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SCOPE, STRUCTURE AND DETERMINANCE OF LINKAGES BETWEEN ENTERPRISES IN THE KATUNAYAKA EXPORT PROCESSING ZONE AND DOMESTIC SRI LANKAN ENTERPRISES

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SCOPE STRUCTURE AND DETERMINANCE OF LINKAGES BETWEEN ENTERPRISES IN THE KATUNAYAKE EXPORT PROCESSING ZONE AND DOMESTIC SRI LANKAN ENTERPRISES

INTRODUCTION

In most of the less developed countries the post political independence era was characterised by a positive attempt towards industrialisation, for restructuring their economies dependent on a narrow range of economic activities. However, the policies that were adopted in Sri Lanka in the post independence era since 1948 do not illustrate any efforts made towards achieving this goal. Most of these were to maintain the classical export economy handed over by the previous rulers. This may have been basically due to the relative economic strength the country possesed at that time. This position is clearly indicated in the first Central Bank report published in 1950 which states : "The country as a whole is better off, both in terms of money income and real income.......Although the domestic problem of more equitable distribution of Ceylon's higher national income remains, the overall financial position of the country has improved.......An examination of the balnce of payment (data) reveals that Ceylon had a surplus, after taking into account all current items of Rs.146.7 mn at the end of the year 1950. As a country we are in asound position."

Furthermore, Sri Lanka being predominantly an agricultural country continued to concentrate in developing this sector with particular emphasis on plantation crops.In order to support agricultural development, major schemes such as the Gal Oya multi purpose development scheme had commenced even at that time.

Industrial activity remained insignificant and all consumer demand were met by imports. Subsidies such as food rations played a major role and the country as a whole took the structure of a welfare state

However this trend could not continue. Like most other developing countries Sri Lanka also experienced declining terms of trade for the primary agricultural crops on which it was dependent. The increase in production of major crops were insufficient to compensate for the fall in real prices. Moreover, the requirement for foreign exchange to sustain [illegible], continued to grow very rapidly.

In view of this situation Sri Lanka had also sought to diversify its economic base and with it to reap the benefits of additional foreign exchange savings through import substitution.

This trend emerged in the latter part of the 1950s, which was pursued vigorously in the early 1960s when it was considered that industrialisation was necessary for the upliftment of the economy. This thinking was influenced by the prevalent then popular bias towards import substitution which however was characterised by strict controls and government involvement in production and distribution.

In an overall assessment the net outcome of import substitution strategy appeared to be marginal. The industrial structure evolved during this period was characterised by a plethora of problems such as growing unemployment and increasing balance of payment difficulties which hampered sustained industrial expansion.

Industries were highly capital intensive and hence did little to relieve the unemployment problem. While the share of manufacturing increased from about 6 per cent in 1963 to 10 per cent in 1972, the share of employment in that sector increased only from 9.2% to 9.6% between these two years. Many of the early import substitution industries were established by large trading houses to ensure the markets for hitherto imported consumables. As incentives to reduce costs were blunted by high effective protection, there was evidence of substantial inefficiencies and financial losses which invariably implied erosion in consumer welfare. Apart from these, there were additional structural limitations hindering the operation of state industries owing to haphazard planning and various deficiencies in day-to-day management. Given the predominance of state enterprises in producer-good industries, their operational limitations not only caused severe damages to resource allocation and consumer welfare, but also generated pressure on public savings generating budgetary pressure.

Above all these limitations, the major factor which constrained the long term viability of import substitution industrialisation was the dismal record of the industrial sector in accomplishing envisaged balance of payments relief. In practice, import substitution industrialisation did not diminish the economy's external dependence, but merely changed its nature.

The increased importation of capital goods and industrial raw materials was achieved at the expense of reduced imports on consumer goods. Further, a large share of industrial production took place at costs that are not competitive in terms of world market prices, and it was not uncommon to find some firms that actually used more foreign exchange than they saved. On the other hand, despite some policy attempts since the mid 1960s, the industrial sector failed to penetrate export markets, and even by the mid 1970s total earnings from manufactured exports ([illegible]% of total exports) covered only 6 per cent of total annual import requirements of the industrial sector. Given these structural features, the growth dynamism of the newly established industrial sector tended to show a close functional relationship with fortunes of the traditional export industries. Unanticipated import curtailments brought about by adverse market conditions of traditional exports, coupled with adverse movements in the terms of trade, continued to be the major constraint on industrial expansion aggravating in the first half of the 1970s. By this time, it had become quite clear that unless there was a significant break-through in export orientation of industry, import constraint might continue to cause industrial stagnation.

It was against this background that the economic strategies adopted by the Government of Sri Lanka since 1977 were based on a pledge to open up the economy to market forces and to promote export led development and growth. The industrialisation strategy embodied in this policy package was based on the neo-classical analysis of the failure of import substitution industrialisation in less developed countries. It was analysed that the excessive government intervention in production and distribution in the economy would negate the effect of market forces in the utilisation of both factors of production and resources. It was felt that guiding of allocation of resources is better than controlling as it would result in an adjustment in the production structure in line with comparative advantages.

Accordingly, while price controls, trade, and payments were liberalized exchange rate and tariff reforms were also introduced. Simultaneously measures were adopted to attract direct foreign investments with heavy bias on export development drive.

In order to achieve the objectives of export led growth the government felt that active institutional arrangements would be required to attract, approve, monitor and regulate foreign investment activities in the country. The Foreign Investment Advisory Committee (FIAC) which was then in existence, was revitalised to approve investments within the given frame work of the national laws and administrative procedures. The Foreign Investment Advisory Committee is an administrative arrangement and has no statutory authority.

In order to create an institution with statutory authority and powers, the Greater Colombo Economic Commission (GCEC) Law No. 4 of 1978 was enacted by Parliament vesting the GCEC with powers necessary for the growth and for the resurgence of the economy of the Republic and to provide for matters connected and incidental thereto.

The Commission is the only statutory authority with powers to exempt, modify or vary the application of several important laws of the country to facilitate the inflow of foreign investment. List of such laws are given in the appendix.

In terms of the GCEC law, the objectives of the Commission are as follows ;

(a) to foster and generate the economic development of the Republic

(b) to widen and strengthen the base of the economy of the Republic

(c) to encourage and promote foreign investment within the Republic

(d) to diversify the sources of foreign exchange earnings and to increase the export earnings

(e) to encourage and foster the establishment and development of industrial and commercial Enterprises within the Republic

(f) to administer the affairs of the Area of Authority

(g) to do all such other acts as may be necessary or conducive to the attainment of any or all of the above objects.

Furthermore, the GCEC Act has demarcated a specific area immediately to the north of Colombo in extent of 450 sq. kilo mtrs. referred to as "the Area of Authority". The Commission is empowered to lay out industrial estates within this Area of Authority for sale or lease to the investors.

