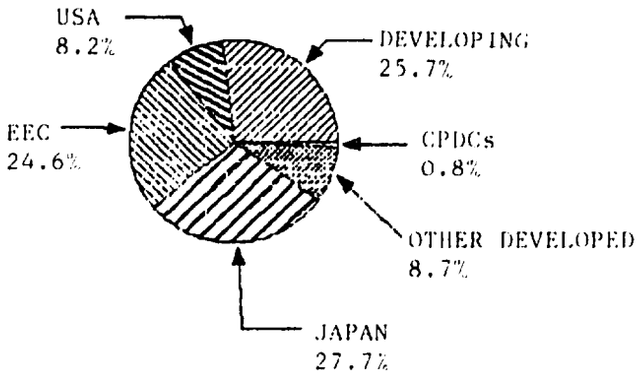
SHARE OF MANUFACTURES a/ IN TOTAL IMPORTS



COMPOSITION OF MANUFACTURED IMPORTS



ORIGIN OF MANUFACTURED IMPORTS



a/ SITC 5-8 less 68.

2. STRUCTURE AND PERFORMANCE OF THE MANUFACTURING SECTOR

2.1 Growth and structural change

As can be seen from Table 9, real growth of the manufacturing sector (as defined in National Accounts statistics) which was at a low annual average rate of 1.0 per cent in the period 1970-77 gained momentum with the introduction of a more liberal economic policy approach. It averaged 4.6 per cent between 1977-82 as a result of the following yearly growth rates: 7.8 per cent in 1978, 4.6 per cent in 1979, 0.8 per cent in 1.30, 5.2 per cent in 1981 and 4.8 per cent in 1982. In 1983 the growth rate went down again to 0.8 per cent only to reach an unprecedented level of 12.3 per cent in 1984. These recent large fluctuations were to a considerable degree influenced by the performance of the state-owned Petroleum Corporation which has a weight of some 55 per cent in total public sector production and which had to temporarily close down its refinery for maintenance in 1983.

The whole picture changes as soon as the more narrowly defined manufacturing industries, i.e. the registered manufacturing enterprises in the formal sector, are exclusively taken into consideration. Their average annual growth rate for the period 1977-83 was extraordinarily high with 17.1 per cent for production and 11.1 per cent for value-added (Table 10). Looking only at the period 1980-83, thus excluding the unsustainably buoyant growth phase that immediately followed the removal of regulations, the corresponding figures are 6.1 per cent for production and 7.8 per cent for value-added.

In 1984 growth in manufacturing industries (narrowly defined) again hit two-digit rates. Production went up 15 per cent in real terms (26 per cent in private sector industries, 7 per cent in public sector industries) with textiles, wearing apparel and leather products being the leading branches (44 per cent growth) followed by fabricated metal products (24 per cent) and chemicals, petroleum and plastic products (18 per cent). With a real increase of 19 per cent in 1984, MVA again grew faster than production thus continuing the trend that was already shown for 1980-83 (Table 10).

Table 10. Real growth rates of industrial production and value-added, 1977-83 (in constant Rs. of 1970)

Industrial branches	Average annual real growth rate					
	1977-80		1980-83		1977-83	
	Production	Value added	Production	Value added	Production	Value added
Food, beverages and tobacco	12.1	15.8	11.3	11.9	11.7	13.8
Textile, wearing apparel and leather products	31.5	5.6	27.0	14.9	29.3	10.1
Wood and wood products (incl. furniture)	23.8	20.3	11.6	9.8	17.5	14.9
Paper and paper products	13.5	28.3	13.1	-0.9	13.4	12.8
Chemical, petroleum, coal, rubber and plastic products	46.6	10.3	-1.0	-0.3	12.0	4.8
Non-metallic mineral products (except petroleum and coal)	32.3	26.0	-0.9	8.8	14.6	13.8
Basic metal products	43.8	28.3	-21.4	-7.6	6.3	8.9
Fabricated metal products, machinery and transport equipment	-3.6	6.3	12.0	21.1	3.8	13.5
Manufactured products (n.e.s.)	9.4	-9.1	8.9	38.7	9.0	12.2
Total	29.2	14.6	6.1	7.8	17.1	11.1

Source: Calculated from the data presented in Annex-Tables A-2 and A-3. For the deflator used cf. World Bank, Sri Lanka: Recent economic developments, prospects and policies, Report No. 5038-CE, May 4, 1984, Annex Table 2.01.

Preliminary growth results for the first half of 1985 (based on a survey of limited coverage)[1/] indicate a substantial decrease in real growth rates of manufacturing industries. The average rate of 4 per cent again is composed of distinctly different performances of public and private industries. While the former are estimated to have declined by -10 per cent[2/], the latter have increased their production by 20 per cent with textile and wearing apparel repeating their 1984 growth of 44 per cent followed by food, beverages and tobacco products with 29 per cent.

In identifying structural changes within the manufacturing sector that have occured at the branch level over a 10 year period (1973-82) the following conclusions can be drawn (Table 11):

- Tobacco has over this period become the single most important branch and in 1982 contributed almost one fourth (23.2 per cent) to total MVA. Second came food products which have kept a share of roughly 18 per cent.

- The largest gain in relative importance was achieved by textiles. This branch almost doubled its MVA share from 7.8 to 15.3 per cent. As this development is to some extent linked to foreign investment in Sri Lanka's first export-processing zone which was established in 1979 this trend may be expected to continue or even accelerate in the near future.

- A further strong share increase was recorded by non-metallic mineral products (ISIC 369) which in 1982 accounted for 13.2 per cent of MVA.

- Capital goods industries, on the other hand, were the main branches that lost in importance. The combined MVA share of fabricated metal products, electrical and non-electrical machinery as well as transport equipment decreased from 11.1 to 6.3 per cent between 1973-82.

1/ Cf. Central Bank of Ceylon, Economic Performance in the First Half of 1985.

2/ Again largely due to necessary maintenance work in the petroleum refinery. Excluding the Ceylon Petroleum Corporation, public sector industrial output increased by 4 per cent.

Table 11. Branch composition of manufacturing production and value-added, 1970, 1973, 1980 and 1982

Description (ISIC)	Share in production (current prices)		Share in value-added (current prices)		Share in value-added (constant 1975 prices)		
	1970	1980	1973	1980	1973	1980	1982
Total Manufacturing (300)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Food products (311)	14.5	8.4	9.8	9.3	18.2	15.2	17.9
Beverages (313)	2.0	2.0	2.5	2.5	2.6	4.4	4.6
Tobacco (314)	13.3	6.8	14.5	21.1	17.3	23.3	23.2
Textiles (321)	12.3	5.1	15.0	9.0	7.8	12.8	15.3
Wearing apparel, except footwear (322)	2.5	3.3	3.4	3.8	0.2	0.3	0.3
Leather products (323)	0.7	0.3	0.9	0.4	0.7	1.1	1.3
Footwear, except rubber or plastic (324)	1.2	0.4	1.5	0.5	0.7	1.2	1.4
Wood products, except furniture (331)	1.4	1.4	2.1	1.7	6.1	4.8	4.3
Furniture, except metal (332)	0.2	0.1	0.3	0.2	0.6	...	...
Paper and products (341)	4.3	2.0	3.7	2.5	2.7	1.9	1.8
Printing and publishing (342)	1.0	1.0	0.8	1.2	0.6	0.2	0.3
Industrial chemicals (351)	0.6	0.9	0.9	0.8	0.2	0.3	0.3
Other chemicals (352)	5.8	3.7	7.4	4.1	2.1	2.2	2.4
Petroleum refineries (353)	13.2	45.1	5.0	18.3	5.5	4.6	4.6
Misc.petroleum and coal products (354)	0.4	0.0	0.6	0.0	0.2	...	...
Rubber products (355)	3.2	3.3	4.7	4.6	0.9	1.7	1.4
Plastic products (356)	1.3	1.3	1.7	1.3	0.5	...	...
Pottery, china, earthenware (361)	0.5	0.5	0.9	1.2	0.1	0.2	0.1
Glass and products (362)	0.5	0.1	0.8	0.2	0.8	...	...
Other non-metallic mineral prod. (369)	5.7	6.3	6.6	6.8	7.4	15.1	13.2
Iron and steel (371)	2.1	2.6	1.4	1.1	0.9	1.2	0.9
Non-ferrous metals (372)	0.9	0.6	0.6	0.6	0.2	0.2	0.2
Fabricated metal products (381)	3.5	1.4	4.1	2.2	2.5	1.1	1.2
Machinery, except electrical (382)	3.1	0.8	3.7	1.3	3.0	1.3	1.6
Machinery electric (383)	3.8	1.9	4.6	3.5	4.9	3.6	2.9
Transport equipment (384)	1.0	0.7	1.3	1.2	0.7	0.9	0.6
Professional & scientific equipm. (385)	0.2	0.1	0.3	0.2	4.9	...	...
Other manufactured products (390)	0.8	0.2	1.0	0.3	7.7	2.4	...

Source: Statistics and Survey Unit, UNIDO. Based on data supplied by the UN Statistical Office, with estimates by the UNIDO Secretariat.

Note: TOTAL MANUFACTURING is the sum of the available components and does not necessarily correspond to ISIC 300 total.

The overall picture emerging is that the manufacturing sector of Sri Lanka has continued to be dominated primarily by agro-based industries (food, beverages and tobacco) with a combined MVA share of 46 per cent (1982), by labour-intensive industries such as textiles and by resource-based industries such as non-metallic mineral products. These five manufacturing branches plus petroleum refineries generated almost 80 per cent of total MVA in 1982.

According to Central Bank figures, state-owned industrial enterprises in 1983 accounted for 56 per cent of the total value of industrial production. Excluding the Ceylon Petroleum Corporation the corresponding share was 25 per cent. A closer analysis of the relative performance of private and public sector enterprises will be provided in the following section.

2.2 Performance and efficiency

As has been shown earlier, the share of manufacturing in GDP peaked in 1977 at 23 per cent and has since been declining to about 15 per cent. Thus, as seen against the standard pattern of a rising manufacturing share of GDP in the development process, a structural regression has taken place. This was, however, largely due to the poor performance of the export-processing subsector. When looking only at factory industries, their GDP share remained constant at almost 9 per cent in current prices and increased from 7.6 per cent (1977) to 10.0 per cent (1984) in constant prices.

Exact employment figures for the post-1980 years are not available; it may be estimated, however, that some 10-11 per cent of the labour force are accounted for by the manufacturing sector. A branch-wise disaggregation of manufacturing employment (based on the Survey of Manufacturing Industries) for 1980 shows the leading role of textiles (21.2 per cent) followed in descending order of magnitude by food products (14.5 per cent), other non-metallic mineral products (9.5 per cent), wearing apparel (9.2 per cent), rubber products (4.4 per cent) and paper and paper products (4.1 per cent), all other branches ranging below a share of 4 per cent each (Table 12).

A comparison of the branch shares in total manufacturing employment with those in wages and salaries suggests that both in food and in textile industries the wage level is far below the manufacturing average whereas, on

the other hand, it largely exceeds the average in petroleum refineries and other non-metallic mineral products (Table 12).

Employment provided by state industries (Table 13) has not undergone substantial changes during the eighties. After a certain decrease in 1981 which was almost completely due to reduced employment in National Packaging Materials it has maintained a level of some 66,000.

A significant trend revealed by Table 12 for the period 1973-80 is the decline in the share of value-added in gross output from 43.8 to 26.8 per cent indicating a relatively low level of industrial processing. Very recently, this trend may have been reversed as the value added/gross output-ratio went up again to 28.1 per cent in 1983 and to 31.3 per cent in 1984.

As can be seen from Annex Table A-4 the percentage of foreign raw materials in total raw materials used in manufacturing production has moved up steeply between 1977-80 and has - with the exception of 1982 - remained at almost 90 per cent since. Among the sectors drawing most heavily upon foreign imports of raw materials were (apart from petroleum refineries) textiles, wearing apparel and leather products with an import ratio of 84 per cent. To be sure, the figures presented in Annex-Table A-4 should be interpreted with care as they are derived from the generalization of estimates relating to public sector industries only. Keeping this caveat in mind they are broadly indicative, however, of the strikingly high degree of import dependence that Sri Lanka's manufacturing sector has recently developed.

The trend in capacity utilization in industry (Table 14) has followed a pattern that - not surprisingly - corresponds to the recent industrial growth pattern. In the years immediately following economic liberalization under the new Government the capacity utilization rate recorded high increases, in particular in 1978 when it went up from the previous year's 60 per cent to 70 per cent. In subsequent years only slow progress could be achieved. After the setback in 1983, capacity utilization in 1984 reached 75 per cent thus being only marginally lower than the 1982 record figure. The only industrial branch which has consistently improved its performance throughout the last seven years is textiles, wearing apparel and leather

Table 12. Selected performance indicators by manufacturing branches, 1973/1980 (on the basis of current prices)

Description (ISIC)	Employment Share in total (percentage)		Wages and salaries Share in total (percentage)		Share of value added in gross output percentage)	
	1973	1980	1973	1980	1973	1980
Total manufacturing (300)	100.0	100.0	...	100.0	43.8	26.8
Food products (311)	11.4	14.5	...	9.2	29.5	29.7
Beverages (313)	2.8	3.4	...	3.5	56.4	33.6
Tobacco (314)	1.8	1.5	...	2.4	47.8	83.4
Textiles (321)	19.3	21.2	...	16.8	53.5	47.0
Wearing apparel, except footwear (322)	7.0	9.2	...	6.8	59.2	31.4
Leather products (323)	1.5	0.5	...	0.4	57.9	36.0
Footwear, except rubber of plastic (324)	1.7	1.1	...	1.4	54.3	38.2
Wood products, except furniture (331)	2.8	3.6	...	3.1	66.7	33.2
Furniture, except metal (332)	0.5	0.7	...	0.4	57.1	56.3
Paper and products (341)	5.4	4.1	...	4.0	38.3	34.1
Printing and publishing (342)	1.3	2.5	...	3.4	37.0	29.7
Industrial chemicals (351)	0.6	1.2	...	1.5	61.1	24.8
Other chemicals (352)	6.5	3.8	...	4.7	55.5	30.1
Petroleum refineries (353)	0.5	3.3	...	5.9	16.5	10.8
Misc. petroleum and coal products (354)	0.3	0.0	...	0.0	63.6	50.0
Rubber products (355)	4.7	4.4	...	5.8	63.7	37.5
Plastic products (356)	1.8	1.4	...	1.3	58.3	26.7
Pottery, china, earthenware (361)	0.9	2.4	...	2.8	84.6	73.8
Glass and products (362)	1.1	0.5	...	0.5	71.4	61.5
Other non-metallic mineral prod. (369)	7.2	9.5	...	13.6	50.3	29.0
Iron and steel (371)	1.3	1.3	...	2.3	28.5	10.8
Non-ferrous metals (372)	0.4	0.5	...	0.8	29.7	28.1
Fabricated metal products (381)	5.6	2.9	...	3.0	51.0	42.6
Machinery, except electrical (382)	6.6	2.2	...	2.3	51.1	41.8
Machinery electric (383)	2.9	1.9	...	2.0	52.3	49.6
Transport equipment (384)	2.7	1.3	...	1.3	59.3	48.8
Professional & scientific equipment (385)	0.6	0.5	...	0.3	57.1	63.2
Other manufactured products (390)	0.8	0.6	...	0.5	54.5	44.7

Source: Statistics and Survey Unit, UNIDO. Based on data supplied by the UN Statistical Office, with estimates by the UNIDO Secretariat.

Table 13. Employment in state industries, 1980-1984
(in absolute numbers)

Corporation/Enterprise	1980	1981	1982	1983	1984[a/]
1. National Milk Board	1,391	1,770	1,795	1,758	1,696
2. Ceylon Oils and Fats	1,140	1,052	1,083	1,097	1,037
3. Sri Lanka Sugar	8,587	7,781	9,528	10,125	10,125
4. Sri Lanka State Flour Milling	665	617	600[b/]	-	-
5. Sri Lanka National Salt	1,008	1,055	1,778	1,939	1,887
6. State Distilleries	1,660	1,842	1,908	1,894	1,891
7. Sri Lanka Tobacco Industries	956	959	939	n.a.	n.a.
8. National Textile	8,573	8,842	8,847	9,092	8,235
9. Ceylon Leather Products	1,087	1,062	1,070	1,155	1,179
10. National Packaging Materials	6,328[c/]	455	390	216	216
11. Ceylon Plywoods	3,684	3,519	3,547	3,700	3,643
12. State Timber	1,942	2,061	3,019	3,114	3,695
13. National Paper	4,604	4,383	4,562	4,340	4,288
14. State Printing	489	507	555	559	488
15. Paranthan Chemicals	424	435	553	541	503
16. Sri Lanka Ayurvedic Drugs	217	243	234	238	238
17. State Fertilizer Manufacturing	952	984	954	913	945
18. Ceylon Petroleum	5,190	5,809	5,944	6,186	6,232
19. Sri Lanka Tyre	1,921	1,888	1,904	1,874	1,874
20. State Rubber Manufacturing	361	326	247	197	202
21. Ceylon Ceramics	5,819	6,136	7,234	7,255	7,255
22. Sri Lanka Cement	5,959	7,507	5,152	4,875	4,466
23. Ceylon Mineral Sands	487	509	570	597	606
24. State Mining and Mineral Development	2,430	2,430	2,370	2,281	2,136
25. Ceylon Steel	2,243	2,214	2,305	2,230	1,749
26. State Hardware	1,578	1,439	1,385	1,327	1,286
Total	69,695	65,825	67,390	67,503	65,872

a/ Provisional, where figures for 1984 are not available, 1983 figures have been repeated.

b/ Total number employed as at end of June, 1982.

c/ Estimated.

Source: Central Bank of Ceylon, Review of the Economy 1984.

products having moved up from a below-average figure in 1977 to a remarkably high level of 99 per cent in 1984. All other branches, with the notable exception of basic metal products (only 17 per cent), reported capacity utilization rates of at least 68 per cent in 1984 (at the two-digit ISIC level).

Comparison of selected indicators for 1980 between private and public sector enterprises (Table 15) reveals that the latter have performed far worse than their private sector counterparts. The following results are noteworthy:

Table 14. Capacity utilization in industry, 1977-1984
(Percentages)

Industry Group	1977	1978	1979	1980	1981	1982	1983	1984[a/]
1. Food, Beverages and Tobacco	69	70	72	70	66	77	73	75
2. Textiles, Wearing Apparel and Leather Products[b/]	55	62	67	70	87	94	98	99
3. Wood and Wood Products	71	78	84	89	81	92	95	93
4. Paper and Paper Products	70	72	70	68	75	70	71	76
5. Chemcial, Petroleum, Coal, Rubber & Plastic Products	61	67	65	79	76	77	63	68
6. Non-Metallic Mineral Products	61	77	80	82	83	85	77	75
7. Basic Metal Products	40	63	68	62	53	33	25	17
8. Fabricated Metal Products, Machinery and Transport Equipment	54	64	60	58	68	83	81	84
9. Products Not Elsewhere Specified	59	79	74	70	69	73	81	87
TOTAL:	60	70	72	73	74	76	74	75

a/ Provisional

b/ Excluding IPZ-enterprises

Source: Central Bank of Ceylon.

- Public sector industrial enterprises are characterized by a significantly higher net capital coefficient (2.6) than is the case for private industries (0.8). The same applies for capital per employee: The capital/labour-ratio for public industries is almost three times higher than for private industries. Moreover, the value-added/production-ratio of public industries (17 per cent) is only marginally higher than one third of the private industries' corresponding figure of 49 per cent.

  These figures, however, must not be prematurely interpreted at their face value. As they reflect aggregate performance across the whole industrial sector they necessarily veil the heterogeneous branch structures of private and public industrial production as well as their different size structures (see section 2.5) both of which are among the determinants of the variances in performance described above. With the Petroleum Corporation alone accounting for more than 50 per cent of public industrial output it is less surprising that public industries as a whole should be more capital-intensive and less value-added generating than private industries.

- In view of the enormous importance of public industries in Sri Lanka it is a more disturbing result of the comparative exercise in Table 15 that they obviously require almost three times the capital per employee to achieve a labour productivity that in 1980 was 28 per cent lower than that of private industries. This can only be interpreted as a clear indicator of their relatively inefficient production of industrial goods. This conclusion is confirmed by the fact that while the index of industrial employment stood at 146 in 1981 for private and public industries alike, the former's output index had risen to 174, the latter's, however, only to 115 (1976 = 100).[1/]

No comparable data for the period after 1980 are available so that it cannot be ascertained whether and to what extent public industrial enterprises may have been able to reduce the productivity gap with private industries.

1/ Cf. World Bank, Sri Lanka: Recent Economic Development, Prospects and Policies, Report No. 5038-CE, 4 May 1984, p. 66.

Table 15. Selected performance indicators of private sector and public sector manufacturing industries, 1980

	Private sector	Public sector	Total
1. Value of production (Rs. million)	5,678	13,025	18,703
2. Value added (Rs. million)	2,791	2,193	4,983
3. Fixed capital (Rs. million)	2,246	5,769	8,015
4. Employment (absolute number)	80,673	81,171	161,844
5. Net capital coefficient (3./2.; per cent)	0.8	2.6	1.6
6. Net labour productivity (2./4.; Rs)	34,596	27,017	30,789
7. Capital-labour ratio (3./4.; Rs)	27,840	71,072	49,523
8. Value added-production ratio (2./1.; per cent)	49	17	27

Source: Calculated from Department of Census and Statistics, Survey of Manufacturing Industries 1980.

Note: The employment figures for the public sector differ from those given in Table 13 as Table 15 also includes departmental undertakings and G.O.B.U.

The transfer of Government funds to public industrial enterprises has sharply increased in recent years and has continued to represent a considerable burden for the strained public budget (for detailed figures on the performance of state industrial enterprises as well as the structure of public transfers see Annex Tables A-5 and A-6).

The Government is aware of the fact that in their present set-up public industries as a whole pose a serious threat to achieving higher production efficiency and has, accordingly, taken a number of policy steps to cope with this problem (see chapter 3).

It is generally rather difficult to obtain reliable judgements on the efficiency of a country's total manufacturing sector as well as on the efficiency of individual industrial branches. One of the possible indirect methods is to take the effective protection rates as a proxy, based on the plausible assumption that the most ineffective industries turn out to be those enjoying the highest protection from international competition. This approach has, on the other hand, its obvious limits insofar as it presupposes a basic degree of rationality governing the existing tariff structure of a country. Given the fact that in Sri Lanka the process of tariff fixing has been subject to strong political influences on a case-by-case basis, the result has not been a coherent structure of effective protection.[1/] It emerges quite clearly, however, that the highest degree of protection is granted to those industrial branches (ferrous & non-ferrous metal production; electrical goods) that are low value-added generating and that operate at rather low portions of their installed capacity.

In the study just refered to, the average effective protection rate for the whole manufacturing sector was calculated to be 69 per cent, which can be considered as high but not exceptionally so. To put this figure in a regional perspective it may be added that the same degree of protection was found in Pakistan (69 per cent in 1980/81), Thailand (70 per cent in 1978) and the Philippines (70 per cent in 1980).[2/]

1/ For details cf. the report of Arthur D. Little International, Inc. on Developing Sri Lanka's Private Sector and Its Investment Opportunities, August 1983, Volume 2, pp. 56 ff.

2/ For these figures cf. UNIDO, Industrial Development Review Series, Pakistan, IS. 535, 3 June 1985, p. 19 and Luetkenhorst, W., 'Import Restrictions and Export Promotion Measures in Southeast Asian Countries', ASEAN Economic Bulletin, Vol. 1, No. 1, July 1984, p. 50.

2.3 Trade in manufactured goods

As described in section 1.1, the share of total foreign trade in GNP has tremendously increased in the period 1975-84. In most years there was, however, a sizeable merchandise trade deficit which in the early 1980s ranged between 14 and 24 per cent of GNP, with an exceptional improvement in 1984. Total export performance has continued to largely depend on fluctuations in the prices of Sri Lanka's major export crops (tea, coconuts, rubber) so that a rapid growth in non-traditional manufactured exports could significantly contribute to improving the country's structurally weak balance-of-payments position.

With regard to the geographical distribution of Sri Lanka's trade in manufactures it can be seen from Table 16 that 39 per cent of total manufactured exports but only 15 per cent of their more narrowly defined segment (SITC 5-8 less 68) are directed towards other developing countries (in 1982). Developed market economies have been of overwhelming importance as export markets, absorbing 85 per cent of the narrowly defined manufactures while the role of centrally planned developed countries has been negligible, not only on the export but also on the import side. What may give rise to concern is the fact that just these non-traditonal manufactured exports are lacking in geographical diversification: More than two fifths (43 per cent) in 1982 were accounted for by the US market alone which was a larger share than for all other developed market economies taken together. Placing these figures in a regional perspective, it can be added that e.g. India in 1980 exported 53 per cent of her narrowly defined manufactures to developed market economies (with the EEC being the largest 'single' market absorbing 27 per cent) while the corresponding figures for Pakistan in 1982 were 50 per cent and 24 per cent (also to EEC).[1/]

The share of manufactures in total exports (Table 17) has increased between 1974-82 regardless of the definition used. It has to be pointed out, however, that total manufactures (which in 1982 constituted almost three

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1/ For these figures cf. UNIDO, Industrial Development Review Series, India (IS.547 of 5 July 1985) and Pakistan (IS. 535 of 3 June 1985).

Table 16. Geographical distribution of manufactured exports and imports, 1982 (percentage shares)

	Developing Countries	Developed Market Economies	Centrally Planned Developed Countries
Total exports	37.99	48.05	4.37
Total manufactured exports[a/]	39.08	47.21	0.92
SITC 5-8 less 68[b/]	14.70	84.93	0.34
Total imports	50.79	46.13	0.44
Total manufactured imports[a/]	31.15	64.42	0.64
SITC 5-8 less 68[b/]	25.70	69.24	0.76

Source: UNIDO data base; information supplied by the United Nations Statistical Office.

Note: Percentages may not add to 100.0 due to the fact that countries report trade to/from "unspecified areas".

a/ Based on a definition of trade in manufactures covering a list of 148 specifically identified SITC 3-digit or 4-digit codes comprising a wide range of processing stages of manufactured goods.

b/ Covers only items recognized as exclusively manufactured goods, i.e. with a high level of manufacturing content.

quarters of all exports), include also tea and mate (SITC 074) which tends to distort the analysis. Excluding SITC 074, the share of manufactures in total exports rose from 18 to 42 per cent between 1974-82. Further excluding the re-exports of petroleum refineries, the share was 29 per cent in 1982 coming close to the share of the more narrowly defined segment of manufactures which reached more than one quarter (26 per cent) of total exports. This is a remarkable achievement when compared to the 1974 share of only 6 per cent. This rising share, however, was not based on a broad diversified spectrum

of manufactured goods but rather on the outstanding role that clothing exports have played: Between 1974-82 the share of clothing in total SITC 5-8 less 68 exports shot up from 12.6 to 73.6 per cent.

National statistics published by the Central Bank of Ceylon broadly confirm these results (Table 18) showing that industrial exports (excluding tea which appears under agricultural exports) accounted for 34 per cent of all exports in 1984 with the main driving force being textiles and garments which were responsible for 20 per cent of the total. Of all manufactured exports other than clothing and petroleum products chemical products recorded the highest growth in 1984 (62 per cent in rupee terms) followed by leather, rubber, wood and ceramic products (39 per cent) and food, beverages and tobacco (21 per cent). Exports of cement, jewellery, machinery and mechanical and electrical appliances, on the other hand, declined by 32 per cent, 4 per cent and 7 per cent cent respectively.

Table 17. Share of manufactures in total exports and imports, 1974/1981/1982 (percentages)

	Exports			Imports		
	1974	1981	1982	1974	1981	1982
Total manufactures[a/]	57.9	69.2	72.6	75.5	67.7	64.8
Total manufactures except tea and mate	18.4	36.1	42.0			
Total manufactures except tea and petroleum refineries	11.0	22.8	29.1			
SITC 5-8 less 68[b/]	5.6	21.5	26.0	29.8	52.2	52.8

Source: UNIDO data base; information supplied by the United Nations Statistical Office.

a/ Based on a definition of trade in manufactures covering a list of 148 specifically identified SITC 3-digit or 4-digit codes comprising a wide range of processing stages of manufactured goods.

b/ Covers only items recognized as exclusively manufactured goods, i.e. with a high level of manufacturing content.

As to the processing level of traded goods (Table 19) it is noteworthy that between 1970-82 processed goods for final use increased their share from a negligible 1 per cent to 35 per cent. Structural change in the same category on the import side has been less pronounced with a reduction from 63 to 51 per cent. The steep rise of the import share of non-processed goods for further processing is hardly surprising bearing in mind that the period covered by these figures includes the structural upheavals of two drastic oil price increases. Petroleum, being the single most important import item, accounted for 23 per cent of the total in 1984 (for further details on the end use classification of imports cf. Annex-Table A-11). Sri Lanka's terms of trade which were down to 38 (1978 = 100) in 1982 continued to improve in 1984 when they reached a level of 50 following 44 in 1983.

Table 18. Changes in Composition of Exports, 1974, 1984

	Rs. Million		Percentage of Total	
	1974	1984	1974	1984
Agricultural Exports	2,647	22,542	75	60
Tea	1,360	15,764	39	42
Rubber	738	3,301	21	9
Coconut Products	397	2,118	11	5
Minor Agricultural Exports	152	1,358	4	4
Industrial Exports	484	12,591	14	34
Textile and Garments	26	7,535	1	20
Petroleum Products	350	3,288	10	9
Other	108	1,768	3	5
Mineral Exports	135	832	4	2
Gems	109	617	3	2
Other	26	215	1	...
Unclassified	237	1,582	7	4
Total Exports[a/]	3,503	37,347	100	100

Source: Central Bank of Ceylon, Review of the Economy 1984.

a/ Adjusted.

Table 19. Share of exports and imports classified according to level of processing 1970 and 1982 and trend growth rates 1970-1975 and 1975-1982

CLASSES	EXPORTS				IMPORTS			
	CLASS SHARE OF TOTAL (PERCENTAGE)		CLASS GROWTH RATE (PERCENTAGE)		CLASS SHARE OF TOTAL (PERCENTAGE)		CLASS GROWTH RATE (PERCENTAGE)	
	1970	1982	1970-1975	1975-1982	1970	1982	1970-1975	1975-1982
A : Non-processed goods for further processing	27.96	20.02	12.09	5.37	3.13	34.71	75.63	26.13
B : Processed goods for further processing	6.62	4.37	10.73	2.70	24.83	12.37	16.78	7.42
C : Non-processed goods for final use	64.65	40.95	8.60	4.57	8.90	1.68	-24.87	39.67
D : Processed goods for final use	0.77	34.65	91.34	34.63	63.14	51.25	11.55	22.56
	1970	1982			1970	1982		
Sum of classes: A+B+C+D in 1000 current US$	331596	994722			386599	1769590		
Total trade SITC 0-9 in 1000 current US$	331596	994822			386607	1769863		

SOURCE: UNIDO data base; Information supplied by the United Nations Statistical Office, with estimates by the UNIDO Secretariat.

Note: Calculations are based on current us dollar prices.
Sum of classes and Total trade figures should be identical. Discrepancies or zero values are due to lack of countrys' trade reporting in general, but especially at the 3-, 4- and 5-digit SITC level.

2.4 Ownership and investment patterns

Among the salient features of the 1977 shift in industrial strategy and policies, as was mentioned before, was the assignment of a leading dynamic role in development to foreign investment. Foreign investors were expected to bring along modern technologies hitherto unused in Sri Lanka, to open up new markets in the country's endeavour to become an exporter of non-traditional manufactured goods and eventually to increase the overall efficiency of industrial production.

Among the first steps taken by the Government within the framework of its 'open door' foreign investment policy was the establishment of the Greater Colombo Economic Commission which was set up to channel and regulate all foreign investments in specifically designed so-called Investment Promotion Zones (IPZ)[1/] providing extensive infrastructural facilities, generous investment incentives and administrative short-cut to potential investors.

The first and so far the only operational IPZ is located near Colombo at Katunayake. The development of a second IPZ scheduled to be operative in early 1986 is currently underway at Biyagama with special emphasis on attracting heavy industries and highly water-intensive industries. A third zone aimed at concentrating on light industries is planned to be built at Welisara.

Including 15 new investment projects in 1984, the total number of approved GCEC projects is now at 199 of which 112 enterprises have signed investment contracts.[2/] 74 enterprises have already taken up commercial production, thereof 62 within the Katunayake IPZ. Investments originated from 25 countries including Japan, FRG, Hongkong, Switzerland, India, Norway and UK.

1/ These are essentially of the same nature as what in other Asian countries is better known under export-processing zones. For a general overview of the characteristics of and problems connected with these zones cf. UNIDO, Export Processing Zones in Developing Countries, ICIS. 176, 18 August 1980 and OECD, Investing in Free Export Processing Zones, Paris 1984.

2/ Cf. Central Bank of Ceylon, Review of the Economy 1984, p. 57. Another 5 contracts have been signed between January and September 1985, all of them concerning non-garment projects.

Between 1979-84 foreign manufacturing investments amounting to almost Rs 4 billion (for details see Table 20) were approved. Approvals peaked in 1980 at Rs 1170 million, and then declined steadily to a minimum of Rs 136 million in 1983 (violent ethnic conflicts and state of emergency) from which they recovered in 1984 to roughly the 1982 level of slightly over Rs 400 million. A major share of all foreign investments has gone into garments production although the impression emerges from Table 20 that the branch structure of investment is fairly well diversified.

This is true, however, only with regard to the amount of capital invested. Looking at both employment and gross export earnings, the overriding importance of textiles, wearing apparel and leather goods becomes obvious: In June 1985 this sector provided employment for 85 per cent of all workers in IPZ manufacturing enterprises and generated 86 per cent of their gross export earnings[1/]. This perfectly explains the Government's recent emphasis on a growth-cum-diversification approach towards the future role of IPZs.

A peculiarity of foreign investment in Sri Lanka is the relatively high share accounted for by investors from other developing Southeast and East Asian countries. Among their major investment motives is the evasion of MFA quotas established in OECD countries' markets restricting developing countries' clothing exports. This specific strategy of 'quota-hopping' has often been reported to be a major driving force behind investments from Hongkong, Singapore or the Republic of Korea in Sri Lanka.

Foreign investment outside the IPZs has to be chanelled through the Foreign Investment Advisory Committee (FIAC). Investments approved by FIAC (Table 21) were initially substantially lower than those under GCEC while in 1983 and 1984 the opposite was true. Total employment in FIAC approved and implemented investment projects stood at 38,733 at the end of 1984.

1/ Total employment in IPZ: 32,725 (thereof Air Lanka: 3,248); gross export earnings: Rs 3,537 million excluding Air Lanka (both figures for 1984).

Table 20. Foreign Investment in manufacturing industries under GCEC approval (at current Rs. million)

Category	Foreign investment											
	1979		1980		1981		1982		1983		1984[a]	
	A[b]	C[c]	A	C	A	C	A	C	A	C	A	C
Food, beverages and tobacco	20	-	28	-	-	-	-	-	-	-	-	-
Textile, wearing apparel and leather products	549	126	207	350	210	111	48	106	13	66	95	38
Wood and wood products (incl. furniture)	1	-	1	1	-	-	15	-	-	-	2	2
Paper and paper products	3	-		-	-		-	-	25	-	-	25
Chemical, petroleum, coal, rubber and plastic products	11	2	117	68	118	35	78	59	15	17	5	11
Non-metallic mineral products (except petroleum and coal)	88	387	156	57	18	18	23	7	2	25	-	-
Basic metal products	-	-	-	-	-	-	-	-	-	-	-	-
Fabricated metal products, machinery and transport equipment	23	-	125	60	54	6	207	1	14	-	74	22
Manufactured products (n.e.s.)	118	10	536	389	579	142	50	294	67	26	234	263
Total	813	525	1,170	925	979	312	421	467	136	134	410	361

Source: Greater Colombo Economic Commission.

a/ Provisional
b/ Approvals
c/ Contracted

Table 21. Foreign investment in manufacturing industries under FIAC approval, 1979-84 (at current Rs. millioon)

Category	Foreign investment					
	1979	1980	1981	1982	1983	1984[a/]
Food, beverages and tobacco	38	476	109	142	22	3
Textile, wearing apparel and leather products	253	11	30	49	50	212
Wood and wood products (incl. furniture)	5	1	65	5	28	5
Paper and paper products						
Chemical, petroleum, coal, rubber and plastic products	39	252	106	41	24	6
Non-metallic mineral products (except petroleum and coal)	6	203	64	27	68	215
Basic metal products	31	21	234	68	38	67
Fabricated metal products, machinery and transport equipment						
Manufactured products (n.e.s.)	20	27	4	6	21	14
Total	392	902	613	337	251	522

Source: Foreign Investment Advisory Committee.

a/ Provisional.

Table 22 compares the share of foreign in total investment for both categories of foreign investment. It shows a significantly higher foreign equity participation in the case of GCEC projects. This difference could be expected and is largely to be explained by the concentration of 100 per cent export-oriented enterprises in the IPZ in which case foreign investors are allowed to own 100 per cent of the equity capital (for further details on foreign investment under GCEC and FIAC see Annex Tables A-13 to A-16 as well as Annex B on investment incentives and priority areas for investment).

Table 22. Share of foreign in total investment under GCEC and FIAC, 1979-84 (percentages)

	1979	1980	1981	1982	1983	1984[c/]
GCEC[a/]	83.9	75.0	63.3	68.3	75.7	64.6
FIAC[b/]	41.3	64.1	58.2	42.1	24.3	40.7

Source: Greater Colombo Economic Commission and Foreign Investment Advisory Committee.

a/ Contracted.
b/ Approvals.
c/ Provisional.