In addition, the Commission is also empowered to establish licensed zones in any area of country but outside the Area of Authority, to provide facilities or improvement for the establishment of Licensed Enterprises. The GCEC Law also provides powers to the Commission to approve any industry for location in any other appropriate areas in the country. The commission grants such approval taking into consideration, techno economic reasons such as the proximity to sources of raw materials, climatic conditions etc.

The Commission in pursuance of its objectives has begun its operations with the implementation of the concept of Export Processing Zone scheme. Accordingly, the first Export Processing Zone was established at Katunayake in 1978 in the Commission's Area of Authority, immediately adjacent to the Katunayake International Airport. As a result of the rapid expansion of the Katunayake EPZ, 2nd Export Processing Zone was established at Biyagama in 1985, also located in the Commission's Area of Authority. The subject matter of this study is to ascertain the performance of Katunayake Export Processing Zone in regard to the creation of linkages between the Enterprises located therein and the rest of the economy.

A Brief Summary on the Performance of the Commission

Approvals

In terms of Section 17 of the GCEC Law, all companies, approved by the Commission are required to enter into an agreement with the Commission, in order to implement project proposals.

During the period 1978 to 1986, the Commission has entered into 126 such Agreements of which 91 have already commenced operations. Of these Agreements 24 have been cancelled due to various reasons. Out of the projects in operation, 68 are located at the Katunayake Export Processing Zone and 4 are located at the Biyagama Export Processing Zone. Others, Licensed Enterprises, are located in various parts of the Island. See Table 1 in appendix.

The products made by these Companies range from rubber threads, gloves (leather and cloth), sports goods, cosmetic and artists' brushes, gold silver and costume jewellery, electronic goods, electrical gear, irrigation pumps, all types of garments, leather and rubber footwear, artificial flowers, cane products, cradles, electric winches, precision steel moulds to electronic communication equipment. In addition, the growing of foliage plants, pearl culture, lapidary services, airline catering services, software programme development, ship repairing, tobacco processing are also undertaken by GCEC approved companies.

Although a diverse range of products can be seen the dominance of garment sector is obvious where a majority of the Companies namely 25 Companies are engaged in the manufacture of garments.

These Companies have an envisaged investment of Rs. 7,308 million with a local employment potential of 59,000 and a capacity to generate export earnings amounting Rs. 15,500 million at capacity operation.

INVESTMENT

These Companies have so far committed an investment of Rs. 11.413 million which is more than the envisaged investment level of Rs. 7.308 million referred to above. Its foreign component amounts to Rs. 7.872 million. The annual flow of investment of projects under the purview of GCEC shows a gradual increase although at a declining rate.

EXPORT EARNINGS

During the period 1979 to 1986, the total value of exports effected by GCEC projects amounts to a Rupee equivalent of approximate Rs. 17,099 Mn. This may have considerably reduced the strain in the balance of payment position of the country.

It is noteworthy that annual exports of GCEC Companies have been growing at an increasing rate. This is in contrast to the investment flow. In 1979, 13 GCEC Companies exported goods to the value of approximately Rs. 152 Mn., which has increased to 4,000 Mn. in year 1986.

One of the features of the export base at present is the deviation from traditional primary exports and the apparel industry. Even though the incidents of garment exports are considerable, the emergence of other types of manufactured exports is now on the increase. Out of the total export earnings approximately Rs. 6,300 Mn are from manufactured exports other than garments. Following is an illustration ;

Table 1.

Total Exports from 1979 - 1985 (Rs. Mn)

Year	Garments	%	Non-Garments	%	Total
1979	145.115	95.38	7.036	4.62	152.151
1980	476.652	90.09	52.429	9.91	529.081
1981	963.111	82.79	200.236	17.21	1163.347
1982	1280.250	77.44	372.861	22.55	1653.347
1983	1870.688	77.34	548.096	22.66	2418.787
1984	2710.340	76.66	827.128	23.38	3537.468
1985	2891.600	76.06	910.000	23.94	3801.600

Net Foreign Exchange Earnings

The Net Foreign Exchange Earnings arising from the total export earnings indicated above are estimated as follows ;

Table 2.

Year		(Rs. Mn)
1979	-	30
1980	-	120
1981	-	291
1982	-	437
1983	-	771
1984	-	1072
1985	-	1213

It is interesting to note that the total investment thus far made by the GCEC for the purpose of developing these Zones in Katunayake and Biyagama is approximately Rs. 520 Mn.

Employment

The most significant achievement of the Commission during the period of its existence is the opportunities provided for unemployed youths. Annual creation of additional jobs are as follows ;

Year	Annual Creation of Job	Total
1979	5876	5876
1980	4705	10581
1981	9146	19727
1982	5199	24926
1983	3779	28705
1984	4720	32725
1985	3061	35786
1986	6850	42636

It is interesting to compare the annual job creation with that of annual inflow of investment.

Year	Annual Investment Flow (Rs. Mn)	Job Creation
1978	37	5876
1979	10	4705
1980	374	9146
1981	1254	5199
1982	929	3779
1983	3769	4720
1985	2467	3060
1986	627	6850

The table above clearly illustrates that in the early stages highly labour intensive projects have commenced operations while in the latter part due to the capital intensive projects the employment opportunities arising therefrom were reduced. High capital intensive projects such as dry docking facilities and alloy nickel pipe manufacturing facilities have been responsible for this situation.

The textile, garment manufacturing sector which was established in the early stages plays a dominant role in providing employment. Furthermore the increased utilisation of capacities and new expansions undertaken by existing garment industries further strengthens this position.

Table below is an illustration on this aspect ;

Year	Garment	Non Garment	Total
1979	5664	212	5876
1980	9252	1286	10532
1981	16167	3560	19727
1982	17219	7707	24926
1983	20644	8061	28705
1984	23386	9339	32725
1985	26503	9283	35786

However, the increase in the employment opportunities in the non garment sector is notable, where the rate of growth is more than that of garment sector.

Study on The Performance of Companies in the Katunayake Export Processing Zone in creating linkages with other Sri Lankan Domestic Companies

Methodology

At the commencement of the study, the general questionnaire was sent to 60 companies operating within the Katunayake Investment Promotion Zone seeking information to make a quantitative assessment as well as to obtain their views on the local supply base and to assess the need to resort to present supply source. (A copy of the questionnaire is at annexure I). Of these only 58 companies responded.

On collection of this information a further questionnaire was sent to 20 companies soliciting the reasons behind their decision to investment in this country. These 20 companies were selected to represent almost all product sectors. For this questionnaire 18 companies responded. One reason provided was the strength of local supply base and the availability of low cost raw material and other inputs in addition to labour. Thereafter, based on the data obtained through the first questionnaire and from other source documents available in the Commission, detailed discussions were held with 04 companies, selected on the basis of extent of local purchases made by them investment, nature of ownership etc.

Subsequently, utilising the information available with the department servicing the industries located in the zone, an analysis was undertaken to ascertain the types items procured from domestic sources. However, since this work involves sorting of a great number of documents and extraction and tabulation of data, this study had to be restricted to a sample survey, in which, data relating to 4th quarter 1984 was analysed, the period considered representative of status quo due to the following :-

1. 60 companies were administered by the KEPZ in the quarter.