Regarding the relative contribution of private and public sector sources to gross domestic capital formation in manufacturing industries, no time series data are available. The latest Manufacturing Survey, however, shows that in 1980 the bulk of manufacturing investment originated from the public sector, with public corporations accounting for 70 per cent of the total and government-owned business undertakings (GOBU) for another 2 per cent. Thus, an investment share of 28 per cent was left to private enterprises which held exactly the same share in total manufacturing capital stock in 1980. Comparing these figures to those presented in Table 5 (private sector share in total domestic capital formation of 40.5 per cent in 1980) it can be deduced that domestic public investment was heavily concentrated in the

manufacturing sector. It is unknown to which degree this tendency may have changed in the first half of the eighties.

2.5 Size and geographical distribution of manufacturing enterprises

Manufacturing production in Sri Lanka as covered by the Annual Survey of Manufacturing Industries has been highly concentrated in terms of its geographical distribution (Table 23). Figures for 1980 (on the basis of a total of 1,987 reporting units) reveal that the two adjoining districts Colombo and Gampaha host two thirds of all manufacturing enterprises in which 86 per cent of the country's manufacturing production and 82 per cent of MVA are generated. Conversely, the 10 industrially least developed districts (out of a total of 22 districts) only reach a combined share of 3.8 per cent of manufacturing enterprises, 2.5 per cent of manufacturing production and 3.2 per cent of MVA. Private sector manufacturing even tends to be slightly more concentrated, without, however, showing a pattern significantly different from that of total manufacturing.

Turning from the geographical to the size distribution of manufacturing industries a highly dualistic structural pattern emerges (Table 24):

- In 1980, more than 60 per cent of all manufacturing enterprises employed less than 20 persons, more than one third even less than 5 persons. Manufacturing units with an employment size of less than 20 persons accounted for only 4.8 per cent of manufacturing employment, 1.9 per cent of manufacturing production and 2.7 per cent of MVA.

- On the other hand the 3.4 per cent of manufacturing units employing more than 500 persons generated 54 per cent of manufacturing employment, 72.4 per cent of manufacturing production and 61.5 per cent of MVA in 1980.

- Public and private sector industries display distinctly different patterns of size distribution. While only 3.3 per cent of all private manufacturing units employ more than 250 persons, the same applies to 45.1 per cent of public corporations; almost every fifth public corporation (18 per cent) employs more than 1,000 persons.

The manufacturing sector thus is characterized by an extremely high dominance of very small enterprises. Estimates of the total number of registered and unregistered small industrial units range up to more than 8,000,

Table 23. Geographical distribution of manufacturing industries, 1980

Districts	Reporting units		Volume of production		Value added		Fixed capital (end 1980)	
	Number	Share	Rs. million	Share	Rs. million	Share	Rs. million	Share
Colombo	924	46.5	6,477	34.6	2,791	56.0	2,307	28.8
Gampaha	406	20.4	9,552	51.1	1,305	26.2	3,689	46.0
Kandy	135	6.8	50	0.3	20	0.4	87	1.1
Jaffna	77	3.9	461	2.5	101	2.0	290	3.6
Kalutara	64	3.2	319	1.7	176	3.5	78	1.0
Galle	62	2.1	227	1.2	60	1.2	80	1.0
Matara	58	2.9	426	2.3	86	1.7	287	3.6
Kegalla	57	2.0	160	0.9	77	1.5	128	1.6
Kurunegala	42	2.1	118	0.6	75	1.5	42	0.5
Puttalam	39	2.0	40	0.2	25	0.5	26	0.3
Nuwara Eliya	26	1.3	163	0.9	40	0.8	39	0.5
Ratnapura	22	1.1	23	1.2	75	1.5	459	5.7
Remaining 10 districts	111	3.8	468	2.5	159	3.2	505	6.3
Total	1,987	100.0	18,703	100.0	4,983	100.0	8,015	100.0

Source: Department of Census and Statistics, Report on the Survey on Manufacturing Industries, Sri Lanka 1980.

Table 24. Manufacturing enterprises, employment, production, value-added and fixed capital by size classes of employment, 1980 (percentage shares)

Size classes of employment	Share in total number	Share in total employment	Share in total production	Share in total value-added	Share in total fixed capital
0-5	35.8	1.2	0.4	0.6	0.6
6-9	11.8	1.1	0.4	0.5	0.5
10-19	15.0	2.5	1.1	1.6	1.7
20-49	15.4	6.0	3.1	4.9	3.3
50-99	8.1	7.2	5.4	8.0	4.7
100-249	7.4	14.1	9.6	12.8	9.5
250-500	3.2	14.0	7.6	10.2	8.3
500-999	1.9	17.7	6.4	9.5	44.2
1000 and above	1.5	36.3	66.0	52.0	27.2

Source: Department of Census and Statistics, Report on the Survey on Manufacturing Industries, Sri Lanka 1980.

with an additional 15 - 30,000 unregistered cottage units.[1/]

Growth rates of small industries' MVA have shown a declining tendency in recent years. According to national accounts statistics (covering only registered industrial units in the formal sector), MVA of the small industry sector increased by 8.2 per cent during the period 1970-77, 7.6 per cent in 1977-82 and only 4.1 per cent in 1982-84 (Table 9).

From an industrial policy point of view it is hence of eminent importance that promotional measures be designed and an overall framework be developed conducive to the creation of a sizeable and dynamic medium-scale private sector. This would contribute to bridging the gap between traditional small-scale and modern large-scale enterprises which until now have remained essentially unrelated in their activities. A large potential for increasing the degree of industrial subcontracting thus remains to be exploited.

1/ Cf. Arthur D. Little International, Developing Sri Lanka's Private Sector and its Investment Opportunities, Vol. 2, August 1983, p. 24.

3. INDUSTRIAL DEVELOPMENT STRATEGIES, POLICIES, PLANS AND INSTITUTIONS

3.1 Planning process

Before turning to the goals, priorities and measures in the field of industrial policy a few general remarks on the process of economic planning in Sri Lanka must be made to set the stage for the following section.[1/]

In the past, Sri Lankan policy-makers have often relied upon comprehensive medium- to long-term planning exercises as documented e.g. in the country's first Ten-Year Plan published in 1959 or in the Five-Year Plan covering the period 1972-76. With the adoption of a new economic strategy in 1978, major changes in the technique of economic planning were also introduced. It was felt by the Government

- that the liberal economic policy approach required a less binding, more indicative planning framework as far as the private sector is concerned and
- that the economic plan for a country heavily dependent both on the fluctuations of agricultural production and the imponderabilities of the world market should be characterized by a high degree of flexibility.

In further elaborating on the details of the planning process in Sri Lanka the public and the private sector of the economy have to be strictly separated.

Public sector planning is based on a phased programme of resource allocation within a five-year framework as documented in the Public Investment Programme which is, however, revised every year to reflect changing resource availabilities and emerging budget constraints ('rolling plan' principle). This centerpiece of the planning process has in the recent past largely focused on the completion of massive infrastructural projects with long gestation periods, such as the Accelerated Mahaweli Project, Urban and Housing Development or the establishment of Investment Promotion Zones. The annual

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1/ Cf. for this section Fernando, L., 'The Planning Process in Sri Lanka', Economic Review, June 1985, pp.10-11.

preparation of the Public Investment Programme starts after presentation of the Budget in November. It is formulated by the line Ministries and subsequently submitted to the Committee of Development Secretaries for approval. It is worth mentioning to indicate the weight of the programme, that no project will receive budgetary allocation which is not included in it.

An important decision on the establishment of investment priorities was taken by the Government in February 1984. Henceforth, (1) ongoing projects are to receive sufficient resources to be adequately operated and maintained before new projects are embarked on and (2) public investment is to play a subsidiary role: it is not to be directed into projects that can be handled more efficiently by the private sector . In accordance with these principles the following priority areas for public investment have been identified:

- quick-yielding production-oriented projects which would reduce the balance-of-payments problem either through export expansion or efficient import-substitution and which the private sector cannot undertake on its own;

- essential infrastructural needs in power, irrigation, transport and communication;

- urgent needs in health, education, housing and nutritional standards of the people.

On the issue of planning for private sector activities not much is to be added. The private sector which is expected to perform the leading role and to make substantial development contributions is only subject to indicative planning: by means of essentially indirect policy instruments such as incentives, taxes and tariffs the Government tries to establish a rational framework of economic conditions conducive to productive and efficient private activities.

3.2. Objectives and prospects

A viable competitive manufacturing sector is considered by the Government as the backbone for Sri Lanka's future development prospects, in particular for achieving the income, employment and export targets set for the remaining years of the 1980s. Besides the contribution that manufacturing will have to make to the absorption of a rapidly increasing labour force, emphasis is placed on sectoral complementarities, i.e. on the catalyst function to be performed by manufacturing in providing inputs to and absorbing outputs of the other sectors of the economy.

The manufacturing sector is felt to be at the crossroads insofar as the scope for efficient import-substitution has been largely exhausted and export-oriented manufacturing on the basis of the country's resource endowment and comparative advantages will be of increasing importance. In other words, the sector's future prospects will largely depend on deliberate efforts "to overcome the constraints of a small domestic market, a narrow technological base and lack of competition for innovation and improvement".[1/]

According to the projections which underlie the Public Investment Programme 1985-1989, manufacturing will clearly be the fastest growing sector of the total economy with an average annual growth rate of 7.3 per cent (1984-89). Within the manufacturing sector the processing of tea, rubber and coconuts is expected to decline further in relative importance (annual growth rate only 1.8 per cent) while factory industries, small-scale and cottage industries (classified under 'other industries') are assumed to grow by 8.6 per cent per year (Table 25).

The expectation that this development is to be brought about primarily and almost exclusively by private sector efforts is strongly reflected in the sectoral distribution of public investment allocations for 1985-89: Of the total capital expenditures allocated to ongoing projects, 31 per cent have been earmarked for agriculture, 33 per cent for economic overheads (transport,

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1/ Ministry of Finance and Planning, Public Investment 1985-1989, p.90.

power, communication etc.) but only a negligible 0.3 per cent for industry while the industrial sector does not appear at all when it comes to hitherto identified new projects for public investment (for detailed information on the public investment of allocation for industry see Annex Table A-12).

Table 25. Gross domestic product by industrial origin, 1984, 1985, 1986 and 1989

(Rs. billion at constant 1983 prices)

	1984	1985	1986	1989	Average annual growth rate 1984-1989
1. Tea growing	3.75	3.82	3.86	3.97	1.1
2. Rubber growing	1.00	1.00	1.01	1.08	1.6
3. Coconut growing	3.13	3.64	3.71	3.94	4.7
4. Paddy inclusive of processing	6.69	6.91	7.14	7.83	3.2
5. Other agriculture	16.59	17.49	18.29	21.18	5.0
6. Total agriculture	31.16	32.86	34.01	38.00	4.0
7. Mining and quarrying	2.84	2.50	2.93	3.50	4.3
8. Tea, rubber and coconut processing	3.64	3.79	3.83	3.97	1.8
9. Other industries	13.57	14.67	15.87	20.49	8.6
10. Construction	9.80	10.30	10.89	13.93	7.3
11. Services	56.90	61.20	63.89	76.20	6.0
12. GDP	117.91	125.32	131.42	156.09	5.8

Source: Ministry of Finance and Planning, Public Investment, 1985-1989.

3.3 Recent policy measures

It may be useful, before going into details on more recent industrial policy measures, to briefly summarize once more the essentials of the policy reform package that was introduced in the wake of the 1977 change in government. First, price controls were largely eliminated (except for bread and pharmaceuticals). Second, imports were substantially liberalized (removal of state import monopolies; introduction of a negative list of prohibited imports, substituting for the previous complex system of import permits; simplification of tariff structure). Third, a unified and floating exchange rate was established and fourth, a legal and institutional framework conducive to the attraction of foreign investment was set up. Among the most significant institutions newly established after 1977 are the Greater

Colombo Economic Commission, the Foreign Investment Advisory Committee, the Local Investment Approval Committees and the Export Development Board (for details on their objectives and functions see section 3.4.).

The revision of the import duty structure figures prominently among the policy measures taken in 1984. Tariff changes based on the recommendations of the Presidential Tariff Commission were introduced to reduce the high disparities in the levels of effective protection and to reduce the existing bias to the disadvantage of export-oriented industries. As an example, import duty on machinery has been reduced from 7 to 5 per cent and more importantly, machinery imported for use in an industry which is at least 50 per cent export-oriented, is no longer subject to import duty. This measure may be expected to facilitate the acquisition of modern, efficient production technology from abroad.

Furthermore, a 'half tax holiday' was granted in the 1985 budget for selected non-traditional export industries whose production is generally based on local raw materials and generates high domestic value added.

In order to further promote small rural industries the Government has initiated the setting up of Regional Development Banks. In addition, investment tax relief up to one third of assessable income was granted to any investor purchasing shares in companies which establish new labour-intensive industries (employment potential of at least 25 persons) in areas outside the Colombo District.

With regard to all these measures just outlined it is obvious that the rationalization of the incentives structure has been accorded top priority in the framework of industrial policy.

Another priority policy area relates to public sector industrial enterprises which, on the one hand, are to receive technical assistance aimed at improving their efficieny. To this end, initial steps have been taken to establish a Public Corporations Cell within the Ministry of Industries and Scientific Affairs. On the other hand, efforts are also made to partly privatise public enterprises. It was reported that five textile mills were brought under management contracts with private foreign firms.

In the framework of preparing the 1986 budget, the Government reiterated its harsh stance against further supporting structurally weak public sector industries. Unless they can be rendered competitive within a limited span of time they should be either closed down or sold; the Committee of Development Secretaries was given the task to prepare a priority list accordingly. Further measures taken in late 1985 and aimed at alleviating budgetary strains include a pruning of all capital expenditure by approximately 15 per cent and a prescribed saving of 5 per cent in current expenditure of each ministry.[1/] No important changes in export and import control policy occurred recently, except for some minor revision concerning licence control. While some agricultural imports were liberalized, the import of outboard marine engines (above 25 hp), retreaded tyres, pesticides and certain synthetic fibres was brought under control.

3.4 Institutional framework for industry[2/]

In Sri Lanka four different ministries share the overall responsiblity for industrial development. These are the Ministry of Industries and Scientific Affairs which can be considered as the 'parent ministry' for the formulation and implementation of industrial policy and the corresponding framework of rules and regulations, the Ministry of Finance and Planning, the Ministry of Rural Industrial Development and the Ministry of Textile Industries.[3/]

The main objectives governing the activities of the Ministry of Industries and Scientific Affairs are broadly the following:

1/ Cf. Economist Intelligence Unit, Quarterly Economic Review of Sri Lanka, No. 4/1985, p. 9.

2/ Information presented in this section is largely based on Ministry of Finance and Planning/UNDP, Sri Lanka Industrial Statistics 1983, December 1983. This publication provides an excellent survey on the mandates and functions of various institutions which has been partly reproduced here. Further sources include: Department of Census and Statistics, Sri Lanka Year Book 1982; Central Bank of Ceylon, Review of the Economy 1984; Navaratnarajah, A.S., 'Sri Lanka's Export Development Board', International Trade Forum, April-June 1984.

3/ In addition mention should be made of the Ministry of Plan Implementation which inter alia covers the industrial sector as well as of the Ministry of Plantation Industries and the Ministry of Coconut Industries which are concerned to some degree with export-processing industrial activities.

- Foster growth in the industrial sector in such a manner as to make maximum use of local resources; provide employment opportunities to the maximum extent possible, consistent with economy and efficiency; plan location of industries consistent with economic and other criteria;

- Develop within the public sector such basic and heavy industries as would give depth to local industrial development and generate growth in the economy;

- Re-orient industrial research for practical ends and to develop industrial technologies consistent with the factor endowment within each industry;

- Stimulate and give maximum support to the export of manufactures;

- Establish and maintain the quality of industrial products at reasonable prices; and

- Promote scientific and industrial research.

In order to achieve the above objectives, the main functions of the Ministry relate to policy formulation, economic research and collection of statistics, export promotion, management of public sector enterprises, and promotion of industrial and scientific research by offering financial and technical assistance as well as study programmes.

The most important division within the Ministry of Finance and Planning relating to industrial development is the International Economic Co-operation Division which is responsible for the coordination of all activities relating to private foreign investment in Sri Lanka outside the GCEC area of authority. In promoting and regulating foreign investment it largely operates through the Foreign Investment Advisory Committee (see below).

The Ministry of Textile Industries has as its main objectives:

- Monitoring and development of textile industries, including spinning of yarn, weaving, knitting and finishing of textiles, manufacture of made-up textile goods, wearing apparel (except footwear), carpets and rugs, cordage rope and twine industries, and textile printing (except batik printing);

- Supervision of the management of state-owned textile manufacturing enterprises; and

- Export promotion of textile products, including made-up garments.

The Ministry of Rural Industrial Development - apart from its overall growth and employment promotion objective for the rural industrial sector - is charged with a rational planning of suitable locations for small industries and with the stimulation of handicrafts, in particular giving maximum support to the export of handicraft products.

In pursuance of their objectives the various ministries draw upon the activities of a wide number of operating departments and corporations to which they provide policy direction and guidance. The more important of these are included in Table 26 and will be described below as to their major goals, functions and activities.

Industrial Development Board of Ceylon (IDB)

The IDB, established in 1969 as a statutory board under the Ministry of Industries, plays a pivotal role in all activities relating to the promotion of small industries. Its main functions include:

- Consultancy services to government and private sector organizations in the establishment of new industrial projects.
- Provision of extension services to small and medium scale industries including project selection, project formulation and evaluation, selection, installation and maintenance of machinery and equipment, product improvement and diversification, credit facilities and assistance in marketing.
- Development, adaptation and manufacture of machinery for small and medium industries.
- The acquisition and dissemination of information on current developments and on matters of interest, local and abroad, to the small scale industrial sector.
- Undertaking in-depth studies in specialized areas, e.g. cast iron foundry, motor spares industry, approved and unapproved industries.
- Establishment and development of industrial estates. The IDB has, at present, four industrial estates at Ekala, Boossa, Pallakelle and Atchuvely. It has set up mini-industrial estates at Horana and Pannala, and intends to set up another mini-industrial estate at Lunuwila.
- Identification of small and medium scale industrial projects which are technically feasible and commercially viable. Preparation of model project reports for projects which have multiplication possibilities. Preparation of process profiles for products which could be operated on small and medium scale.