2. Maximum local purchase were made during this year.

3. Data were easily accessible.

Preamble

An important aspect for measuring effectiveness of Export Processing Zones has been the levels of creation of backward linkages among EPZ companies and the Domestic Industrial sectors. In certain countries localisation of the production process either within the zone company or by subcontracting the work to other domestic companies possessing capabilities to meet the requirements, are considered to be of paramount importance, especially where the country's industrial sector is particularly strong. It had been said that greater the extent of these linkages, larger would be the long term benefits accruing from Export Processing Zones. On the other hand, if these linkages remain limited, it is unlikey that the zones can generate long term spin over effects in strengthening local industrial development.

However, it has to be understood that the objective of any development programme in a country, whether it be industrial, agricultural or any other, is totally dependant on the circumstances under which such programme is implemented, and the priorities attached to multifarious development objectives. EPZ programmes are also subject to these general conditions and are implemented in the manner in which they cater to a country's need in the best possible manner.

In spite of generality of the foregoing it has to be accepted that creation of backward linkages by export oriented companies, would in fact, instil more and more capabilities and benefits to the local industrial sector. However, it would be necessary for policy makers and administrators of export processing zones, to ascertain the extent to which these linkages have been created. in order to introduce policy changes to enhace such linkages.

The Katunayake Export Processing zone, has been in operation over the past seven years and its development was undertaken in three phases. Sixty (60) companies set up in the zone are now operational, engaged in manufacturing various items primarily for markets abroad. These companies include wholly foreign owned companies, joint ventures of foreign partners, joint ventures with local and foreign partners and entirely locally owned companies. The role played by these companies during the last few years in creating backward linkages with the domestic industrial sector is discussed below.

The information collected revealed that backward linkages, created by these companies, could be summarised under four categories indicated below :-

1. Procurement of local raw material and other inputs (local purchases), and in small scale, procurement of capital goods.

2. Engagement of labour contractors.

3. Procurement of light engineering services such as nickel plating, electroplating and other services such as printing.

4. procurement of utility services such as electricity, water, transport including both air and sea cargo etc

Incidence of linkages relating to 2 and 3 above are comparatively small and will be discussed later in summary.

Payments made by zone companies for the purchase of utility services such as the provision of electricity, water, freight forwading facilities, banking services, local secretarial services, insurance in a limited way etc constitute a major component in the nett foreign exchange earned by the country from the operations of zone enterprises. However, the availability of these facilities are a pre-requisite for attraction of investors, and hence, not considered as dependent on the procurement policy of Zone enterprises.

In the absence of documents relating to those data it was decided to use data relating to local purchases with effect from year 1982.

In order to ascertain whether structural patterns of companies have any effect in determining the extent of dependency on the local market this information was tabulated into various categories such as firm size (investment & employment), ownership, etc. Resultant findings of those analysis are discussed below.

Employment Vs Local Purchases

Following table is related to data on local purchases made by the companies, arranged on the basis of the employment strength.

Employment	No. Of Companies	Local Purchases (Rs. Millions) Total	Average
10 - 100	18	21.435	1.190
100 - 500	22	77.458	3.520
500 - 1000	13	129.215	9.939
1000 - 1500	02	80.350	40.175
1500 - 2000	03	74.969	24.989
2000 - above	02	46.579	23.289
	60	430.006	7.160

Employment level in a labour intensive Enterprise is an indication of the capacities involved. Therefore, it appears from the above table that where higher production level is achieved, the quantum of local purchases also tend to increase. This is particularly true, in view of the fact that, at present the local market is playing an important role in supplying basic packing materials and other accessories. Higher the production level higher is the requirement of packing material. The above data are now compared with exports and import values of relevant companies and the relevant table is given below.

Employment	No. of Companies	Exports (Rs.M.)	Imports (Rs.M.)	Local Purchases (Rs.M.)	Local Purchases as % of Imports	Local Purchases as % of Exports
1 - 100	18	202.956	260.630	21.435	8.22	10.56
101 - 500	22	1790.123	1590.148	77.458	4.89	4.33
501 - 1000	13	3780.210	2650.370	129.215	4.87	3.42
1001 - 1500	02	641.785	410.658	80.350	19.57	12.52
1501 - 2000	03	2070.179	1792.542	74.969	4.18	1.82
2001 & above	02	2563.771	1713.857	46.579	2.71	1.82

It is clearly evident that when an Enterprise reaches a higher production capacity their requirement of basic packing material and accessories, which can be obtained from the local market, would increase. However, where economies of scale warrant the procurement of such supplies from markets abroad, then Companies may be resorting to foreign markets. Reduction in the percentage local purchases from 8.22% to 2.71% may be due to that reason. Incidence of 19.57% of imports as local purchases, is mainly due to the purchase of rubber, as main raw material by one company in this category. Moreover it appears, that [illegible] companies are resorting to markets abroad for their inputs and the incidence of local purchase is very insignificant when companies are achieving larger capacities. This position is clearly illustrated by the above table, where value of local purchases, as a percentage of imports marked a clear downward trend from 8.22 to 2.71.

OWNERSHIP PATTERN OF COUNTRY OF ORIGIN AND LOCAL PURCHASES

Country of origin of a project was another factor analysed to ascertain existence of any determinations relating to local purchases. Following is a description of the companies surveyed.

a) Wholly foreign owned Companies

		Rs. Mn
Belgium	01	920
Denmark	01	4.387
Hongkong	04	35.316
India	01	0.734
Japan	01	2.915
Switzerland	01	1.875
Taiwan	02	5.680
United Kingdom	03	6.303
USA	02	42.758
W. Germany	03	12.955

Joint Ventures between foreign partners

USA/Korea	01	3.626
Hongkong/Norway	01	–
Pakistan/ S. Arabia	01	17.959
	22	134.836

b) Joint Ventures with Sri Lankan collaboration

UK/W.Germany/HK/SL	01	3.129
Swiss/Italy/SL	01	5.760
HK/Japan/SL	01	4.640
HK/Korea/SL	01	15.042
W.Germany/Portugal/SL	01	6.071
Belgium/SL	01	-
France/SL	01	10.357
Holland/SL	03	2.448
Hongkong/SL	05	29.528
India/SL	02	8.755
Korea/SL	02	86.270
Luxemburg/SL	01	5.743
Singapore/SL	02	5.556
UK/SL	02	11.415
USA/SL	03	44.816
W. Germany/SL	02	2.079
Holland/W.Germany/SL	01	-
Australia/SL	01	5.955
	31	257.364

c. Sri Lankan Owned	07	7.806

Above table illustrates that in general ownership pattern or the country of origin has played no role in the creation of linkages. 22 wholly foreign owned enterprises have resorted to local marketing, to a volume of Rs. 134.8 Mn., averaging about Rs. 6 Mn., while 31 joint ventures with Sri Lankan participation has bought goods from the local market to the value of Rs. 257 Mn. In this instance, it has to be noted that high incidents of local purchases relating to Korea/Sri Lankan joint venture projects is basically due to the fact that they have bought raw material mainly rubber and not any manufactured product. If that portion of the value of local purchases which amounts to Rs. 67.306 Mn. is removed, total purchase will be reduced to Rs. 191.7 Mn resulting in an average of Rs. 6.? Mn, which is more or less equivalent to the average purchase of wholly foreign owned Companies. Wholly owned Sri Lankan Enterprises have very poor performance in this area, in that their purchases are well below the average of other Enterprise. However, main reason for low level performance in creating linkages may due to the fact that all these Sri Lankan Companies, excepting for one, are relatively small.

Therefore, the following illustration is given below, to compare performance of similar type of Enterprises, assuming that employment created so far gives an indication of capacities.

Company	Employment	Nature of Company ownership	Local Purchases
A	433	Sri Lankan	3.100
B	662	Sri Lankan	11.501
C	1135	Sri Lankan	13.044
D	1017	Joint Venture	22.286
E	1728	USA	41.853
F	349	Joint Venture	4.440
G	680	Joint Venture	15.042

It is clear that in terms of the above data, relationship between ownership pattern and domestic linkages cannot be established. Therefore, it is not possible, to conclude that either the wholly owned local Companies or joint ventures play an important role, than the fully foreign owned Companies, in resorting to local market.

However, it is interesting to note that Companies with Hongkong investors have contributed significantly to the local market. Total purchases made by these Companies amounts to Rs. 87.455 Mn. Taking into consideration the fact that investments by Hongkong based Industrialists constitute the major single country of investment, almost all these Companies are engaged in garment manufacturing, and these Companies provide by far a higher number of employment it may be concluded that this significant lead has not been a result of any difference in attitude of Hongkong investors towards procurement of local material, but has been a result of sheer large numbers.
The above statement is amply justified by the data given in the following table, which compares the local purchase value with that of total raw material purchases, tabulated on the basis of country of origin.

a) Wholly foreign owned Companies		Local Purchases Rs. Mn	Imports Rs. Mn	Total Rs. Mn	Local Purch^s as % of Total
Belgium	01	928	54.936	55.864	1.7
Denmark	01	4.387	52.010	56.397	7.8
Hongkong	04	35.316	717.944	753.260	4.7
India	01	0.734	1.003	1.737	42.2
Japan	01	2.915	33.835	36.750	7.9
Switzerland	01	1.875	158.881	160.756	1.2
Taiwan	02	5.680	168.416	174.096	3.3
United Kingdom	03	6.303	89.716	96.019	6.6
USA	02	42.758	681.534	724.292	5.9
W. Germany	03	12.955	454.775	467.730	2.8

	Joint Ventures between foreign partners					
	USA/Korea	01	3.626	26.681	30.307	12.0
	Hongkong/Norway	01	-	15.831	15.831	-
	Pakistan/ S. Arabia	01	17.957	171.005	188.962	9.5
		22	135.436	2,626.565	2,762.001	4.9
b)	Joint Ventures with Sri Lankan collaboration					
	UK/W.Germany /HK/SL	01	3.129	38.018	41.147	7.6
	Swiss/Italy/SL	01	5.760	94.478	100.238	5.7
	HK/Japan/SL	01	4.640	100.593	105.233	4.4
	HK/Korea/SL	01	15.042	183.487	198.529	7.6
	W.Germany/Portugal/SL	01	6.071	42.335	48.406	12.5
	Belgium/SL	01	-	33.575	33.575	-
	France/SL	01	10.357	174.129	184.486	5.6
	Holland/SL	03	2.448	93.832	96.280	2.5
	Hongkong/SL	05	29.528	2,221.720	2,251.248	1.3
	India/SL	02	8.755	120.647	129.402	6.8
	Korea/SL	02	86.270	431.779	518.049	16.6
	Luxemburg/SL	01	5.743	144.196	149.939	3.8
	Singapore/SL	02	5.556	11.789	17.345	32.0
	UK/SL	02	11.415	233.377	244.792	4.7
	USA/SL	03	44.816	1,222.888	1,267.704	3.5
	W. Germany/SL	02	2.079	49.670	51.749	4.0
	Holland/ W.Germany/SL	01		44.021	44.021	-
	Australia/SL	01	5.955	12.394	18.349	32.4
		31	347.564	5,252.928	5,600.492	4.5
c)	Sri Lankan	07	7.806	538.712	546.518	1.4

Highest percentage of local purchases of 42.2% is a distortion of the situation as this company just commenced activities. Next highest percentage of 32.4 % is represented by a company buying gray cloth from the local market. While rubber companies are next in line representing 32% and 12%. The other company which has purchased 9% of their raw material from the local market is buying fabric from the local market to supplement their requirements. All the other cases do not indicate any significant influence in the local market including that of 100% locally owned companies, which has the lowest performance in creating any support to local industrialists. They have purchased only 1.4% of their raw material requirements like their Hongkong Colleagues who have contributed only 3.3%.

In the light of the above, it is possible to come to a conclusion that the attitude of the investor or his country of origin or the presence of a local partner has not played any significant role in determining linkages with domestic economy. Hence, the strength of the local supply base is vital in creating linkages as demonstrated by the above data.

Investment Vs Local Purchases

Collected data were further tabulated to ascertain whether the level of investment commited, has any relevance to the pattern of procurement of material. The table below categorises the local purchases by KEPZ Companies, on the basis of investment size.

Investment Size (Rs. Mn.)	No. of Firms	Total Value of Investment (Rs. Mn)	Average	Local Purchase (Rs. Mn)	Average
1 - 5	14	31.578	2.26*	38.588	2.76*
5.1 - 10	13	98.393	7.57	79.863	6.15
10.1 - 15	13	158.950	12.23	81.705	6.29
15.1 - 20	05	85.167	17.03	42.090	8.42
20.1 - 25	03	66.582	22.19	8.184	2.73
25.1 - 30	02	55.860	27.93	42.011	21.00
30.1 - 35	05	163.457	32.69	51.378	10.28
35.1 - 40	02	76.151	38.08	5.760	2.88
40.1 - 60	-	-	-	-	-
60.1 - 70	01	61.388	61.388	6.254	6.25
70.1 - 80	01	78.631	78.631	7.386	7.38
80.1 & above	01	122.114	122.114	67.306	67.30

(* Three Companies in this category commenced operations only in year 1983. Hence, in the absence of audited financial statements, investment figures are not included. In terms of applications submitted, these Companies should in fact be included under the Rs. 5.1 - 10 Mn investment range)

On the basis of the above data, at a glance, one may construe that higher the investment higher the linkages would be, in view of the fact that the Company which had invested Rs. 122 Mn, has resorted to local market to buy its requirements to the value of Rs. 67.3 Mn. However, this Company is engaged in manufacturing of rubber products and the major raw material purchased is pale crepe rubber. Hence, this information gives a distorted picture. When the above extreme situation is left out of the picture, it appears that, the highest contribution had been made by the Companies which has a medium level of investment. Following reasons may be attributed in this regard.