Table 26. Institutional infrastructure for industrial development

Ministry of Industries and Scientific Affairs	Ministry of Finance and Planning	Ministry of Rural Industrial Development	Presidential Level	Inter-Ministerial Level
- Industrial Development Board	- Foreign Investment Advisory Committee	- National Crafts Council	- Greater Colombo Economic Commission	- Sri Lanka Export Development Board
- National Institute of Business Management	- Central Bank of Ceylon	- Sri Lanka Handicrafts Board		
- Ceylon Institute of Scientific and Industrial Research	- Development Finance Corporation of Ceylon	- National Design Centre		
- National Engineering Research & Development Centre	- National Development Bank			
- Local Investment Approval Committees				
- Bureau of Ceylon Standards				

Private sector (with special Government relationship)
Sri Lanka Business Development Centre

- Implementation of entrepreneurship development programmes with a view to developing entrepreneurial skills of both new and existing industrialists.

A number of activities have recently been carried out under IDA assistance with a view to upgrading the technical services of the IDB. These include: a Rubber Products Development Centre, a Sub-Contracting Exchange, Demonstration Centres for Construction Materials, two Common Services Centres and an Electroplating Centre, and expansion of the Rubber Workshop.

The IDB has nine Regional Development Offices at Colombo, Kandy, Matara, Kalutara, Jaffna, Anuradhapura, Amparai, Badulla and Kurunegala, which provide assistance to the entrepreneurs in the respective districts.

The Sri Lanka Industrial Development Company was set up in 1972 as a fully-owned subsidiary of the IDB with the objective of setting up industrial projects of a pilot nature and for ultimate sale to the public. The industrial projects that are being handled by this Company are the Tractor Trailer Project at Kadawedduwa, Yatiyane; the Strawboard Project at Makewita, Ja-ela; Laboratory Glassware Project at Dalugama, Kelaniya; Wire Mesh Weaving Project at Industrial Estate, Ekala; Wire Nail Manufacturing Project at Industrial Estate, Boossa.

National Institute of Business Management (NIBM)

The NIBM was established in 1968 in collaboration with UNDP and ILO. Initially being part of the IDB, it was detached from the Board in 1971 and continued to operate as an independent agency under the Ministry of Industries and Scientific Affairs. NIBM also functions as the National Productivity Centre affiliated to the APO. It has among its objectives:

- Development of managers and supervisory staff of industrial and commercial undertakings, both in the public and private sectors; training and educating workers for creative participation in management.
- Provision of specialist services in management to government and private organizations in establishing performance standards, improving productivity, determining compensation systems, and optimizing the human contribution and other functional activities to assist in developing their performance.

- Undertaking research and gathering data on aspects of management and relevant socio-economic phenomena for a better appreciation of the environment.

- Providing management information services to outside organizations and training of personnel in computer programming.

Ceylon Institute of Scientific and Industrial Research (CISIR)

The Institute was established in 1955 to provide technical expertise and services for industrial entrepreneurs. The main objectives of the Ceylon Institute of Scientific and Industrial Research (CISIR) are:

- To undertake testing, investigation and research programmes with the object of improving the technical processes and methods used in industry, of discovering processes and methods which may promote the expansion of existing or the development of new industries or the better utilization of raw materials or waste products.

- To advise on scientific and technological matters affecting the utilization of the natural resources of Sri Lanka, the development of her industries and the proper co-ordination and employment of scientific research to achieve those ends.

- To foster the training of research workers.

- To foster the establishment of associations of persons engaged in industry for the purpose of carrying out scientific and industrial research.

- To undertake or to collaborate in the preparation, publication and dissemination of useful technical information.

- To co-operate with departments of government, universities, technical colleges and other bodies in order to promote scientific and industrial research, and the training of investigators in pure and applied science and of technical experts.

- To assist otherwise in the advancement of scientific and industrial research and technical training.

CISIR has emerged as the country's leading multi-disciplinary research institute. Its expertise covers a wide area in science and technology. The research activities centre around the use of locally available raw materials in industrial production. To this end, existing technologies have been improved and new technologies been developed, with special emphasis on the processing of export crops.

National Engineering Research and Development Centre (NERDC)

The National Engineering Research and Development Centre of Sri Lanka is a statutory body set up in 1957. The Centre has among its objectives:

- To provide the institutional mechanism needed for the progressive development of indigenous technology by encouraging, recognizing and developing innovative and creative talent in Sri Lanka.
- To provide facilities tc co-ordinate the technological engineering and research capabilities of various public and private sector industries and institutions in a productive manner through co-operative endeavour.
- To ensure by adoption and adaptation the choice of technologies that would be consistent with the country's resource endowments and national planning objectives.
- To examine direct and indirect mechanisms of technology transfer and offer counsel to appropriate government and private institutions in Sri Lanka.
- To design, manufacture and test prototype machinery, pilot plants as demanded by industrial, commercial and other end-users in an economical manner.
- To provide for continuous monitoring of technological data and documentation relating to engineering designs and research through the co-operation of international and national agencies.

Bureau of Ceylon Standards

The Bureau was established in 1965. Its main functions are to prepare standard specifications and codes of practice, to test products for conformity to the standard specifications and to administer a Certification Marking Scheme.

The primary function of the Scientific Standards Division of the Bureau is to formulate national standards in the fields of agriculture and food products, chemicals, textiles and other consumer products. The standardization activities of the Engineering Division are broadly divided into three Sections - Electronics, Mechanical and Civil Engineering. The Bureau has launched a national campaign for promotion of quality control, with assistance from the Asian Productivity Organization. The Bureau provides training through management programmes, technician-level

programmes, consumer and other educational programmes, and it also undertakes quality control consultancy.

As to the process of investment approvals, three types of investment have to be distinguished which are regulated and administered under different institutions: foreign investment in an Investment Promotion Zone (IPZ), foreign investment outside IPZs and domestic investment.

Greater Colombo Economic Commission (GCEC)

This autonomous statutory body is the Authority for the Sri Lankan Investment Promotion Zones. Its objectives are to promote export-oriented foreign investment, create employment opportunities and increase export earnings. The GCEC currently has complete jurisdiction over a 415 sq. km (160 sq. mile) area just north of Colombo, which accommodates the Katunayake Investment Promotion Zone.

The GCEC approves foreign investment for location within its zones and licenses enterprises for location elsewhere in the country. The licensing of enterprises outside the zones would depend on such criteria as proximity to raw materials, waste disposal facilities or other techno-economic considerations.

The GCEC can grant exemption from, or modify, the application of certain laws to offer investors a suitable and attractive incentive package (see Annex B). The Investment Promotion Division of the GCEC handles all preliminary enquiries, and provides information and data required by interested investors. The Investor Services Division renders assistance in the process of establishing new businesses. To facilitate operations, special arrangements have been made to maintain close liaison with all public sector organizations with which investors have dealings. The Investment Appraisal Division of the GCEC is responsible for processing investment applications. Processing time averages 3-4 weeks from receipt of an application. Another Division - Engineering Services - takes care of all questions on the technical and infrastructural facilities of the Investment Promotion Zones and the

allocation of land. It also provides technical data such as prices and availability of raw materials, approved plans of factory buildings and assistance in the provision of infrastructure requirements.

Foreign Investment Advisory Committee (FIAC)

FIAC examines all foreign investment proposals, except those in an IPZ. In principle, investments outside the GCEC area of authority take the form of joint ventures where the majority share in equity is held by the Sri Lanka partners. There are, however, a few exceptions. In the case of five-star luxury hotels of over 200 rooms, the equity share of the foreign investor can be as much as 70 per cent. In the case of construction projects undertaken for the Mahaweli Development Programme, the foreign equity share could go upto 60 per cent. In contrast, in those instances where there is no significant transfer of technology such as in garment industries, the equity shareholding of the foreign investor is limited to 25 per cent. In large capital-intensive projects and in projects which offer substantial export potential, majority shareholding of foreign partners can be negotiated. In all other cases, as a rule, the minimum shareholding for the local investor is 51 per cent.

FIAC provides advice to prospective investors on suitable areas for investment. It also provides assistance to investors, both local as well as foreign, in finding suitable collaborators in joint venture projects. Furthermore, it assists joint-venture investors in overcoming various difficulties encountered in setting up an industry, particularly those relating to the government regulatory mechanism.

Local Investment Advisory Committee (LIAC)

The three existing LIACs (on fisheries, on textiles and on general industry) have approval authority for domestic industrial investments. LIAC approval confers access to Government financing support and establishes the right to open letters of credit for equipment imports in excess of a certain threshold level.

Sri Lanka Export Development Board (SLEDB)

The EDB was set up in 1979 as an interministerial body at the highest executive le el. Its decisions are binding for the ministries represented. The EDB is the country's focal point for developing exports (in particular of non-traditional goods) and as such is responsible for preparing a national export development plan and monitoring its implementation. EDB's activities are not restricted to export promotion per se. It can also engage directly in export production or trading activities, e.g. by acquiring shares or stocks in any domestic or foreign business related to Sri Lanka's export development.

In conjunction with the Central Bank the EDB has formulated a branch financing scheme extending medium- and long-term loans at concessionary rates for both new export-oriented projects and for expanding existing ones.

Furthermore, a Duty Drawback Committee operates under the auspices of the EDB. The members of the committee consist of senior representatives of the Ministries of Finance and Planning, Textile Industries, Trade and Shipping, the Customs Department and EDB. The committee's function is to examine the incidence of customs duties leviable on imported inputs that go into exports and to fix a duty rebate percentage on the FOB value so that the exporter can be compensated for the duties he has paid. Duty rebate rates have been fixed for over 140 items. In 1982, 12,000 applications were received and $32.5 million paid to exporters.

Sri Lanka Business Development Centre (SLBDC)

The SLBDC was established in 1984 (initially supported by USAID funds) as a private sector institution functioning within the business community while at the same time enjoying a close and special relationship with the Government. It is dedicated to the following goals:

- Establish a dialogue between the private sector and the Government.
- Identify, initiate, prompt and support private sector investment and foster entrepreneurship.

- Upgrade and expand management training and development.
- Contribute to developing long-term, strategic economic plans for the country.

SLBDC has four major divisions covering the broad areas of business and economic policy, investor services, entrepreneur development and management training.

Banking system and financial institutions

As far as the banking system and financial institutions are concerned it should be noted first of all that all domestic commercial banks became nationalized in 1975. The monopoly of note issue lies with the Central Bank of Ceylon; the two banks dominating Sri Lanka's commercial banking system are the Bank of Ceylon and the People's Bank. Up to now, the commercial banks have not responded on a sufficient scale to the long-term financing needs of private industrial enterprises but have largely concentrated on short-term lending involving only minimum risks. In addition to the already existing Development Finance Corporation of Ceylon (DFCC) the Government has thus in 1979 established the National Development Bank (NDB) which in principal finances projects in all sectors of the economy; its particular focus is, however, on the rural sector as well as on the small and medium industrial enterprises.

The Bank finances enterprises owned by the Government, the private sector or joint ventures between them. The Bank also finances joint ventures between Sri Lankan (governmental or private) entities and foreign enterprises. Another function of the Bank is to undertake, on a selective basis, the promotion of investment projects based on studies undertaken by itself or others.

The Bank's primary business is term lending. Loans may extend up to 12 years, depending on the cash flow capabilities of individual projects and usually include a grace period for principal repayments during the construction period. The Bank expects to be an active equity investor in clients' projects, sharing with the sponsor in the risk and rewards of ownership. In appropriate cases, it would be willing to underwrite or place

the share issues of client enterprises. The size of the Banks' direct loans may range between Rs. 40 million and Rs. 75 million. The Bank has schemes for refinancing and for purchasing participation in loans already made by eligible financial institutions.

In the first years of its operation, NDB has however allocated major portions of its portfolio to either government-owned enterprises or large companies in the hotel sector. Its developmental impact on emerging private enterprises has thus been limited. The same generally applies to the rural sector which is in urgent need of credit facilities but has so far received little assistance from the existing financial institutions.[1/]

The mushrooming growth in the number of commercial bank branches in recent years is a consequence of the 1979 liberalization of banking laws allowing each foreign bank to establish one branch in Colombo and a further one in the IPZ.

1/ For a detailed description and assessment of NDB's and DFCC's operations cf. Arthur D. Little International, Developing Sri Lanka's Private Sector, Vol. I, pp.44ff.; World Bank, Sri Lanka Industrial Development Project, Report No. 387 CE, June 6, 1983.

4. RESOURCES FOR INDUSTRIAL DEVELOPMENT

4.1 Human resources

According to the latest available census data from the Department of Census and Statistics, Sri Lanka's total labour force amounted to 5.0 million in 1981[1/] and showed the following structural characteristics.

- Of the total labour force 82.1 per cent were employed, leaving the unemployment rate at 17.9 per cent (male: 14.3 per cent; female: 32.3 per cent). The corresponding figure for 1984 was 14 per cent.

- The labour force participation rate (share of labour force in total population) stood at 33.8 per cent as the result of a 49.8 per cent male participation rate and a 17.1 per cent female participation rate.

- The sectoral breakdown of employed persons showed the following pattern (percentage shares):

- Agriculture, hunting, forestry and fishing	45.2
- Community, social and personal service	14.5
- Trade, restaurants and hotels	10.5
- Manufacturing	10.1
- Transport, storage and communication	4.8
- Construction	3.0
- Other activities	11.9

Accelerated human resource development must be considered as one of the crucial areas determining a country's potential for industrial development. This concerns both the educational level of the labour force in general and the quality of vocational and technical education in particular. As to literacy rates, one of the basic indicators of overall educational performance, Sri Lanka has always had an outstanding record, and not only

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1/ It may be estimated to have reached slightly more than 6 million in mid-1984.

within the group of low-income countries (Table 27). More than three quarters of the population were literate in 1971; the share further increased to 86.5 per cent in 1981, the latest year for which exact figures are available. This must be regarded as a rapid progress from an already high attainment level. Furthermore, it is noteworthy that the discrepancy between male and female literacy rates has been kept relatively low.

Table 27. Literacy rates of population (10 years and above) by sex, 1971 and 1981

	1971	1981[a/]
Total	78.5	86.5
Male	85.6	90.5
Female	70.9	82.4

Source: Department of Census and Statistics.

a/ Estimates based on 10 per cent sample.

The share of public expenditure on education in total public expenditure decreased to 6.6 per cent in 1984, continuing a recent downward trend. As a share of GNP, public educational expenditure reached 2.4 per cent in 1984.[1/]

In contrast to the impressive results of the compulsory and free general education system, severe bottlenecks are restraining vocational and technical education at the intermediate level. The post-1977 economic boom disclosed shortages in various skill categories resulting from a long-term neglect of industry-specific education and training. In 1985 it was estimated that only some 25 per cent of school leavers are receiving further training, due to a lack of intermediate training institutions.[2/] The apprenticeship scheme administered by the National Apprenticeship Board (NAB) is trying to meet at least the most urgently felt manpower training requirements.

1/ Cf. Central Bank of Ceylon, Review of the Economy 1984, p. 76.

2/ Cf. Ministry of Finance and Planning, Public Investment 1985-1989, p. 129.

Since the mid-seventies human resource development in Sri Lanka, particularly with regard to the industrial labour force, has been and will continue to be considerably influenced by the phenomenon of worker migration, mostly to Middle East countries. Private remittances (consisting almost totally of transfers from emigrant workers) reached Rs 7.6 million in 1984, thereby amounting to slightly more than 20 per cent of the value of total merchandise exports. Apparently, worker remittances have not yet started to show a declining tendency like e.g. in Pakistan. This may be due to the fact that the share of workers employed in Middle East countries (54 per cent in 1984) is comparatively lower (see also Annex Table A-17).

Whereas the generation of foreign exchange earnings through migration has in the past been at the centre of attention, it is important not to dismiss potentially negative repercussions on the domestic economy. A substantial share of migrants belong to the category of skilled or even middle to high level labour (39 per cent in 1979), which may have at least aggravated if not produced specific skill shortages at home.

4.2 Raw material resources

Agriculture

The agricultural sector has over the years remained the largest contributor to GDP accounting for a share of some 22 per cent (in constant prices, excluding forestry and fishing). At the same time, agricultural activities provide employment for approximately half of the total labour force and generate 60 per cent of the country's export earnings.

(i) Export crops

The most important segment within the agricultural sector are plantation tree crops (tea, rubber, coconut) which although in 1984 contributing only 6 per cent to GDP have in the same year been responsible for 55 per cent of export earnings and 18 per cent of budgetary revenues. For some time to come these will continue to be Sri Lanka's main foreign exchange earners. Sri Lanka currently is the second largest producer of black tea in the world as well as the sixth largest producer and the fourth largest exporter of natural rubber.

It is widely acknowledged that the economic performance of the plantation sector - since 1977 managed by the State Plantations Corporation and the Janatha Estate Development Board - has over the past two decades been very unsatisfying. Production has been stagnant or even declining (for 1975-1984 figures see Table 28)[1/] and productivity has remained low largely due to insufficient attention to the maintenance of agricultural standards, e.g. in the area of replanting.

Table 28 Production, export value and export duty receipts of major plantation crops, 1975, 1980-1984

	1975	1980	1981	1982	1983	1984[a/]
Tea						
- Production (million kg)	214	191	210	188	179	208
- Export value (Rs. million)	1,932	6,170	6,444	6,342	8,295	15,764
- Export duty receipts (Rs million)	...	1,920	1,879	1,444	1,290	1,768
Rubber						
- Production (million kg)	149	133	124	125	140	142
- Export value (Rs million)	654	2,590	2,889	2,323	2,852	3,301
- Export duty receipts (Rs million)	...	1,387	1,433	754	853	1,009
Coconut[b/]						
- Production (million nuts)[c/]	2,398	2,026	2,258	2,521	2,313	1,982
- Export value (Rs. million)	388	754	1,011	1,003	1,409	1,553
- Export duty receipts (Rs million)	...	218	241	191	241	297

Source: Central Bank of Ceylon, Review of the Economy 1984.

a/ Provisional.

b/ Desiccated coconut, coconut oil and copra.

c/ In nut equivalents.

Investment and rehabilitation programmes aimed at increasing the productivity of the tree crop sector have been accorded topmost priority by the Government. Currently, six such programmes are ongoing with the total

1/ Tea production increased, however, by 16 per cent in 1984 thus almost reaching its 1975 level again.

cost of some Rs 3 bn being largely funded by bilateral donors as well as by IDA and ADB. Efforts to increase linkages between agricultural and industrial production figure prominently among further priority areas of policy attention. The Government aims at encouraging exports with a higher degree of processing in order to increase domestic value-added and to generate additional employment. The domestic manufacturing of rubber products e.g. absorbs only some 10 per cent of total natural rubber production, the bulk being exported as raw rubber.[1/]

Minor export crops include, inter alia, pepper, coffee, cinnamon, tobacco, cocoa, citronella and cardamon, the first three of which have recorded particularly high export increases in 1984 .

(ii) Food crops

Rice is the staple diet of the Sri Lankan people. It is a seasonal, primarily smallholder crop which is mainly grown in the country's dry zone. Total rice production, after some years of steady increase, has recently fluctuated: A 15 per cent increase in 1983 was followed by a 3 per cent decrease in 1984. Notwithstanding these fluctuations it has been possible, however, to come much closer to the Government's objective to achieve self-sufficiency; between 1980-1984 rice imports have declined from 217 to 18 thousand metric tons, which in 1984 equalled only 0.4 per cent of total imports.