1) The level of production achieved by these Enterprises requires, higher quantum of packing manterial.

2) Most of the Companies falling within this group are garment producers, where, the higher production level could be achieved with relatively low level of investment.

- Most of the Companies have not achieved a very high production level, justifying the import of accessories, or packing material, except 3 Companies, which have reached considerable turnover level and has resorted to buying accessories as well, from foreign sources.

In regard to Companies falling under the investment levels of Rs. 20.1 to 25 Mn it has to stated that out of these Companies one is engaged in computer printing and thus has no way in which raw material requirements can be met by local resources. One other Company is purely buying stationery and polythene for packing purposes due to the fact that they are manufacturing imitation jewellery basically from brass wires and tubings imported from abroad.

A different situation can be seen in the case of Companies falling within the investment group of Rs. 35.1 Mn. - 40 Mn. Both these Companies are engaged in the manufacturing of apparel, but one is based on leather. However, this Company even though being a joint venture with Sri Lankan participation, has not bought anything from the local market. Therefore, the local purchases in this group is represented by one Company which has bought its requirements from the local market to the value of Rs. 5.76 Mn. However, this level of procurement is lower than the average relating to other medium size Companies so that, it may well be that these Companies, may have, resorted to imports due to reasons such as cost effectiveness. Collected data were further tabulated in a manner to ascertain the representative share of local purchases as compared to imports, and the relevant table is given below.

Investment Size (Rs. Mn.)	No. of Firms	Total Value of Investment (Rs. Mn)	Import	Local Purchase (Rs. Mn)	Local Purchase % imports
1 - 5	14	31.578	770.26	38.588	5%
5.1 - 10	1[illegible]	98.393	2224.567	79.885	3.59%
10.1 - 15	1[illegible]	158.950	1757.088	81.705	4.65%
15.1 - 20	05	85.167	1369.356	42.090	11.4 %
20.1 - 25	03	66.582	174.234	8.184	4.69%
25.1 - 30	02	55.860	666.25	42.011	6.3 %
30.1 - 35	05	163.457	710.711	51.378	7.23%
35.1 - 40	02	76.151	138.499	5.760	4.16%
40.1 - 60		-	-	-	-
60.1 - 70	01	61.388	415.237	6.254	1.51%
70.1 - 80	01	78.631	53.884	7.386	1.37%
80.1 &	01	122.114	122.114	67.306	55.11%
		998.271	8,402.207	430.545	

The above data also proves that the other than the extreme situation in the case of companies having the investment level of Rs. 80m or above, the incidence of local sales, is high among medium level investment companies, followed by low level investment companies. Companies with high level of investment, contributed insignificantly and represented only 1.51% and 1.37% respectively.

The conclusions one could arrive from the above data would therefore be as follows ;

1) Extent of linkages with domestic market could be dependent on the size of the activity.

2) Where the level of activity is smaller, the capability of creating linkages, also tend to be small due to the fact that quantities of items are not significant.

3) To the contrary, when the size of the activity is large, creation of linkages is hampered due to the possibilities of having advantages in procuring bulk imports, rather than resorting to the local market.

4) Medium size Companies, fall within these two extremes and are, the major contributor to the local supply base.

<u>Duration of Operations and Local Purchases</u>

The sixty Companies surveyed under the study have commenced operations in the following periods and relevant data on local purchase figures are given below;

Year of Commencement	No. of Units	Local Purchases from 1979 to '86 (Rs. Mn)	Annual Avg.* per Company (Rs. Mn.)
1979	10	155.552	3.11
1980	08	37.812	1.18
1981	12	89.252	2.48
1982	08	96.935	3.02
1983	05	29.284	1.95
1984	06	5.617	0.47
1985	06	15.420	2.57
1986	05	0.134	-
		430.006	

(* As local purchase figures are from year 1982 onwards, annual average per Company is calculated by using relevant period of operation with effect from year 1982.)

The 10 projects which commenced operations in 1979 have purchased local material annually to the value of Rs. 0.11 Mn per Company. It is interesting to note that all these 10 Companies are manufacturing wearing apparel and 3 of the large Companies (employing 8417 workers) belongs to this group. Therefore, it is clear, that their contribution in creating linkages is relating to higher production level achieved by the Company during the period of operation and not that they have changed the pattern of procurement, due to better understanding of the local market conditions.

The second group which contributed more in this regard are the Companies which had begun commercial operations in the year 1982. 7 out of the 8 Companies referred to are not engaged in apparel manufacturing but in the manufacture of other types of goods. The apparel manufacturing Company produces leather garments and not ordinary clothing apparel.

At the same time the group which has contributed only Rs. 0.47 Mn. is also engaged in non garment industry but has not created any impressive performance.

On the other hand the Companies which begun commercial operations in year 1985, has shown relatively significant contributions in creating linkages. But this group consist of both garment and other manufacturing industries. The contributory factor here is that a rubber goods manufacturer is represented in this group, which has enhanced the value of local purchases by the group.

Following table gives the local purchases of companies as a percentage of imports on a historical basis.

Local Purchases as a percentage of imports.

		1982	1983	1984	1985
Industries established within the year of	1979	5.7%	4.6%	4.5%	5.1%
"	1980	4.4%	4.9%	15.1%	2.1%
"	1981	15.9%	5.5%	6.4%	8.2%
"	1982	21.4%	12.8%	23.6%	17.4%
"	1983	1.0%*	8.7%	8.5%	11.8%
"	1984	0.7%*	87.0%**	2.5%	2.2%
"	1985	-	5.8%*	19.0%*	9.1%
"	1986	-		-	0.4%

* include the companies which began trial operations but not the commercial production.

** imports of last month of the previous years is included as the commercial production began in subsequent year.

It appears, that the share of imports of these companies has increased in almost all cases, and does not show that the better awareness of the local supply base has compelled them to resort to the local market. This statement is well supported by the following table which illustrate local purchases as a percentage of total raw material purchased, which in all [illegible] other than the companies that commenced commercial operations in 1982 have shown a downward trend.

Local purchases as a percentage of total Raw material.

	1982	1983	1984	1985
1979	5.4%	4.2%	4.3%	4.8%
1980	4.2%	4.0%	4.7%	2.1%
1981	7.4%	5.3%	6.0%	7.6%
1982	17.4%	11.4%	19.1%	14.8%
1983	1.0%	8.0%	7.7%	10.6%
1984	–	–	2.5%	2.2%
1985	–	–	16.1%	8.4%
1986	–	–	–	0.4%

..e case of companies that commenced commercial operation in 1983. is clearly influenced by two factors.

1. One company is primarily based on local coir.
2. Another company is buying fabric from local market, to meet part requirement of raw material.

In view of the foregoing, it is apparent that duration of operations in the Zone by a Company has no impact, in determining the source of supply. It is clear that Companies involvement in procuring from local market is determined not by longer stay but by other factors relating to their decisions.

It will now be necessary to analyse further, where, there are other factors, internal or external to the Enterprises effecting their decisions to resort to present, sources of supply. For this purpose, responses made to the first questionnaire by the Enterprises are analysed.

While one Company has not responded to this questionnaire two others indicated other forms of relationships.

Even though four Companies out of the 60 are specifically having trade mark arrangements with their buyers, they are not restricted from manufacturing for other buyers as well. In fact most of the Companies are producing greater quantities for specific trade mark holders which necessitate the companies to ensure that these products are delivered in required quantity and time.

Therefore, it can gererally be construed that other than meeting the buyers requirements of quality and delivery targets, they have not been an obstacle for KEPZ Enterprises to procure any material requirements from the local market.

The following table indicates that the buyers relationship has no relevance to the present practices adopted in procuring from the local market.

Buyers relationship	No.	Garments Local Purchases	Non-Garment No.	Local Purchases	No.	Total Local Purchases
Parent or Affiliated Comapany	10	140.414	12	32.296	22	172.710
Parent Co. and Independent Co.	11	84.021	-	-	11	84.021
Totally independent buyers	8	41.822	12	88.107	20	129.929
Independent buyer in home country	1	13.128	-	-	1	13.128
Buyers with other relationship	2	4.975	3	6.279	5	11.254
Not indicated	1	18.984	-	-	1	18.964
TOTAL	33	303.324	27	126.682	60	430.006

This situation may well be due to the fact that present purchases from the local market are limited basically to packing material and other accessories, where the buyers or parent Company has no interest, due to insignificance of volume and values involved. Another interesting feature is that highest average of local purchase have been reached by the Companies which have no relation other than being trading partners. As a result of low incidence of such transactions possible benefits could not have been achieved in this area.

It can be seen that at least 37 Companies are able to procure from independent sources without restrictions from the affiliated firm. It is noted that none of these Comapnies has spoken of any conditions imposed by the buyer. In the case of 24 Companies in group one only 3 Companies have indicated specific requirements of the buyer. However, in spite of these flexibility, these imports by KEPZ companies are considerable in relation to local purchases.

Therefore, it will be necessary to assess the sources of global supply of these Companies to get a factual picture, relating to procurement policy.

Table at the next page exihibits a clear picture.

A strong vertical intergration between related Company in buying as well as procuring can be seen from the above data. Highest volume of transactions have been effected between related Companies, representing an approximate value of Rs. 2084 Mn.
In addition, significant volume of imports and exports have been effected by a combination of affiliated Companies with independent Companies. It was not possible to separate the quantities of these transactions as it would involve a mass volume of data classification relating individual import and export consignments.

Transactions between independent Companies represents only about 10% of total imports. This is estimated at Rs. 857 Mn.

This Table further illustrates the fact that where there is an involvement of the parent Company or affiliated firm, either as the buyer or as a seller of inputs, or when both roles are played by the parent Company, then the volume of transactions are relatively high, and at the same time procurement of inputs from the host hountry has been below the average. (see column 4,5 and 6 with rows 1,3 and 5).

The conclusions one could arrive at therefore, may be summarised as follows

1) All KEPZ Companies have a high tendancy to import their inputs.

2) Procurement of supplies, from the local market (is basically limited to packing materials and other accessories. which), constitute a very low component of the direct production inputs.

3) Almost all the Companies other than a very few are vertically intergrated with affiliated Companies, and a heavy dependence on the parent company can be seen for both, imports and exports.

Sources of Supply of KEPZ Enterprises

1982 - 1986

Rs. Mn.

Relation- * Supply ship with * Source buyer *	1 Parent Company (a)	2 Affliated Companies (b)	3 Independent Suppliers (c)	4 ** (a+b)	5 ** (a+c)	6 ** (a+b+c)	Total 1-6	Host Country Independent Supplies	%
Parent or Affiliated Company (1)	1669	415	23	945	462	-	3514	173	4.92
Independent Company located in home country (2)	-	247	-	-	-	-	247	13	5.26
Independent foreign Companies (3)	27	85	857	54	156	452	1631	130	8.0
Other relationships (4)	62	-	69	-	-	-	131	11	8.39
Both 1+3	498	-	278	-	1810	-	2586	84	3.00
Not informed	-	-	294	-	-	-	294	19	6.50
T O T A L	2256	747	1521	999	2428	452	8403	430	5.10

*These data were tabulated on the basis of the responses received to the Questionnaire and by using available source documents.

** means supplies made by respective sources in addition to the values indicated in columns 1,2,3

Discussions were held in detail with 04 companies, to ascertain whether the conclusion, that could be arrived from the general picture, can be supported by the behaviour of individual companies in their procurement practices. Four Companies were selected on the basis of following factors:

	A	B	C	D
Ownership	Foreign Owned	Joint Venture	Joint Venture	Foreign Owned
Investment (Rs. Mn)	29.880	122.114	10.400	14.365
Employment (Nos)	1,728	1,266	870	95
Total Exports (Rs Mn)	688.575	222.380	585.417	80.120
Total Imports (Rs Mn)	639.203	137.901	452.437	52.010
Local Purchase (Rs.Mn)	41.853	67.306	8.628	4.387

Case of Company A

This Company which commenced commercial operations within the Katunayake Investment Promotion Zone on 14/06/1979 is a fully owned, subsidiary of a Hongkong Company, which in turn is fully owned by a USA Company.

The total investment of Rs. 29.88 Mn. has been invested by the parent Company, by way of both equity and loan capital.

The parent company does all marketing and arranges for buying. Goods are manufactured by this Company on behalf of the parent Company; thus it is 100% dependent for its marketing.

The only connection between the ultimate buyer and the Company is that the Company has to put buyers' trade marks on the garments manufactured.

The parent Company is one which has 3 offshore locations, two of which are located in the Asian region.

This Company's main operation is the production of garments, mainly ladies' clothing and is a holder of substantial quota for exports to USA.

While its annual production capacity value is estimated to be in the region of Rs. 200 Mn, the current annual export volume is in the region of Rs. 125 Mn.

This Company procures its raw materials from the following four sources.

1) Parent Company in Hongkong.

2) Independent producers in Hongkong.

3) Local producers in Sri Lanka.

4) Independent sources in other countries.

Other than restrictions imposed by way of quota no other trade restrictions are imposed on the Company either by the importing or exporting countries. They market their production exclusively in USA.

Imports

Raw Material imports effected by this Company, since its inception to 1985 are as follows;

Year	Value (Rs. Mn)
1979	32.27
1980	29.17
1981	61.25
1982	69.86
1983	119.76
1984	152.34
1985	176.30

The courtry of origin of most of these imports have been, mainly Hongkong, representing about 60% while approximately 35% has been from Japan and the remainder from USA. All these purchases have been basically arranged by the parent Company in terms of the requirement of the buyer. Where there are no restrictions or conditions imposed by the buyer, the source of raw material has been Hongkong.