Irrigation schemes are of major importance for increasing productivity which is currently at an average of 60 bushels per acre. The Mahaweli Development Programme can be expected to have a major positive impact in this regard. Downstream development under its water reservoirs will result in the irrigation of some 120,000 ha of land.

Whereas Sri Lanka is gradually approaching self-sufficiency in rice the same is by no means true in the case of sugar. Production of the state-owned Sugar Corporation (which between 1981-1984 decreased by 6 per cent annually)

1/ For detailed information on the state of the art of rubber products manufacturing and on product and company profiles, cf. Ministry of Finance and Planning, Foreign Investment Advisory Committee, Potential for Foreign Investment in Rubber Products Manufacture, October 1985.

only covers some 10 per cent of domestic demand, requiring the country to spend Rs 1.3 bn (1984) on sugar imports. Private investors are thus being offered considerable incentives to take up sugar production. At Pelwatte a private factory with a total capacity of 49,000 metric tons will probably start production in March 1986 .

Fisheries

Sri Lanka has a coastline of some 1,100 miles and disposes of an active fishing sector which is almost totally in private hands. Domestic production steadily increased between 1978-1983, peaking at 219 thousand tons but then experienced a strong setback (Table 29). In 1984, total production fell by 24 per cent. This was almost entirely due, however, to fishing restrictions for the Northern and Eastern regions where the ethnic disturbances are concentrated. Recent research indicates that the current extraction levels of coastal fish resources are approaching the sustainable fishing rate so that there may only be a marginal potential for further intensification of fishing activities. A priority area for the near future is shrimp culture development where financial incentives are offered to large investors.

Table 29. Trends in Fish Supply, 1978-1984

Domestic Production (thousand tons)	1978	1979	1980	1981	1982	1983	1984
Coastal	134.7	146.5	162.6	172.3	174.5	181.2	134.5
Off-shore	2.9	2.0	2.1	2.1	2.2	1.7	0.8
Inland	16.4	17.1	19.9	29.9	33.4	35.5	31.4
Total	154.1	165.7	184.6	204.3	210.1	218.5	166.7
Exports	4.5	6.2	4.5	4.3	5.0	4.2	3.6
Imports	8.8	25.4	39.2	10.7	21.1	22.2	34.5
Total Supply	158.4	184.9	219.3	210.7	226.2	236.5	197.6
Per Capita Availability (kg)	11.1	12.8	14.6	14.2	15.0	15.4	12.5

Source: Ministry of Finance and Planning, Public Investment 1985-1989, p. 51.

Mineral resources[1/]

In terms of production and export value the precious and semi-precious gemstones sector assumes a leading role in Sri Lanka's mmineral industries. In the early eighties it accounted for about 8 per cent of total exports and 80 per cent of mineral exports ; in 1984, the corresponding percentage share fell to 5 per cent and 74 per cent mainly as a consequence of lower prices.

In 1972, the State Gem Corporation was set up and given the mandate and power to control all economic activities relating to gem stones from mining to export. This measure restored order in a market previously largely characterized by clandestine trade and immediately resulted in an almost tenfold increase of gem exports (Table 30). By 1978, the share of the State

Table 30. Value of gem exports, 1972-1984 (Rs. million)

Year	State Gem Corporation	Private Sector	Total
1972	6.6	8.8	15.4
1973	24.9	128.0	152.9
1974	15.9	116.9	132.8
1975	10.6	178.3	189.0
1976	8.8	278.4	287.1
1977	10.9	242.9	263.9
1978	82.6	442.5	525.1
1979	45.2	449.5	494.7
1980	65.4	598.3	663.7
1981	8.4	624.1	632.5
1982	7.5	385.9	393.4
1983	1.4	519.1	520.5[a/]
1984	6.8	497.7	504.5[a/]

Source: State Gem Corporation.

a/ Includes 64 million in non-commercial exports of the private sector.

1/ Cf. for more detailed analyses Clark, G., 'Sri Lanka's Industrial Minerals - Much Potential to be Realized', Industrial Minerals, October 1983; Waidyanatha, W.G.S., 'The Gem Industry in Sri Lanka', Economic Review, April 1985.

Gem Corporation's exports in total gem exports reached 16 per cent but subsequently it decreased substantially as a consequence of foreign trade liberalization, particularly after 1980, as a consequence of Thai nationals entering into Sri Lankan gem trade.

Apart from gemstones, Sri Lanka disposes of considerable deposits of industrial minerals which include graphite, mineral sands (ilmenite, rutile, zircon), industrial clays, limestone, silica sand, feldspar and quartz. Mineral sands - being exploited under the responsibility of the Ceylon Mineral Sands Corporation - have long been a promising field of mining activity. In recent years, export growth has however been sluggish, pointing to the need to establish a domestic manufacturing industry processing these minerals. Furthermore, the Corporation's exploitation activities are centered in the country's Northeast (Pulmoddai) and are thus heavily affected by the current ethnic disturbances.

4.3 Energy resources

Sri Lanka is an energy-deficit country with a degree of self-sufficiency of only 25 per cent in 1983 (Table 31). The remaining three quarters of commercial[1/] primary energy consumption thus have to be imported. Energy imports amounted to 2.8 million tons coal equivalent in 1983 and were almost exclusively met by crude petroleum and petroleum products.

The only source of domestic production of primary energy is hydropower which has been rapidly promoted in recent years within the framework of the Accelerated Mahaweli scheme with financial support from major bilateral donors. After the country went through severe energy shortages during 1977-1981, domestic energy availability is now constantly improving. In the second half of 1984 the largest hydropower plant of the Mahaweli scheme (Victoria with 210 MW) was commissioned, followed by the second largest plant in August 1985 (Kotmale with 201 MW). Including the Randenigala plant which

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1/ More than two thirds of the country's total energy consumption is met from non-commercial sources, mostly firewood used for household cooking and as a source of heat in small industries.

will come on stream in early 1986 with a capacity of 122 MW, total available hydro-capacity will reach 940 MW so that total energy supply should be sufficient to meet demand up to 1990.

For the early nineties the commissioning of two further coal-based power plants (with a joint capacity of 300 MW) is foreseen. These will reduce the vulnerability to changing weather conditions which hydropower plants are necessarily exposed to.

Energy conservation has recently been a priority field of policy attention and considerable success has been achieved both by removing

Table 31 Commercial primary energy balance, 1983
(thousand tons coal equivalent)

Production		Apparent consumption	
Hydroelectricity	534	Solid fuels	2
		Liquid fuels	1,624
		Hydroelectricity	534
Total production	534	Total consumption	2,160
Imports		Exports	
Solid fuels	2	Petroleum products	183
Crude petroleum	2,161		
Petroleum products	607		
Natural gas	-		
Total imports	2,770	Total exports	183
		Bunkers	460
		Increase in crude stocks	80
		Increase in petroleum product stocks	30
		Balancing item	391
Total supply	3,304	Total demand	3,304

Source: Economist Intelligence Unit, Quarterly Economic Review of Sri Lanka, Annual Supplement 1985.

distortions in the energy price structure and by implementing specific efficiency measures, e.g. aimed at reducing losses in electric power transmission.[1/]

4.4 Technical assistance to industry

Since the adoption of the liberal economic policy approach in 1978, Sri Lanka has become a major receiver of development assistance, the bulk of which has been accounted for by the Sri Lanka Aid Group[2/] countries. Total aid commitments peaked at $817 million in 1981 and were down to $461 million in 1984; disbursements steadily climbed up to $535 million in 1984 providing for a disbursed aid per capita ratio of $34 which is among the highest per capita aid figures of all developing countries. In the most recent years, the share of project aid in total aid increased to more than 70 per cent of which roughly 50 per cent were allocated to the Accelerated Mahaweli Project. Food and commodity aid have also been substantial implying that, all in all, only a minor portion of foreign aid went into the country's industrial sector.

UNIDO has played an active role in providing technical assistance to Sri Lanka's industrial sector. Projects have been implemented in various fields (for an overview see Annex-Table A-18) with particular emphasis placed on agro-based industries, on industrial energy management and conservation and on assistance to FIAC and GCEC, the latter in view of the enormous importance that foreign investment has assumed for the country's industrial development. Technical assistance in this field could certainly be continued, but efforts to achieve a wider sectoral diversification of investment should also be actively supported. Pertinent promotional activities could be complemented and guided by a continuous careful monitoring of key regional markets as well as the world market for a wide range of manufactured products. In general terms this monitoring process would have to include the gathering of timely

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1/ For details on these measures as well as on institutional developments in the field of energy policy cf. World Bank, Sri Lanka: Recent Economic Developments, Prospects and Policies, op.cit. pp. 62-65.

2/ Presently composed of Australia, Canada, Denmark, Finland, France, FRG, Japan, Netherlands, Norway, Sweden, UK and USA. Furthermore, ADB, EEC, IMF, UNDP and the World Bank participate in the Group's meetings. For details on past aid flows and requirements cf. World Bank, Sri Lanka: Recent Economic Developments, Prospects and Policies, op. cit., pp. 32-38.

information on the volume and pattern of demand; on technological changes in processes and products; on official strategies, plans and policies pursued both by export target countries and other competitors (above all as to their technology and trade policies) and on relevant corporate strategies in key branches.

Furthermore, efforts could be made to assist in increasing the productivity of public industrial enterprises and in avoiding further shortcomings in management which have resulted in exceptionally high demands on the public budget in the recent past.

Moreover, there is a great scope for technical assistance in the field of production support facilities such as quality control, testing, design, packaging. These major non-price determinants of competitiveness are currently insufficiently developed, thus hampering above all the further growth of small- and medium-scale industries.

Finally, integration between large-scale and small-scale enterprises is largely absent in industry which may have contributed to the high degree of import dependence. Assistance in enhancing industrial subcontracting could thus be given high priority, e.g. in co-operation with the Industrial Development Board of Sri Lanka which has already established a first subcontracting exchange.

ANNEX A

Statistical Tables

Table A-1. Leading Sri Lankan Companies, 1983/84 (all values in million $)

Rank Company	Type of Business	Sales/ Turnover	Net Profit/ (Loss)	Employees (number of Persons)	Net Current Assets	Ownership
1 Ceylon Petroleum Corp.[2/]	Petroleum	541.62	36.3	6,185	6,000	State
2 Ceylon Tobacco Company[3/]	Tobacco	148.54	3.58	2,300	17.71	BAT, UK
3 Maharaja Organization[1/]	Exports/mfg piping, rubber	52.24		2,143		
4 C W Mackie & Co.	Exports (mainly rubber)	42.91	(0.20)		2.18	
5 Ceylon Trading Co.[1/]	Exports	42.45		350		Aarhus Oliefabrik Denmark
6 Lever Brothers (Ceylon)	Chemicals/ detergents/soaps/ edible fats	41.74	6.60	1,467	13.12	Unilever, UK/Netherlands
7 Harrisons & Crosfield (Colombo)	Export/import	38.35		170		Harrison, UK
8 National Textile Corp.[2/]	Textiles	36.1		12,500		State
9 Shaw Wallace & Hedges[1/]	Garments	31.26		939		Shaw Wallace, India
10 Hayleys Group	Export/import	18.5	1	1,844	1.6	
11 Sri Lanka Sugar Corp.[1/]	Sugar	16.84		4,963		State
12 Aitken Spence & Co.	Export/import textiles, construction	15.92	(0.60)	1,800	3.62	
13 Sri Lanka Asbestos Products Ltd.[1/]	Asbestos prods	15.85		805		
14 A.F. Jones (Exporters)	Tea exports	15.00	(0.90)	76	1.5	Maharaja Group
15 Sri Krishna Corp.[1/]	Mfg, exporting coconut products	14.84		801		
16 National Paper Corp.[1/]	Paper	14.40	(0.26)[2]	4,369		State
17 Ceylon Fertilizer Corp.[1/]	Fertilizers	14.18		750		State
18 Ceylon Ceramics Corp.[1/]	Crockery, etc.	10.00	(0.25)[2]	1,[illegible]		State
19 Singer (Sri Lanka)[2/]	Sewing machines	10.12	0.67		1.88	Singer, US
20 Ceylon Cold Stores	Food & beverages	9.80	0.28	1,960	3.35	
21 Mikechris Group	Holding co.	9.75		1,140		
22 Richard Pieris and Co.Ltd.	Export/import	9.28	(0.26)[2]	1,800	2.39	
23 Hayleys	Export/import engineering	9.11	(0.60)[2]		3.72	Hayleys group

Table A-1 cont'd

Rank	Company	Type of Business	Sales/ Turnover	Net Profit/ (Loss)	Employees (number of Persons)	Net Current Assets	Ownership
24	Ceylon Shipping Corp.[1/]	Shipping	9.10		552		State
25	Union Carbide Ceylon[1/]	Dry battery cells	8.71		700		Union Carbide, US
26	United Garments International	Garments	8.71		900		
27	Ceylon Oils & Fat Corp.[1/]	Oils/Fats/ detergents	7.18		1,250		State
28	Associated Motorways[1/]	Rubber products/ tyres/auto sales	5.91		1,200		
29	Cargills (Ceylon)	Department stores	5.21	0.14		0.064	Cargills, US
30	Reckitt & Colman of Ceylon Ltd.	Detergents/pharmaceuticals	2.64	0.23	250	0.44	

Source: South, May 1985; supplemented by data from Central Bank of Ceylon.

1/ 1982/83 2/ 1983 3/ 1984 */ Pretax profits

Table A-2 Growth of industrial production, 1977-1984 (in current Rs million)

Industrial branches	1977	1978	1979	1980	1981	1982	1983	1984a/
Food, beverages and tobacco	2,295	2,609	2,856	3,899	4,496	5,246	6,998	8,623
Textile, wearing apparel and leather products	698	1,008	1,128	1,923	3,040	3,863	5,136	7,565
Wood and wood products (incl. furniture)	127	124	166	289	315	361	522	640
Paper and paper products	270	376	445	476	626	725	901	907
Chemical, petroleum, coal, rubber and plastic products	2,469	3,279	4,508	9,416	12,015	13,099	11,888	14,328
Non-metallic mineral products (except petroleum and coal)	411	592	710	1,156b/	1,250b/	1,370	1,468	1,829
Basic metal products	132	219	349	478	428	262	302	199
Fabricated metal products, machinery and transport equipment	571	590	569	620	782	904	1,129	1,456
Manufactured products (n.e.s.)	34	55	50	54	58	74	90	106
Total	7,007	8,852	10,781	18,311	23,010	25,904	28,434	35,653

Source: Central Bank of Ceylon, Annual Report 1984.

a/ Provisional.

b/ Revised.

Table A-3

Table A-3 Growth of value-added in industry, 1977-84 (in current Rs million)

Industrial branches	1977	1978	1979	1980	1981	1982	1983	1984a/
Food, beverages and tobacco	955	1,366	1,417	1,795	1,891	2,259	3,275	4,816
Textile, wearing apparel and leather products	269	214	227	382	513	488	759	1,344
Wood and wood products (incl. furniture)	77	63	82	165	169	134	284	360
Paper and paper products	119	191	217	305	264	257	388	399
Chemical, petroleum, coal, rubber and plastic products	770	526	686	1,249	2,098	1,927	1,608	2,147
Non-metallic mineral products (except petroleum and coal)	251	390	441	608	593	862	866	1,072
Basic metal products	29	55	84	80	80	14	81	21
Fabricated metal products, machinery and transport equipment	204	292	272	297	406	790	684	946
Manufactured products (n.e.s.)	14	12	11	12	16	29	41	53
Total	2,688	3,109	3,437	4,893	6,030	6,760	7,987	11,158

Source: Central Bank of Ceylon, Review of the Economy 1984; Ministry of Finance and Planning/UNDP, Sri Lanka Industrial Statistics 1983.

a/ Provisional.

Table A-4 Use of local & foreign raw materials in industry 1977-1984
(percentage of foreign raw materials to total raw materials)[b/]
(Percentage)

Industry Group	1977	1978	1979	1980	1981	1982	1983	1984[a/]
1. Food, Beverages and Tobacco	30.0	44.7	47.9	68.8	55.0	18.0	19.8	
2. Textiles, Wearing Apparel and Leather Products[b/]	63.7	85.7	91.0	93.0	92.9	66.0	84.0	70.0
3. Wood and Wood Products	40.9	32.6	29.8	23.8	18.8	29.4	16.2	23.9
4. Paper and Paper Products	66.9	61.8	61.1	59.9	63.0	50.0	48.7	36.6
5. Chemcial, Petroleum, Coal, Rubber & Plastic Products	93.3	93.8	95.0	96.0	96.0	99.0	98.1	...
6. Non-Metallic Mineral Products	33.5	73.5	60.4	64.7	36.2	63.3	87.7	32.8
7. Basic Metal Products	100.0	100.0	100.0	100.0	100.0	92.1	56.1	68.8
8. Fabricated Metal Products, Machinery and Transport Equipment	78.9	76.4	78.0	80.0	75.1	44.1	64.3	70.0
9. Products Not Elsewhere Specified	47.3	54.7	58.9	72.5	73.6	72.5	81.3	...
TOTAL:	65.9	79.0	81.9	89.1	86.5	77.9	88.7	..

a/ Provisional

b/ Estimates based on data obtained in respect of public sector industries.

Source: Central Bank of Ceylon.

Table A-5. State industrial enterprises - summary of performance, 1984a/

Corporation/Enterprise	Total Capital Investment (Rs.'000)	Capital Employed in Production (Rs.'000)	Value of Production (Rs.'000)	Overall Profit (+) or Loss (-) (Rs.'000)	Employment Nos	Exports (Rs.'000)	Rate of Return on Capital Utilized in Production %	Value of Output per Employee (Rs.'000)	Exports as % of value of Production
1. National Milk Board	204,928	126,652	232,147	-14,465	1,696	-	-7.1	137	-
2. Ceylon Oils & Fats Corporation	n.a.	n.a.	262,458	+28,268	1,037	-	n.a.	n.a.	..
3. Sri Lanka Sugar Corporation	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
4. Sri Lanka National Salt Corporation	78,000	41,400	18,842	+20,755	1,887	5,609	50.1	10	29.8
5. State Distilleries Corporation	104,632	55,035	247,064	+74,833	1,891	-	136.0	131	-
6. National Textile Corporation	452,735	452,384	925,541	-62,675	8,235	52,357	-13.8	112	5.7
7. Ceylon Leather Products Corporation	45,757	19,798	58,565	+ 1,881	1,179	3,889	9.5	50	6.6
8. Ceylon Plywoods Corporation	n.a.	n.a.	199,756	n.a.	3,643	-	n.a.	55	-
9. State Timber Corporation	243,813	73,250	315,521	+109,732	3,695	-	149.8	85	-
10. National Paper Corporation	861,867	287,888	543,694	+ 5,794	4,288	-	2.0	127	-
11. State Printing Corporation	n.a.	n.a.	n.a.	+ 1,841	488	-	n.a.	n.a.	
12. Paranthan Chemicals Corporation	n.a.	n.a.	26,907	n.a.	503	-	n.a.	53	-
13. Ceylon Petroleum Corporation	n.a.	n.a.	n.a.	+1,717,000	6,232	3,272,158	n.a.	n.a.	n.a.
14. State Fertilizer Manufacturing Corporation	2,400,820	2,230,076	838,716	-301,560	945	-	-13.5	887	-
15. Sri Lanka Tyre Corporation	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
16. British Ceylon Corporation	46,204	71,529	155,057	- 5,055	1,253	9,790	- 7.1	124	6.3
17. Colombo Gas & Wate Co. Ltd.	111,284	80,904	10,587	+ 7,485	334	-	9.2	32	
18. Ceylon Oxygen Ltd.	127,060	119,600	76,300	+ 6,200	421	..	5.2	181	n.a.
19. Ceylon Ceramics Corporation	132,502	105,660	181,355	- 13,653	n.a.	207	-12.9	n.a.	0.1
20. Sri Lanka Cement Corporation	1,262,900	839,000	765,838	- 10,553	4,466	-	- 1.3	171	-
21. Ceylon Mineral Sands Corporation	229,905	255,402	71,041	+ 12,818	606	95,241	5.0	117	134.1
22. State Mining and Mineral Development Corporation	114,411	35,437	56,405	+ 2,026	2,136	84,772	5.7	26	150.3
23. Ceylon Steel Corporation	275,899	250,554	208,541	- 62,015	1,749	-	- 24.7	119	-
24. State Hardware Corporation	16,643	83,340	43,696	- 27,468	1,286	-	- 33.0	34	-

a/ Provisional.

Source: Central Bank of Ceylon, Review of the Economy 1984.

Table A-6. Transfers of Government Funds to Industrial Enterprises, 1982-1984
(SRs. million)

Corporation/Enterprise	Capital			Current			Total		
	1982	1983	1984a/	1982	1983	1984a/	1982	1983	1984a/
1. National Milk Board	10.7	9.0	7.5	45.9	21.3	25.1	56.6	30.3	32.6
2. Ceylon Oils & Fats	10.9	25.3	99.1	-	-	-	10.9	25.3	99.1
3. Sri Lanka Sugar	75.4	122.5	410.2	-	-	7.1	75.4	122.5	417.3
4. National Textile	-	31.5	127.2	-	32.7	-	-	64.2	127.2
5. National Paper	-	-	5.6	10.0	-	-	10.0	-	5.6
6. State Rubber Manufacturing	-	-	-	0.7	-	-	0.7	-	-
7. State Fertilizer Manufacturing	300.0	-	26.1	543.0	494.7	537.3	843.0	494.7	563.4
8. Ceylon Steel	-	39.1	-	-	-	-	-	39.1	-
9. State Hardware	-	-	-	-	0.4	-	-	0.4	-
10. National Packaging Materials	-	-	-	2.5	7.7	1.0	2.5	7.7	1.0
11. State Printing	-	-	51.6	-	-	-	-	-	51.6
12. Ceylon Oxygen Ltd.	-	-	-	2.6	8.7	6.1	2.6	8.7	6.1
Total	397.0	227.4	727.3	604.7	565.5	576.6	1,001.7	792.9	1,303.9

a/ Provisional.

Source: Central Bank of Ceylon, Review of the Economy, 1984.

Table A-7: Industrial Exports, 1975-84

($ million)

	1975	1976	1977	1978	1979	1980a/	1981a/	1982a/	1983a/	1984a/
Food, beverages and tobacco	5.64	11.17	11.93	16.42	23.60	18.98	22.88	30.20	22.97	25.71
Textiles and wearing apparel	3.49	8.24	12.70	30.66	71.18	110.45	157.05	168.27	201.36	296.19
of which: Garments	(3.30)	(8.12)	(11.81)	(30.39)	(70.88)	(109.38)	(153.68)	(165.49)	(197.02)	(281.24)
Essential oils	0.96	1.24	1.29	1.63	-	-	-	-	-	-
Chemical products	1.58	1.39	1.06	1.43	3.15	4.25	3.54	10.80	4.89	7.31
Petroleum products	50.03	60.27	63.74	59.38	123.72	188.86	175.39	157.62	113.99	129.24
Leather, rubber, paper, wood and ceramics	3.10	3.73	1.67	4.49	8.42	15.00	14.83	22.03	21.69	27.83
Other	2.12	0.33	0.45	1.14	1.30	4.56	5.55	8.52	10.01	8.65
Total manufacturing	66.92	86.37	92.84	115.15	231.37	342.10	379.24	397.44	374.91	449.93
Natural graphite	1.76	1.89	2.20	3.80	4.79	4.82	4.56	2.87	2.59	3.60
Metallic ores and iron pyrites	0.96	0.58	-	0.76	3.36	2.89	1.57	2.45	3.01	1.75
Ilmenite	1.04	1.05	0.57	1.52	0.53	0.39	0.82	0.78	0.54	1.70
Precious and semi-precious stones	25.56	30.90	28.92	34.02	31.48	40.17	32.95	32.91	39.97	24.20
Total mining and quarrying	29.32	34.42	31.69	40.10	40.16	48.68	41.14	41.28	48.12	32.69
Total industries exports	96.24	120.79	124.53	155.25	271.53	390.78	420.38	438.72	423.03	482.62

a/ 1980-82 data revised, 1983-84 data are provisional.
Source: Central Bank of Ceylon.

TABLE A-8. PRODUCT MIX OF TRADED MANUFACTURED GOODS ,1974,1981,1982 */

SITC	DESCRIPTION OF TRADE GOODS	EXPORTS 1974 PERCENT IN TOTAL MANUFACTURES	EXPORTS 1981 PERCENT IN TOTAL MANUFACTURES	EXPORTS 1982 PERCENT IN TOTAL MANUFACTURES	EXPORTS 1982 (1000 US $)	IMPORTS 1974 PERCENT IN TOTAL MANUFACTURES	IMPORTS 1981 PERCENT IN TOTAL MANUFACTURES	IMPORTS 1982 PERCENT IN TOTAL MANUFACTURES	IMPORTS 1982 (1000 US $)
01	Meat and meat preparations	0.006	0.027	0.043	314	0.003	0.097	0.129	1474
02	Dairy products and eggs	0.000	0.028	0.029	210	2.040	1.731	2.017	23119
032	Fish n.e.s. and fish preparations	0.000	...	0.000	0	0.000	0.210	0.649	7442
0422	Rice,glazed or polished not otherwise worked	0.000	...	...	...	20.966	0.138	0.422	4833
046	Meal and flour of wheat or of meslin	0.004	0.000	0.000	0	24.922	0.106	0.246	2823
047	Meal and flour of cereals,except above	...	0.000	0.000	0	0.007	0.014	0.022	253
048	Cereals preparat. & starch of fruits & vegetab.	0.049	0.004	0.002	12	0.139	0.259	0.315	3606
052	Dried fruit	0.003	0.062	0.096	696	0.106	0.069	0.096	1103
053	Fruit,preserved and fruit preparations	0.122	0.440	0.563	4070	0.009	0.017	0.093	1068
055	Vegetables,roots & tubers,preserved or prepared	0.000	0.001	0.003	22	0.072	0.075	0.141	1618
06	Sugar,sugar preparations and honey	0.025	0.002	0.011	82	5.560	11.455	3.998	45828
0713	Coffee extracts,essences,concentrates & similar	0.000	0.002	0.001	10	0.000	0.000	0.002	26
0722	Cocoa powder,unsweetened	0.013	0.001	0.003	25	...	0.000	0.000	4
0723	Cocoa butter and cocoa paste	0.027	0.014	0.007	50	...	0.000	0.000	1
073	Chocolate and related food preparations	...	0.000	0.001	4	0.000	0.010	0.011	128
074	Tea and mate	68.248	47.803	42.188	304897	0.000	0.005	0.005	62
081	Feeding-stuff for animals	0.115	0.110	0.518	3743	0.232	0.189	0.241	2758
09	Miscellaneous food preparations	1.266	0.095	0.028	199	0.259	0.630	0.548	6282
11	Beverages	0.002	0.015	0.014	102	0.063	0.207	0.446	5112
122	Tobacco manufactures	0.032	0.038	0.050	362	0.000	0.032	0.039	1022
2219	Flour and meal of oil seeds,nuts,kernels	...	...	0.000	0	...	0.000	0.000	1
231	Crude rubber,synth. & reclaimed(excl.SITC 2311)	0.000	0.002	0.002	15	0.011	0.051	0.022	251
243	Wood,shaped or simply worked	0.202	0.049	0.031	222	0.000	0.205	0.069	792
251	Pulp and waste paper	...	0.005	0.002	11	0.394	0.387	0.220	2523
2626	Wool shoddy	...	...	...	...	0.000	...	0.000	0
2627	Wool or other animal hair,carded or combed	...	...	...	...	...	0.000	0.000	1
2629	Waste of wool and other animal hair n.e.s.	...	0.000	...	...	...	...	0.000	0
263	Cotton	0.000	0.022	0.014	98	3.299	0.869	1.185	13580
266	Synthetic and regenerated(artificial) fibres	...	0.000	0.000	0	0.054	0.194	0.291	3337
267	Waste materials from textile fabrics(incl.rags)	0.000	0.005	0.000	1	0.001	0.010	0.013	145
332	Petroleum products	12.975	18.604	18.082	130682	1.383	3.955	5.546	63576
4	Animal and vegetable oils and fats	7.284	1.531	2.446	17677	0.303	0.445	0.363	4162
411	Animal oils and fats	0.000	0.008	0.064	462	0.148	0.204	0.180	2069
421	Fixed vegetable oils,soft(incl.SITC 422)	7.076	1.504	2.377	17182	0.122	0.214	0.159	1825
431	Animal and vegetable oils and fats processed	0.197	0.014	0.000	0	0.034	0.028	0.023	268

TABLE A-8. PRODUCT MIX OF TRADED MANUFACTURED GOODS ,1974,1981,1982 */

SITC	DESCRIPTION OF TRADE GOODS	EXPORTS 1974 PERCENT IN TOTAL MANUFACTURES	EXPORTS 1981 PERCENT IN TOTAL MANUFACTURES	EXPORTS 1982 PERCENT IN TOTAL MANUFACTURES	EXPORTS 1982 (1000 US $)	IMPORTS 1974 PERCENT IN TOTAL MANUFACTURES	IMPORTS 1981 PERCENT IN TOTAL MANUFACTURES	IMPORTS 1982 PERCENT IN TOTAL MANUFACTURES	IMPORTS 1982 (1000 US $)
5	Chemicals	5.350	2.617	3.023	21851	16.779	12.315	10.552	120958
51	Chemicals elements and compounds	0.443	0.220	0.199	1440	6.223	2.209	2.361	27069
52	Tar and chemicals from coal,petroleum,nat. gas	3.966	1.895	1.414	10220	0.030	0.014	0.032	368
53	Dyeing,tanning and colouring materials	0.000	0.002	0.005	35	0.663	0.644	0.764	8753
54	Medicinal and pharmaceutical products	0.012	0.019	0.039	281	1.270	0.773	1.447	16584
55	Essential oils and perfume materials	0.924	0.353	0.241	1745	0.108	0.206	0.306	3509
56	Fertilizers,manufactured	0.000	0.000	0.953	6885	6.437	5.088	2.342	26845
57	Explosives and pyrotechnic products	0.000	0.001	0.000	2	0.080	0.284	0.318	3645
58	Plastic materials,regenerated cellul. & resins	0.003	0.005	0.017	122	1.085	2.171	1.926	22083
59	Chemical materials and products n.e.s.	0.002	0.122	0.155	1120	0.884	0.926	1.056	12103
6	Manufactured goods classified by material	2.244	5.223	7.844	56691	14.374	27.794	29.518	338374
61	Leather manufactured n.e.s. & dressed fur skins	0.266	0.213	0.261	1887	0.012	0.012	0.026	293
62	Rubber manufactures n.e.s.	0.116	0.523	0.976	7055	0.632	1.028	1.258	14416
63	Wood and cork manufactures(excl.furniture)	0.161	0.251	0.337	2433	0.521	0.403	0.345	3958
64	Paper,paper board and manufactures thereof	0.024	0.014	0.010	69	1.899	2.684	2.553	29268
65	Textile yarn,fabrics,made-up articles	0.403	0.841	0.667	4819	4.851	12.228	12.118	138909
66	Non-metallic mineral manufactures,n.e.s.	1.178	3.284	5.440	39316	0.415	1.795	3.602	41289
67	Iron and steel	0.044	0.004	0.006	40	3.383	4.883	4.206	48218
68	Non-ferrous metals	0.002	0.012	0.028	204	0.728	1.456	1.238	14187
69	Manufactures of metal,n.e.s.	0.050	0.081	0.120	867	1.934	3.306	4.173	47837
7	Machinery and transport equipment	0.421	0.684	0.775	5602	7.960	33.704	36.313	416274
71	Machinery,other than electric	0.280	0.274	0.323	2332	3.889	13.979	14.212	162920
72	Electrical machinery,apparatus and appliances	0.080	0.218	0.302	2186	1.534	9.015	10.147	116319
73	Transport equipment	0.061	0.192	0.150	1084	2.538	10.709	11.954	137035
8	Miscellaneous manufactured articles	1.610	22.617	24.224	175068	1.063	4.825	6.438	73797
81	Sanitary,plumbing,heating & lightning fixtures	0.001	0.012	0.010	72	0.078	0.409	0.381	4373
82	Furniture	0.031	0.061	0.044	320	0.004	0.186	0.115	1314
83	Travel goods,handbags and similar articles	0.028	0.015	0.015	107	0.001	0.005	0.031	350
84	Clothing	1.216	21.951	22.908	165556	0.025	0.245	0.304	3484
85	Footwear	0.190	0.092	0.232	1679	0.001	0.013	0.022	256
86	Professional,scient. & controll. instruments	0.035	0.102	0.129	930	0.486	1.470	2.199	25211
89	Miscellaneous manufactured articles,n.e.s.	0.110	0.383	0.886	6403	0.469	2.496	3.386	38810
		1974	1981	1982		1974	1981	1982	
	TOTAL MANUFACTURES	300643	697269	722715		519219	1220841	1146335	
	TOTAL: SITC 5-8 LESS 68 a/	28931	217044	259008		204825	942262	935216	
	TOTAL TRADED GOODS: SITC 0-9	519680	1007534	994822		688149	1803830	1769863	

Note:Data and SITC descriptions refer to SITC revision 1
*/ This table is based on the definition of trade in manufactures covering a list of 148 specifically identified SITC 3-digit or 4-digit codes comprising a wide range of processing stages of manufactured goods.
a/ Definition of trade in manufactures SITC 5-8 less 68 is one of the most often found. It covers only items recognized as exclusively manufactured goods,i.e. with a high level of manufacturing content.
Source: UNIDO data base;Information supplied by the United Nations Statistical Office.

Table A-8 (cont'd)

TABLE A-9. DESTINATION OF EXPORTS OF MANUFACTURES BY BRANCHES, 1982 */

SITC	DESCRIPTION OF TRADE GOODS	WORLD TOTAL (1000 US$)	DEVELOPING COUNTRIES (PERCENT)	DEVELOPED MARKET ECONOMIES TOTAL (PERCENT)	USA (PERCENT)	EEC (PERCENT)	JAPAN (PERCENT)	CENTRALLY PLANNED DEVELOPED COUNTRIES (PERCENT)
01	Meat and meat preparations	314	95.39	4.61	0.00	4.61	0.00	0.00
02	Dairy products and eggs	210	99.80	0.20	0.00	0.05	0.02	0.00
032	Fish n.e.s. and fish preparations	0	31.20	68.81	0.00	0.00	0.00	0.00
046	Meal and flour of wheat or of meslin	0	30.28	69.73	0.00	68.65	0.00	0.00
047	Meal and flour of cereals,except above	0	100.00	0.00	0.00	0.00	0.00	0.00
048	Cereals preparat. & starch of fruits & vegetab.	12	28.15	71.85	0.29	3.88	0.00	0.00
052	Dried fruit	696	99.99	0.01	0.00	0.00	0.00	0.00
053	Fruit,preserved and fruit preparations	4070	0.56	99.44	1.15	19.71	0.86	0.00
055	Vegetables,roots & tubers,preserved or prepared	22	66.88	33.12	0.00	0.02	0.00	0.00
06	Sugar,sugar preparations and honey	82	88.37	11.63	0.48	3.75	0.00	0.00
0713	Coffee extracts,essences,concentrates & similar	10	0.00	100.00	0.00	0.00	0.00	0.00
0722	Cocoa powder,unsweetened	25	100.00	0.00	0.00	0.00	0.00	0.00
0723	Cocoa butter and cocoa paste	50	100.00	0.00	0.00	0.00	0.00	0.00
073	Chocolate and related food preparations	4	96.69	3.31	0.00	3.31	0.00	0.00
074	Tea and mate	304897	63.63	34.60	5.67	17.79	1.83	1.74
081	Feeding-stuff for animals	3743	9.83	89.99	3.05	86.94	0.00	0.19
09	Miscellaneous food preparations	199	44.40	55.46	1.22	10.98	0.00	0.14
11	Beverages	102	81.03	18.57	1.08	16.97	0.50	0.40
122	Tobacco manufactures	362	96.45	3.55	3.55	0.00	0.00	0.00
2219	Flour and meal of oil seeds,nuts,kernels	0	100.00	0.00	0.00	0.00	0.00	0.00
231	Crude rubber,synth. & reclaimed(excl.SITC 2311)	15	99.99	0.01	0.00	0.00	0.01	0.00
243	Wood,shaped or simply worked	222	5.62	94.38	0.00	81.50	5.31	0.00
251	Pulp and waste paper	11	98.74	1.26	0.05	1.20	0.00	0.00
263	Cotton	98	93.63	6.37	0.30	5.93	0.00	0.00
266	Synthetic and regenerated(artificial) fibres	0	0.00	100.00	0.00	48.20	0.00	0.00
267	Waste materials from textile fabrics(incl.rags)	1	0.22	99.78	1.00	97.39	0.00	0.00
332	Petroleum products	130682	29.45	0.00	0.00	0.00	0.00	0.00
4	Animal and vegetable oils and fats	17677	52.72	44.65	9.08	22.70	2.58	2.63
411	Animal oils and fats	462	1.51	98.49	0.00	0.00	98.49	0.00
431	Animal and vegetable oils and fats processed	0	94.34	5.66	0.00	0.00	5.66	0.00