In regard to purchase of local raw materials and packing materials, the situation has been as follows;

Year	Value (Rs. Mn)
1981	1.38
1982	3.22
1983	5.91
1984	5.92
1985	5.64

The principal four items that had been bought from the local market are thread, polybags, hangers and cartons. Other purchases made from the local market were items for general factory maintenance requirements, fuel, office stationery, sundry equipment and items required for the welfare of the staff.

This Company, very clearly indicated that the availability of low priced local inputs other than labour, was not a factor, influenced the investors decision to invest in Sri Lanka. However, they have also indicated, that they are not constrained to buy from the local market due to specific arrangements made by the buyer, or due to procurement policy of the parent Company.

But however, cost effectiveness in importing on duty free basis and deficiencies in the local market has compelled them to buy more from the suppliers abroad. They further explained, that even if certain quality levels could be achieved by the local suppliers, they would not be able to compete with foreign suppliers due to the two reasons given below ;

1) Economies of scale cannot be had by the producer, unless he is capable of exporting as well.

2) As the raw material base for such supplies are basically of foreign origin, element of duty will increase their prices.

Therefore, according to the Company the local suppliers, cannot provide competitive prices, the required quality standards and variety of items required by the Company. It was explained further that raw materials and accessories, which they now buy from the local market are also produced by local Companies which have certain advantages by way of foreign assistance. This is particularly true in the case of thread supply.
According to the source the plastic injection moulding industry and polythene manufacturing industry in Sri Lanka also have expanded to a satisfactory level and the achievement of economies of scale is possible. Result is that for the consumer imports are no longer competitive. Hence the Company has decided to resort to local market for these items.
The foregoing clearly illustrates the fact that vertical integration with affiliated firms in large scale raw material producing countries gives a considerable benefit to the Companies, such as the one discussed. According to the Company the deficiencies in the local supply base has compelled them to resort to other sources of supply.

This clearly confirms the general picture discussed earlier.

Case of Company B

This Company commenced commercial operations on 5th January 1982, in the field of manufacturing canvas shoes and rubber boots for export. It is a public quoted Company, equity of which is subscribed by the following parties;

1) Two Korean Companies

2) Two Sri Lankan institutional investors

3) One Sri Lankan private Company

4) Public of Sri Lanka with 20% equity

At present the majority of shares of the Company are held by the Sri Lankan partners.

Loan financing required for the project had been raised, by way of foreign loans from the parent Companies and other institutional lenders abroad. Other than the operations of the foreign shareholders in their own country no other operations are carried out in any part of the world.

The Company was originally engaged in the manufacture of canvas shoes, with capacity value of Rs. 111 Mn and in 1984, the manufacture of rubber boots was added to the production line. Current export volume is in the region of Rs. 99 Mn which is the highest recorded. Highest export turnover of canvas shoes recorded was Rs. 45 Mn in the year 1985.

This Company, has no relationship whatsoever with their buyers, other than being independent trading partners. As such no conditions have been imposed by the buyers.

Their main market is USA. In terms of the new legislation applicable in the USA relating to import of shoes it attracts a higher import duty if the value of a pair of shoes is more than US$ 2.99, which hampers the its profitability.

This Company depends on three sources of supply for their raw material requirements.

1) Korean partners.

2) Independent producers in Korea.

3) Independent local suppliers.

Relevant details regarding imports, exports and local purchases are given below ;

Year	Exports (Rs. Mn)	Imports (Rs. Mn)	Local Purchases (Rs. Mn)
1982	18.95	13.26	3.2
1983	31.45	16.68	15.9
1984	71.86	28.25	29.3
1985	88.02	35.55	27.2

In the early stages when the majority shares were held by the foreign partners the Company was heavily dependent on them for the procurement of raw mate.ial. In fact the foreign shareholders were, the decisions makers with regard to procurement and marketing. The changes that took place in41984, this policy was changed and it was decided to procure the Company's requirements from the most competitive suppliers. However, sources of origin relating to imports does not illustrate any significant deviation as the main countries from which goods were imported had remained same ie. Korea, Singapore, Japan and EEC.

However, the changes may have helped the Company to avoid any transfer pricing if any. As regards local purchases, it can be seen that over the period of time that a significant improvement had taken place. In order to ascertain whether there had been any diversion of input sources from abroad to Sri Lanka, it was felt necessary to identify the items bought by this Company.

It was revealed that the basic items purchased by this Company include materials such as nylon sewing thread, screen ink, tongue labels, lace, canvas olive and RSS rubber and pale crepe rubber. During the period considered for the sample survey, this Company had procured goods to the value of Rs. 1.646 Mn of which Rs. 0.985 Mn represented rubber purchases.

Of the material purchased from the local market by this company, raw materials represented about 66% of the local purchase while packing materials consists of about 16% for the year 1986. Increase in the volume of local purchases therefore can be attributed to the introduction of rubber boots to the product line and the Enterprise was compelled to buy local rubber for the purpose of production.
In regard to other raw material required for the production of canvas shoes the situation has not been changed, as the majority of goods are imported from foreign sources. This Company also indicated that the decision of the Korean partners to invest in this country was not influenced by the availability of local inputs, but however, the introduction of the manufacture of rubber boots, was a decision influenced by the possibility of procuring rubber from the local market supplemented by the market opportunities.

In regard to the local supply sources, it appears that none of the local shareholders are playing any role and the Company has resorted to independent local suppliers.
As far as the Company is concerned, greater possibilities exist for it to undertake import substitution procument policy, as they are not bound by the conditions imposed either by the foreign partners or buyers. Furthermore, as the majority ownership is now held by the local partners they would be more than happy to resort to the local market if it is possible to procure their requirements at a more competitive price, as such action would eventually resulting, enhanced benefits to the local owners as well by way of increased profits. However, inspite of the availability of canvas manufactured in the country (a medium scale industry still) this Company continues to import its requirements even after the change of the management and ownership pattern.

Reasons given by the Company for continuation of this practice are two fold.;

1) Cost effectiveness

2) Defficiencies in the local product as regards availability and quality.

In this regard, similar explanations as was given by the Company which was discussed earlier, ie. duty element attached to raw material imported by the local producers and the low level of quality was given by this Company as well. They particularly stated "local suppliers should be provided with financial and technical assistance in order to improve the quality of their products for them to be competitive in the particular market".

This Company has identified two major difficulties faced by the local suppliers.

1) Non availability of technical assistance to local suppliers to improve quality standards.

2) Non availability of financial assistance to be competitive in the local market.

This Company is in a more advantageous position than in the case of Company A, discussed earlier, to assess the position of local supply base, due to the fact that a number of local institutional and individual entreprenuers are involved in this Company.

Case of Company C

This Company which has been in operation since 25th January 1979, is a joint venture between Hongkong and Sri Lankan partners. Both partners are, limited liability Companies, incorporated in their respective countries each holding 50% of the equity capital of the Sri Lankan venture within the KEPZ. Loan finances required by the Company had been arranged from the Foreign Currency Banking Unit of a foreign Bank operating in Sri Lanka while a part of the working capital is raised by way of suppliers credit facilities provided by the suppliers of materials imported by this Company.