TABLE A-9. DESTINATION OF EXPORTS OF MANUFACTURES BY BRANCHES, 1982 */

SITC	DESCRIPTION OF TRADE GOODS	WORLD TOTAL (1000 US$)	DEVELOPING COUNTRIES (PERCENT)	DEVELOPED MARKET ECONOMIES TOTAL (PERCENT)	USA (PERCENT)	EEC (PERCENT)	JAPAN (PERCENT)	CENTRALLY PLANNED DEVELOPED COUNTRIES (PERCENT)
5	Chemicals	21861	58.11	41.77	2.56	9.42	26.50	0.00
51	Chemicals elements and compounds	1440	5.80	93.20	1.78	71.48	18.71	0.00
52	Tar and chemicals from coal,petroleum,nat. gas	10220	46.66	53.34	0.00	0.00	53.34	0.00
53	Dyeing,tanning and colouring materials	35	88.39	11.61	0.00	0.03	11.58	0.00
54	Medicinal and pharmaceutical products	281	94.74	5.26	1.12	4.12	0.00	0.00
55	Essential oils and perfume materials	1745	23.26	76.74	18.62	49.98	1.66	0.00
56	Fertilizers,manufactured	6885	99.66	0.34	0.00	0.00	0.34	0.00
57	Explosives and pyrotechnic products	2	100.00	0.00	0.00	0.00	0.00	0.00
58	Plastic materials,regenerated cellul. & resins	122	47.49	52.51	14.02	38.30	0.00	0.00
59	Chemical materials and products n.e.s.	1120	18.49	81.19	16.80	8.85	1.12	0.00
6	Manufactured goods classified by material	56691	22.54	76.28	12.07	32.99	21.75	1.06
61	Leather manufactured n.e.s. & dressed fur skins	1887	5.77	93.78	16.70	75.58	0.76	0.00
62	Rubber manufactures n.e.s.	7055	19.19	75.45	14.35	57.36	0.52	5.19
63	Wood and cork manufactures(excl.furniture)	2433	21.94	77.58	22.55	38.64	4.20	0.47
64	Paper,paper board and manufactures thereof	69	89.37	10.61	1.01	5.47	1.12	0.00
65	Textile yarn,fabrics,made-up articles	4819	21.44	73.12	25.79	35.93	2.83	4.67
66	Non-metallic mineral manufactures,n.e.s.	39316	23.14	76.85	9.29	26.37	30.04	0.00
67	Iron and steel	40	6.52	93.48	93.35	0.00	0.01	0.00
68	Non-ferrous metals	204	77.68	22.32	10.10	6.59	0.00	0.00
69	Manufactures of metal,n.e.s.	867	49.71	50.29	1.75	19.75	26.62	0.00
7	Machinery and transport equipment	5602	45.12	53.86	17.07	20.75	1.16	0.93
71	Machinery,other than electric	2332	47.90	51.85	0.55	35.61	2.38	0.01
72	Electrical machinery,apparatus and appliances	2186	31.98	65.65	37.48	8.36	0.39	2.37
73	Transport equipment	1084	65.62	34.38	11.46	13.74	0.08	0.00
8	Miscellaneous manufactured articles	175068	5.84	94.03	58.85	29.19	1.30	0.13
81	Sanitary,plumbing,heating & lightning fixtures	72	54.74	41.66	11.96	4.68	0.01	3.61
82	Furniture	320	51.90	48.10	8.36	21.58	1.67	0.00
83	Travel goods,handbags and similar articles	107	6.08	93.88	2.54	78.09	0.63	0.03
84	Clothing	165556	4.23	95.72	61.43	29.08	0.57	0.04
85	Footwear	1679	4.81	95.19	56.14	30.60	0.47	0.00
86	Professional,scient. & controll. instruments	930	46.51	36.51	5.82	14.41	12.90	16.98
89	Miscellaneous manufactured articles,n.e.s.	6403	38.76	61.08	4.51	33.67	18.91	0.03
	TOTAL manufactures	722715	39.08	47.21	18.05	18.76	3.68	0.92
	TOTAL: SITC 5-8 LESS 68 a/	259008	14.70	84.93	43.00	28.19	7.90	0.34
	TOTAL traded goods: SITC 0-9	994822	37.99	48.05	14.38	21.40	5.02	4.37

Note:Data and SITC descriptions refer to SITC revision 1

*/ This table is based on the definition of trade in manufactures covering a list of 148 specifically identified SITC 3-digit or 4-digit codes comprising a wide range of processing stages of manufactured goods.

a/ Definition of trade in manufactures SITC 5-8 less 68 is one of the most often found. It covers only items recognized as exclusively manufactured goods,i.e. with a high level of manufacturing content.

Source: UNIDO data base;Information supplied by the United Nations Statistical Office.

Note: Percentages may not add to 100.0 due to the fact that countries report trade to/from "unspecified areas".

TABLE A-10. ORIGIN OF IMPORTS OF MANUFACTURES BY BRANCHES, 1982 */

SITC	DESCRIPTION OF TRADE GOODS	WORLD TOTAL (1000 US$)	DEVELOPING COUNTRIES (PERCENT)	DEVELOPED MARKET ECONOMIES TOTAL (PERCENT)	USA (PERCENT)	EEC (PERCENT)	JAPAN (PERCENT)	CENTRALLY PLANNED DEVELOPED COUNTRIES (PERCENT)
01	Meat and meat preparations	1474	27.56	72.44	9.56	18.61	6.27	0.00
02	Dairy products and eggs	23119	5.52	94.48	0.16	68.67	0.09	0.00
032	Fish n.e.s. and fish preparations	7442	39.02	58.33	1.24	1.08	55.26	1.64
0422	Rice,glazed or polished not otherwise worked	4833	59.45	0.55	0.00	0.00	0.01	0.00
046	Meal and flour of wheat or of meslin	2823	1.27	98.73	68.66	21.63	4.04	0.00
047	Meal and flour of cereals,except above	253	3.19	96.81	1.98	58.68	1.73	0.00
048	Cereals preparat. & starch of fruits & vegetab.	3606	47.38	49.54	0.03	13.90	2.11	3.08
052	Dried fruit	1103	80.47	19.53	0.05	0.05	0.15	0.00
053	Fruit,preserved and fruit preparations	1068	8.54	91.30	78.17	3.36	0.80	0.00
055	Vegetables,roots & tubers,preserved or prepared	1618	94.19	3.08	0.69	1.45	0.49	0.00
06	Sugar,sugar preparations and honey	45828	46.01	52.43	0.36	43.30	1.18	0.00
0713	Coffee extracts,essences,concentrates & similar	26	58.01	41.99	0.00	41.92	0.07	0.00
0722	Cocoa powder,unsweetened	4	99.89	0.11	0.00	0.00	0.00	0.00
0723	Cocoa butter and cocoa paste	1	0.00	100.00	0.00	99.41	0.59	0.00
073	Chocolate and related food preparations	128	23.39	76.59	1.14	41.56	3.16	0.00
074	Tea and mate	62	86.01	13.99	0.14	10.12	2.80	0.00
081	Feeding-stuff for animals	2758	25.24	74.76	57.25	13.80	0.28	0.00
09	Miscellaneous food preparations	6282	7.63	92.30	13.76	67.13	0.76	0.01
11	Beverages	5112	5.66	94.28	1.58	61.34	0.35	0.01
122	Tobacco manufactures	1022	27.31	72.69	13.57	58.73	0.06	0.00
2219	Flour and meal of oil seeds,nuts,kernels	1	99.79	0.21	0.00	0.00	0.21	0.00
231	Crude rubber,synth. & reclaimed(excl.SITC 2311)	251	2.97	97.00	0.33	63.87	20.04	0.00
243	Wood,shaped or simply worked	792	95.83	4.17	0.00	2.73	1.34	0.00
251	Pulp and waste paper	2523	0.00	100.00	0.00	0.00	0.00	0.00
2626	Wool shoddy	0	0.00	100.00	0.00	100.00	0.00	0.00
2627	Wool or other animal hair,carded or combed	1	0.00	100.00	0.00	100.00	0.00	0.00
2629	Waste of wool and other animal hair n.e.s.	0	0.00	100.00	0.00	72.48	27.52	0.00
263	Cotton	13580	94.56	5.40	1.73	0.02	0.29	0.00
266	Synthetic and regenerated(artificial) fibres	3337	4.37	87.02	0.15	1.18	76.22	0.00
267	Waste materials from textile fabrics(incl.rags)	145	40.68	59.10	15.80	1.01	13.42	0.00
332	Petroleum products	63576	96.05	3.95	0.62	2.83	0.17	0.00
4	Animal and vegetable oils and fats	4162	35.56	64.44	7.39	4.49	0.26	0.00
411	Animal oils and fats	2069	0.22	99.78	0.05	0.54	0.00	0.00
421	Fixed vegetable oils,soft(incl.SITC 422)	1825	73.06	26.94	16.63	6.18	0.16	0.00
431	Animal and vegetable oils and fats processed	268	52.97	47.03	1.11	23.45	2.89	0.00

TABLE A-10. ORIGIN OF IMPORTS OF MANUFACTURES BY BRANCHES, 1982 */

SITC	DESCRIPTION OF TRADE GOODS	WORLD TOTAL (1000 US$)	DEVELOPING COUNTRIES (PERCENT)	DEVELOPED MARKET ECONOMIES TOTAL (PERCENT)	USA (PERCENT)	EEC (PERCENT)	JAPAN (PERCENT)	CENTRALLY PLANNED DEVELOPED COUNTRIES (PERCENT)
5	Chemicals	120958	24.00	73.15	5.75	34.58	16.01	1.82
51	Chemicals elements and compounds	27069	20.30	78.44	7.99	38.70	15.24	0.74
52	Tar and chemicals from coal,petroleum,nat. gas	368	71.29	28.71	0.15	14.55	0.00	0.00
53	Dyeing,tanning and colouring materials	8753	32.69	67.05	3.00	36.61	10.49	0.10
54	Medicinal and pharmaceutical products	16584	42.71	54.41	6.81	33.72	3.21	2.65
55	Essential oils and perfume materials	3509	13.49	86.25	4.51	72.21	4.24	0.00
56	Fertilizers,manufactured	26845	18.54	77.57	1.51	19.09	29.69	3.89
57	Explosives and pyrotechnic products	3645	3.49	96.51	0.11	39.48	0.68	0.00
58	Plastic materials,regenerated cellul. & resins	22083	23.13	71.09	4.54	35.69	20.88	2.06
59	Chemical materials and products n.e.s.	12103	21.85	75.83	15.42	45.61	8.56	0.47
6	Manufactured goods classified by material	338374	36.71	53.61	2.21	16.85	24.15	0.77
61	Leather manufactured n.e.s. & dressed fur skins	293	80.52	16.33	1.02	9.40	2.56	0.00
62	Rubber manufactures n.e.s.	14416	21.26	77.63	7.55	19.95	39.77	0.16
63	Wood and cork manufactures(excl.furniture)	3958	54.80	19.13	0.35	10.24	2.50	24.83
64	Paper,paper board and manufactures thereof	29268	16.33	81.69	10.15	12.37	19.44	1.35
65	Textile yarn,fabrics,made-up articles	138909	55.93	25.32	0.41	2.78	21.59	0.08
66	Non-metallic mineral manufactures,n.e.s.	41289	18.80	77.68	0.57	33.76	38.90	1.21
67	Iron and steel	48218	11.99	82.62	1.40	20.03	35.07	1.01
68	Non-ferrous metals	14187	40.51	58.35	0.70	29.17	8.14	0.01
69	Manufactures of metal,n.e.s.	47837	35.51	63.03	3.79	38.65	12.70	0.1[illegible]
7	Machinery and transport equipment	416274	16.00	82.17	13.97	29.40	32.45	0.38
71	Machinery,other than electric	162920	13.76	83.77	17.21	40.82	16.99	0.44
72	Electrical machinery,apparatus and appliances	116319	20.40	77.67	6.18	28.04	39.15	0.17
73	Transport equipment	137035	14.93	84.10	16.73	16.96	45.15	0.50
8	Miscellaneous manufactured articles	73797	35.59	59.44	5.37	18.03	32.25	0.93
81	Sanitary,plumbing,heating & lightning fixtures	4373	49.32	47.90	2.46	26.80	11.19	0.15
82	Furniture	1314	32.58	65.31	16.30	31.16	11.65	0.00
83	Travel goods,handbags and similar articles	350	45.37	28.66	7.17	18.77	2.47	0.14
84	Clothing	3484	71.06	13.19	1.88	5.95	3.51	0.03
85	Footwear	256	58.45	38.57	0.15	16.66	1.60	0.00
86	Professional,scient. & controll. instruments	25211	33.10	64.49	10.20	19.64	28.61	1.96
89	Miscellaneous manufactured articles,n.e.s.	38810	32.33	61.83	2.52	16.64	40.74	0.48
	TOTAL manufactures	1146335	31.15	64.42	7.28	24.65	23.37	0.64
	TOTAL: SITC 5-8 LESS 68 a/	935216	25.70	69.24	8.17	24.63	27.68	0.76
	TOTAL traded goods: SITC 0-9	1769863	50.79	46.13	6.30	16.66	15.19	0.44

Note:Data and SITC descriptions refer to SITC revision 1
*/ This table is based on the definition of trade in manufactures covering a list of 148 specifically identified SITC 3-digit or 4-digit codes comprising a wide range of processing stages of manufactured goods.
a/ Definition of trade in manufactures SITC 5-8 less 68 is one of the most often found. It covers only items recognized as exclusively manufactured goods,i.e. with a high level of manufacturing content.
Source: UNIDO data base;Information supplied by the United Nations Statistical Office.
Note: Percentages may not add to 100.0 due to the fact that countries report trade to/from "unspecified areas".

Table A-11. End-Use Classification of Imports, 1982-1984

Category	Value in Rs. Million			Value in SDR Million			Percentage of Total Imports		
	1982	1983[a/]	1984[b/]	1982	1983	1984	1982	1983	1984
1. Consumer goods	8,616	11,639	11,052	375.0	462.7	423.8	20.5	25.5	23.2
1.1 Food and drink	3,561	5,375	4,986	155.0	213.7	191.2	8.5	11.8	10.5
1.1.1 Rice	925	765	197	40.3	30.4	7.5	2.2	1.7	0.4
1.1.2 Flour	62	108	28	2.7	4.3	1.1	0.2	0.2	0.1
1.1.3 Sugar	970	1,985	1,346	42.2	78.9	51.6	2.3	4.4	2.8
1.2 Textile & Clothing	2,167	2,724	2,974	94.3	108.3	114.0	5.2	6.0	6.3
1.3 Other	2,888	3,540	3,092	125.7	140.7	118.6	6.9	7.8	6.5
2. Intermediate goods	21,640	21,727	23,749	941.8	863.7	910.7	51.6	47.7	50.0
2.1 Petroleum	12,274	11,024	10,681	534.2	438.2	409.6	29.3	24.2	22.5
2.2 Fertilizer	[illegible]	625	1,103	24.4	24.8	42.3	1.3	1.4	2.3
2.3 Chemicals	729	832	1,028	31.7	33.1	39.4	1.7	1.8	2.2
2.4 Wheat	1,787	2,340	2,471	77.8	93.0	94.8	4.3	5.1	5.2
3. Investment goods	11,591	12,077	12,170	504.5	480.1	466.7	27.6	26.5	25.6
3.1 Machinery and equipment	3,964	5,261	5,335	172.5	209.1	204.6	9.5	11.6	11.2
3.2 Transport equipment[c/]	5,529	3,826	3,031	240.6	152.1	116.2	13.2	8.4	6.4
3.3 Building materials	557	1,177	727	24.2	46.8	27.9	1.3	2.6	1.5
4. Unclassified	99	115	570	4.3	4.6	21.8	0.2	0.3	1.2
Total imports[d/]	41,946	45,558	47,541	1,825.6	1,811.1	1,823.0	100.0	100.0	100.0

a/ Revised.
b/ Provisional.
c/ Include values of ships and aircraft which have not been recorded in the Customs Returns.
d/ Adjusted.

Source: Central Bank of Ceylon, Review of the Economy 1984.

Table A-12. Allocation of Government Capital Expenditure to Ongoing Industrial Projects, 1985-1989 (Rs. million)

	1985		1986		1987		1988		1989		1985-1989			
	T[a]	FA[b]	T	FA	T	FA	T	FA	T	FA	T	FC[c]	LC[d]	FA
Industry	103.1	12.4	84.9	1.0	39.1	1.0	37.1	1.0	37.7	1.0	301.9	28.0	213.9	16.4
Ministry of Industries & Scientific Affairs														
(1) Industrial Development Board	6.6	1.5	2.6	-	1.4	-	1.4	-	1.4	-	13.4	1.5	11.9	1.5
(2) Atomic Energy Authority	1.2	-	1.5		1.5	-	1.5	-	1.5	-	7.2	.4	6.8	-
(3) CISIR	8.7	.4	9.7	1.0	9.7	1.0	9.7	1.0	9.7	1.0	47.5	4.4	43.1	4.4
(4) Sri Lanka Standards Institution	5.9	-	7.2	-	9.0	-	9.0	-	9.0	-	40.1	2.0	28.1	-
(5) N.E.R.D.	3.8	-	5.0	-	5.0	-	5.0	-	5.0	-	23.8	1.2	22.6	-
(6) Others	2.1	-	0.3		0.3	-	0.3	-	0.3	-	3.3	0.3	3.0	-
Ministry of Textile Industries														
(1) N.T.C. Bonds	42.0	-	42.0	-	-	-	-	-	-	-	84.0	4.2	79.8	-
(2) Garment Training Centre	0.9	-	1.6	-	1.1	-	-	-	-	3.6		.2	3.4	-
(3) Textile Training & Research Institute	14.3	10.5	-	-	-	-	-	-	-	-	14.3	10.5	3.8	10.5
(4) Others	1.8	-	0.5	-	-	-	-	-	-	-	2.3	0.1	2.2	-
Ministry of Rural Industrial Development														
(1) National Design Centre	2.3	-	4.0	-	4.3	-	3.1	-	3.4	-	17.1	0.9	16.2	-
(2) National Craft Councils	2.2	-	2.0	-	2.0	-	2.0	-	2.0	-	10.2	0.5	9.7	-
(3) Sri Lanka Handicrafts Board	9.0	-	6.0	-	2.0	-	2.0	-	2.0	-	21.0	1.1	19.9	-
(4) Department of Small Industries	2.3	-	2.5	-	2.8	-	3.1	-	3.4	-	14.1	0.7	13.4	-

Source: Ministry of Finance and Planning, Public Investment 1985-1989.

a/ Total b/ Foreign Aid c/ Foreign Cost d/ Local Cost

Table A-13. Branch distribution of enterprises and actual investment under GCEC, 1978-1984

INDUSTRY GROUP	1978/1979		1979/1980		1980/1981		1981/1982		1982/1983		1983/1984	
	No. of Units	Investment (Rs million)	No. of Units	Investment (Rs million)	No. of Units	Investment (Rs million)	No. of Units	Investment (Rs million)	No. of Units	Investment (Rs million)	No. of Units	Investment (Rs million)
WEARING APPAREL												
Ready Made Garments	6	39.38	16	126.42	21	199.90	27	294.56	28	415.67	28	543.47
Socks & Stockings	-	-	1	2.50	03	39.05	03	71.70	03	90.24	04	46.48
Leather Products	-	-	-	-	-	-	-	-	01	4.65	01	5.63
TEXTILE PRODUCTS	-	-	-	-	01	2.10	01	16.06	02	67.51	03	98.83
RUBBER PRODUCTS	02	5.35	03	21.14	05	91.69	06	100.36	07	137.17	07	147.21
JEWELLERY & LAPIDARY	01	1.30	01	1.36	05	30.78	07	2.05	08	58.22	09	47.81
ELECTRONIC & ELECTRICAL GOODS	-	-	-	-	01	7.43	01	8.18	05	15.06	05	12.20
FOOTWEAR	-	-	-	-	02	40.43	02	153.10	02	215.15	02	134.03
MISCELLANEOUS												
Food & Beverages	01	0.97	02	3.56	02	10.01	02	19.32	02	43.56	02	37.64
Wood & Wood Products	-	-	-	-	01	5.96	01	7.89	01	8.69	02	8.70
Non-Metallic Mineral Products	-		-	-	-	-	01	24.35	01	37.62	03	56.03
Coir Products	-	-	-	-	-	-	-	-	01	2.53	01	3.53
Steel & Fabricated Metal Products	-	-	-	-	01	10.08	02	31.31	02	44.46	04	59.51
Machinery & Transport Equipment	-	-	-	-	01	8.13	01	14.85	01	17.51	01	17.51
Plastic & PVC Products	-	-	-	-	-	-	02	14.88	03	17.87	05	54.59
Service Projects	-	-	-	-	02	16.00	02	23.50	03	58.53	06	148.90
Other	-	-	03	5.90	04	12.92	04	45.19	04	100.11	12	109.25
Air Lanka Ltd.	-	-	01	260.00	01	1,200.07	01	1,676.67	01	4,938.53	01	6,798.00
T O T A L	10	47.00	27	420.88	50	1,674.55	63	2,503.97	75	6,273.38	96	8,329.32

Source: Greater Colombo Economic Commission.

Table A-14. Branch distribution of export earnings from GCEC enterprises, 1979-1985 (Rs million)

	1979	1980	1981	1982	1983	1984	1985 June
WEARING APPAREL							
Ready Made Garments	137.904	459.229	942.273	1,237.719	1,749.131	2,530.121	1,261.365
Socks & Stockings	7.211	17.423	20.838	41.760	56.840	114.959	86.190
Leather Products	-	-	-	0.771	42.469	66.709	30.420
TEXTILE PRODUCTS	-	-	-	-	22.247	76.790	69.975
RUBBER PRODUCTS	1.228	12.285	44.691	80.149	75.665	73.627	42.525
JEWELLERY & LAPIDARY	0.727	0.998	3.780	14.952	16.793	34.416	29.536
ELECTRONIC & ELECTRICAL GOODS	-		19.455	25.184	54.905	30.133	16.796
FOOTWEAR	-		0.002	26.525	46.694	100.550	63.545
MISCELLANEOUS							
Food & Beverages& Tobacco	-	8.409	22.999	17.752	55.021	120.680	6.463
Wood & Wood Products	-		0.457	2.708	1.558	0.086	-
Non-Metallic Mineral Products	-		-	4.654	5.561	2.710	7.152
Coir Products	-	-	-	-	0.036	3.976	0.572
Steel & Fabricated Metal Products	-	-		8.523	32.595	45.120	20.107
Machinery & Transport Equipment	-	-		-	5.069	10.506	-
Plastic & PVC Production	-	-		9.772	32.939	71.306	41.772
Air Lanka Ltd.	137.000	1,286.000	2,162.000	2,261.000	2,977.000	3,720.000	N.A.
Service Projects		18.768	95.955	151.125	170.058	195.679	99.098
Others	5.081	11.969	12.897	31.697	51.202	63.089	44.014
T O T A L	289.151	1,815.081	3,325.347	3,914.111	5,395.784	7,257.457	1,819.530

Source: Greater Colombo Economic Commission.

Table A-15 Branch distribution of employment in GCEC enterprises, 1979-1985

INDUSTRY GROUP	1979	1980	1981	1982	1983	1984	1985 (June)
WEARING APPAREL							
Ready Made Garments	5,496	8,994	15,800	16,427	19,469	21,942	23,292
Socks & Stockings	168	258	367	661	718	869	1,047
Leather Products	-	-	-	58	165	184	192
TEXTILE PRODUCTS	-	-	-	73	292	658	964
RUBBER PRODUCTS	26	129	920	761	325	472	497
JEWELLERY & LAPIDARY	110	154	311	587	684	830	922
ELECTRONICS & ELECTRICAL GOODS	-	46	282	304	431	120	112
FOOTWEAR	-	-	956	1,634	1,588	1,388	1,416
MISCELLANEOUS							
Food & Beverage	-	495	288	404	416	30	-
Wood & Wood Products	-	-	58	113	64	-	-
Non-Metallic Mineral Products	-	-	-	72	85	226	289
Steel & Fabricated Metal Products	-	-	-	89	101	114	111
Coir Products	-	-	-	-	29	37	25
Machinery & Transport Equipment	-	-	23	40	74	-	-
Plastic & PVC Products	-	-	-	333	435	1,180	1,086
Services	-	217	271	377	361	367	443
Other	76	245	451	673	816	1,060	1,118
Air Lanka Ltd.	-	-	-	2,320	2,652	3,248	3,477
T O T A L	5,876	10,538	19,727	24,926	28,705	32,725	34,991

Source: Greater Colombo Economic Commission.

Table A-16

Table A-16 Investment, Output, Exports and Employment (cumulative) in FIAC approved projects, 1978-1985

Year	Total Investment (Rs.Mn.)	Output (Rs. Mn.)	Exports (FOB) (Rs.Mn.)	Employment (nos)
1978	n.a.	0	6	...
1979	n.a.	237	126	...
1980	1,007[a/]	440	383	...
1981	1,016	988	585	16,746
1982	2,200	1,849	778	22,079
1983	2,667	3,090	1,631	33,563
1984	2,388	3,773	1,682	38,733
1985 first half	2,165	2,528	1,067	40,725

a/ Figure refers to cumulative investment in 1977-1980.

Source: Foreign Investment Advisory Committee.

Table A-17 Private Remittances 1980-1984

ORIGIN	Rs. Million					Percentage Share				
	1980	1981	1982	1983	1984	1980	1981	1982	1983	1984
Middle East	976.7	2,044.3	3,212.9	3,751.1	4,156.3	38.8	46.2	53.4	54.2	54.3
North America	411.8	631.1	641.7	939.0	1,274.1	16.4	14.2	10.7	13.6	16.7
EEC	739.4	1,116.2	1,477.7	1,203.2	1,091.4	29.4	25.2	24.5	17.4	14.3
Far East Asia	56.7	135.5	113.4	200.5	270.9	2.3	3.1	1.9	2.9	3.5
South East Asia	78.8	89.3	158.6	258.7	236.4	3.1	2.0	2.6	3.7	3.1
Europe - Other	130.7	170.7	168.0	195.2	221.1	5.2	3.9	2.8	2.8	2.9
South Asia	25.2	31.0	83.1	148.3	180.3	1.0	0.7	1.4	2.2	2.4
Australia	45.9	76.2	21.7	65.5	76.8	1.8	1.7	0.3	1.0	1.0
South Africa	11.1	23.2	44.8	57.8	57.6	0.4	0.5	0.8	0.8	0.7
Central Africa	28.6	89.8	59.5	64.1	54.7	1.1	2.0	1.0	0.9	0.7
North Africa	2.3	14.4	18.6	10.0	10.9	0.1	0.3	0.3	0.2	0.1
CMEA	3.9	2.7	2.8	6.1	7.6	0.2	0.1	...	0.1	0.1
Latin America	1.3	0.8	1.4	2.1	1.6	...	...	...	...	...
Other	5.6	4.6	19.5	14.0	13.4	0.2	0.1	0.3	0.2	0.2
T O T A L	2,518.0	4,429.8	6,023.7	6,915.6	7,653.1	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Ceylon, Review of the Economy 1984.

Table A-18. The Approved and/or Operational Technical Co-operation projects of UNIDO (as of end 1985)

S R I L A N K A

Backstopping Responsibility (Spec.Act.Code)	Project Number	Project Title
IO/AGRO (31.7.B.)	DP/SRL/79/054**	Establishment of a textile training and service centre
IO/AGRO (31.7.D.)	DP/SRL/81/007	Assistance to the Ceylon Leather Products Corporation
IO/AGRO (31.7.D.)	DP/SRL/83/003*	Assistance to the leather industry in Sri Lanka
IO/AGRO (31.7.C.)	SI/SRL/84/802	Agro-industry development in Mahaweli System 'H'
IO/CHEM (32.1.B.)	TF/SRL/85/001	Associate expert
IO/CHEM (32.1.B.)	US/SRL/78/207**	Establishment of a ceramic research and development laboratory
IO/INFR (31.3.K.)	DP/SRL/82/003*	Development of standardization and quality control
IO/PLAN (31.2.A.)	DP/SRL/82/006	Establishment of industrial priorities and industrial programming office in the Ministry of Industries and Scientific Affairs
IO/FCTY (31.4.C.)	DP/SRL/82/007**	Industrial energy conservation programme
IO/FCTY (31.4.C.)	DP/SRL/83/012*	Establishment of an industrial energy management unit at the NERDC
IO/MET (31.8.C.)	DP/SRL/83/007**	Assistance to Ceylon Mineral Sands Corporation (phase II)
IO/MET (31.8.C.)	SI/SRL/84/801	Improvement of pipe production of Ceylon Steel Corporation
IO/FEAS (31.6.A.)	DP/SRL/83/016*	Assistance to FIAC
IO/FEAS (31.6.A.)	DP/SRL/83/019*	Assistance to GCEC (phase III)

* Large-scale project (= total allotment $150,000 or above)

** Total allotment $1 million or above

ANNEX B

Foreign Investment in Sri Lanka - Procedures, Incentives and Potential Investment Areas

1. General information

Double taxation relief: Sri Lanka has entered into double taxation releif agreements with Belgium, Canada, Denmark, Federal Republic of Germany, Finland, France, India, Japan, Malaysia, Netherlands, Norway, Pakistan, Poland, SIngapore, Switzerland, Sweden and the United Kingdom. An agreement with the United States of America has been initiated.

Investment protection: Investment Protection Agreements are guaranteed and protected by Article 157 of the Consitution of the Republic of Sri Lanka.

Agreements are in force with Benelux, Canada, Federal Republic of Germany, France, Hong Kong, Japan, Malaysia, Republic of Korea, Romania, Singapore, Sweden, the United Kingdom and the United States of America.

Investment disputes: Sri Lanka is a signatory to the 1965 Convention on Settlement of Investment Disputes.

2. Greater Colombo Economic Commission (GCEC)

The Greater Colombo Economic Commission (GCEC), the authority for Sri Lanka's Free Trade Zones, is an autonomous statutory body created by Parliament in 1978. The five member body headed by a Director Gneeral, functions directly under the President of Sri Lanka. Its principal objective is to encourage the inflow of foreign investment.

The GCEC will approve investment in export oriented manufacture for location in its Free Trade Zones at Katunayake and Biyagama. If made necessary by techno-economic considerations, an industry can be located outside the zones.

Labour intensive manufacture is especially encouraged. There are no regulations on the level of automation required. On the other hand, credit is given to those industries which introduce new or advanced technologies.

The GCEC is the single authority which an investor in the Free Trade Zone deals with, facilitating implementation of every stage of the project.

Incentives offered to investors under GCEC authority include:

- Tax holidays of up to 10 years based on project characteristics, free of income and corporate tax and taxes on dividends and royalties commencing from the date of the first export.
- A concessionary income tax of 2 per cent to 5 per cent on turnover for up to 15 years thereafter.
- A flexible equity structure with no limit on the equity holdings of foreign investors. Shares may be freely transferred within and outside Sri Lanka with no tax or exchange controls on such transfers.
- Duty free imports of plant, machinery, raw materials, components and construction materials.
- No tax on transfers of capital and proceeds of liquidation.
- No tax on the income of expatriates employed by the enterprise during the term of the tax holiday.

3. Foreign Investment Advisory Committee (FIAC)[1/]

The Foreign Investment Advisory Committee (FIAC) is the agency responsible for approval of foreign investmnet projects outside the Investment Promotion Zones in Sri Lanka. It is chaired by the Deputy Secretary to te Treasury and its members include Secretaries to Ministries and Heads of Institutions concerned with foreign investment in Sri Lanka.

1/ Cf. FIAC, Investment Opportunities in Sri Lanka, August 1985.

International Economic Co-operation Division

The Foreign Investment Advisory Committee is serviced by the International Economic Co-operation Division (IECD) of the Ministry of Finance and Planning. This Division is responsible for the co-ordination of all activities relating to private foreign investment outside the Investment Promotion Zones. The Division assists investors, both foreign and local, in finding suitable collaborators in joint venture projects and provides various other services from the time of the initial inquiry to the stage of approval of projects, and thereafter assists in making the projects operational.

Equity participation

The majority share holding in FIAC approved joint venture projects are as a general rule, held by the local investor. However, in certain special cases, foreign investors could have majority share holding especially in large capital intensive projects and in those which offer substantial export markets.

Production and sales

The output of FIAC approved projects could be freely sold in the local market. However, since the local market is small, investors are encouraged to give high priority to export a larger proportion of their total production.

Tax concessions

Projects approved by the FIAC enjoy tax concessions. Companies engaged in export oriented projects (non-traditional exports) are entitled to a five-year tax holiday. If the net foreign exchange earnings of these companies exceed 75 per cent of the f.o.b. price at the end of the five-year tax holiday, a 10-year half tax holiday is granted. This would mean that corporate tax would be payable only at a rate of 25 per cent during the 10-year period. Machinery required for export oriented ventures can be imported free of duty provided at least 50 per cent of production is exported. In addition, raw material requirements of export oriented projects could also be imported duty free. This is possible either through a bonded warehouse system or through a duty drawback scheme. In addition to the

five-year tax holiday and duty free concessions, several other incentives are available for export oriented investments. These include:

- Medium and long-term funds for investment on concessionary rates of interest;
- Short-term funds for operational purposes on concessionary rates of interest;
- Provision of seed capital for ventures which are short of equity;
- A performance oriented export development and investmnet support scheme based on 3-5 per cent of the f.o.b. value of exports.

Apart from the tax concessions for export oriented ventures, tax holidays are also available for joint venture businesses engaged in the following sectors:

Gems and jewellery, entrepot trade, ship repair, ship breaking, computer software development, operation of yachts and pleasure crafts, foreign currency banking units and housing.

Profits, dividends and royalties

The profits and dividends of joint ventures approved by the FIAC of foreign investors are freely remittable through commerical banks. Repatriation of capital too is permitted after settling any local liabilities. Payment of royalties and technical service fees are permitted wherever appropriate.

Employment of foreign personnel

Employment of foreign personnel is allowed particularly in areas where there is a shortage of technical skills.

Approval of projects

Project proposals for approval should be forwarded in the prescribed form to the International Economic Co-operation Division of the Ministry of Finance and Planning. These proposals should be supported by a letter from the

foreign collaborator stating his willingness to participate in the project. Projects are evaluated in terms of employment generated, technology transfer involved, market access, foreign exchange earnings, spread of skills as well as the contributions to output and growth.

4. Selected areas of foreign investment identified by FIAC

Tea sector

- Manufacture of green tea, flavoured teas and herbal teas.

Rubber sector

- Manufacture of high technology rubber-based automotive components
- Manufacture of rubber components used in civil engeering works (eg. gaskets for underground water pipes, bridge bearings, anti-vibration mounts, floor mats, sealing, etc.)

Coconut sector

Kernel products:

- Concentrated coconut cream
- Dessicated coconut in consumer packs
- Refined coconut oil in consumer packs

Non-kernel products:

- Rubberised coir fibre for automobile industry, coir mats and mattings
- Coir mats for soil conservation
- Coir yarn/twine for coir-netting
- Coir briquettes

Fruits and vegetables sector

- Cultivation and preservation of ginger, cucumber, aubergine (egg plants) and other vegetables
- Processing a range of tropical fruits into cordials, jams, tropical fruit salads, etc., and canning and packaging into ready-to-use packs
- Processing and blending of passion fruit juices
- Papin - cultivation of papaw and the production and processing of papain

Other agro-based products

- Sugar-cultivation and processing of sugarcane
- Soya-bean-cultivation and processing of soya bean
- Cocoa-manufacture of confectioneries (e.g. chocolates)
- Mushroom-cultivation and canning of mushrooms
- Tomato - manufacture of tomato paste, etc.
- Manufacture of sesame consumer products (e.g. sesame paste)
- Processing of pulses in pre-germinated consumer packs (e.g. black and green)

Salt-based products

- Manufacture of table salt and iodised salt in consumer packs for export
- Manufacture of caustic soda with HCI acid and chlorine as by-products

Foliage and flowering plants

- Cut flower/plants
- Cultivation of carnations, chrysenthemums, Anthuriums for export
- Cultivation of a range of tropical and sub-tropical indoor and outdoor plants

Ceramic and porcelain products

- Manufacture of ceramic and porcelain ornamentals and souvenirs

Gems and jewellery products

- Manufacture of jewellery
- Cutting and polishing of gems and diamonds

Leather products

- Manufacture of industrial safety goods viz. gloves, aprons, belts, garments, masks, etc.
- Manufacture of all types of travel goods and ladies hand bags, wallets, etc.

Wooden products

- Manufacture of educational toys and reproduction of furniture

Electrical products

- Electrical pumps - domestic pumps

- Agricultural pumps

- Generators - domestic generators
  industrial generators
  solar energy generators

- Electrical accessories - switches and plugs
  dimmers
  door bells
  fans

- Kitchen equipment - food mixers, blenders, kettles, etc.

- Assembly line products - radio
  television
  air conditioner
  fan
  domestic equipment

Electronics

- Manufacture of components, viz. -

  capacitors
  printed circuit boards
  coils
  alarms
  power circiuts
  audio products
  video products
  resistors
  diodes
  ferrite core

Computer software

Design and implementation of specialized computer systems and ready-made solutions for order processing, stock control sales ledger, purchase ledger, nominal ledger, payroll, production control and management information.

Light engineering

- Manufacture of aluminium foil for packaging industry

- Manufacture of work boats and luxury yachts

- Manufacture of agricultural sprayers

- Manufacture of motorcar accessories, e.g. radiators, cores, oil filters, air filters, brake parts, etc.

- Manufacture of welded wire mesh for civil engineering applications

Graphite-based products

- Further processing of Sri Lanka graphite to meet specific requirements of end-users

- Manufacture of graphite crucibles, lubricants, paints, etc.

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