This Company is engaged in the manufacture of various types of jackets, track and ski suites and contract with a totally independent buyer who has no other relationship. The Company does not have any licensing or trade mark agreements with any buyer or any other party and is not restricted by any condition imposed by the buyer. Other than the quota imposed by importing countries, export activities are undertaken freely.

This Company which has a capacity of around Rs. 135 Mn. in value terms, is currently having a turnover of around Rs. 122 Mn.

Details relating to exports effected by this Company are as follows ;

Year	Export Value (Rs. Mn)
1980	30.25
1981	62.46
1982	81.82
1983	89.77
1984	88.54
1985	121.70

Countries to which these goods have been exported are USA, Canada and EEC member countries.

Data given below relates to imports effected by the Company.

Year	Import Value (Rs. Mn)
1980	40.13
1981	39.61
1982	67.68
1983	56.69
1984	78.48
1985	104.02

These goods have been imported from Hongkong, Taiwan and South Korea. Hongkong being the parent Comapny's home country has played a significant role in that, 48% of imports are from that country. However, it is necessary to emphasise the fact that out of this quantum of imports approximately 72% have been from independent sources. Assistance from the parent Company has been sought in almost all cases of procuring. This Company is procuring its requirements from four main sources. Major inputs are bought from (1) Parent Company (2) Affiliated Companies in other countries (3) Individual producers in Hongkong, while only packing materials are bought from the local market.

Data on total local purchases by the Company during the period 1981 to 1985 are given below;

Year	Value (Rs. Mn)
1981	1.499
1982	1.051
1983	1.133
1984	0.941
1985	1.649

The only item bought from the local sources have been, corrugated carton boxes. This reveals that even accessories, ie. thread etc., have been bought by this Company from foreign sources. No other reason was given by the Company as to why they resort to foreign sources, in procurement of these items, other than cost effectiveness.

The role played by the local partner in this regard is rather surprising, as it clear that they could have purchased items such as accessories in the local market as done by almost all other Companies. It may well be that the Company is in a position to procure these items at a lower cost from sources such as Taiwan.

This Company has made the suggestion that in order to enhance the capability of local supply base to meet their requirements, "the quality of the local product should be on par with that of the imported product and also the price factor should be competitive.".

However it is not clear that this statement is a well evaluated and balanced opinion or it was just made, without even looking at what items could be bought from Sri Lanka.

This illustrates the position that possibilities to create linkages with the domestic industry are not necessarily greater in the case where a joint venture company is involved.

Case of Company D

A Company manufacturing electrical panel boxes is the last selected for the case study which is a fully owned Danish Company. It commenced commercial operations within the KEPZ on 16th December 1983. A particular feature of this Company is that the parent Company is a family concern in Denmark.

Financing of the Company is made of from equity capital and loan capital obtained from foreign banks, lending institutions and the parent Company. The production process of the Company is as follows.

Steel sheets are imported and the complete process of manufacture of panel boxes are undertaken within the KEPZ factory. Even though the parent Company is not having any buying arrangements with the Sri Lankan venture, all the buyers are located in the home country, Denmark. Orders are placed by the buyers independently and there is no relationship whatsoever other than being trading partners.

The buyers do not impose any terms and conditions relating to raw material purchases of the Company except that they should meet required quality standards.

All requirements of the direct inputs such as steel sheets, paints, welding rods, screws, nuts and bolts are imported from independent suppliers. The Company has not purchased any of these items from the local market.

Details relating to imports, exports and local purchases of the Company are given below ;

Year	Imports (Rs. Mn)	Exports (Rs. Mn)	Local Purchases (Rs. Mn)
1982	7.38	0.34	0.517
1983	15.75	15.91	1.214
1984	17.73	27.23	1.754
1985	14.11	36.04	0.902

Explanations given by the Enterprise for resorting to foreign suppliers are given below

1) The local market does not have the required technological background to supply.

2) Quality fluctuates between "medium" to "bad"

3) In the event quality can be met, prices are too high.

This Company also has indicated that availability of low priced local inputs meeting quality standards was not important criteria for locating this project in Sri Lanka and that had this been a determining a factor, they would have not come here. Furthermore, they have indicated that better technology and higher quality standards have to be introduced if entreprenuers are to be induced to purchase their requirements locally.

These have brought out another interesting aspect in that they have stated "the local manufacturer must be kept out of the bush and come and show us what he can do. We have never seen one here. May we suggest an indoor industrial exhibition without any consumer products".

The comment made by the Enterprise raises the following fundamental issues;

1) Lack of awareness of the foreign investors regarding local supply base.

2) Whether meaningful attempts have been taken by the manufacturers to supply their goods to Zone Enterprises.

The four Companies discussed above are not comparable in the areas of investment, employment, ownership and level production etc. However, all these Companies seem to be having fairly common practice and attitude with regard to procurement from the local sources.

Other than the basic raw materials purchased by one Company, all companies under study have resorted to buying foreign sources either through the parent Company, affiliated firms or independent sources, for their major direct production inputs, while all of them have resorted to local market only for accessories and packing materials.

Even where local entrepreneures are involved no significant deviation from this policy can be seen. Does this really mean that the local market is defficient in quality and price or does is it that Sri Lanka does not have any developed industrial sector, or whether the local producers are also not interested in selling to Zone Enterprises?

These questions can best be answered only if a proper study is undertaken to ascertain the strength of the local supply base. In the absence of sufficient data and information to assess this situation the general policy package, prevalent in the country could be assessed to understand how far these policies have meaning in relation to the creation of better contacts between local producers and Zone Enterprises.

However, the four cases referred to above, clearly confirm the following;

1) Zone Enterprises have a high propensity to import their direct inputs.

2) Vertical integration with parent Company has influenced the source of supply.

3) Local ownership of a Company does not play a significant role in the procurement policy.

4) Market forces play a major role in determining the most competitive sources of supply.

Hence on the basis of what was discussed in general and the case studies in particular, the following conclusions, on the extents to which backward linkages had been created by the KEPZ enterprises, could be arrived;

1) A significant interaction between zone enterprises and the domestic service sector had emerged. In these areas of activities, construction services, maintenance, provision of transport facilities etc., has played a vital role. Income derived by this sector would form a considerable component of the domestic value added created. Any increase in this relationship would depend on the addition of new enterprises to the zone and expansion activities undertaken by the existing companies.

2) However, backward linkages for the provision of direct production inputs have not been developed in a significant manner except in the areas of accessories particularly for garment industry and packing material for almost all the industries operating in the zone.

3) Where the production process involves the use of domestic raw material, enterprises have resorted to local market due to its availability, at competitive cost.

Therefore, it would be necessary to ascertain on the basis of the characteristics of the companies surveyed under this study, the reasons for their present procurement policies.

The procurement policies of the 60 Companies clearly illustrate certain factors that led to the present insignificant backward linkages. Some of those can be attributed to the very nature of multi-national companies, while others relate to policies of importing countries. Following is a brief discussion on this matter.

Firstly, it was revealed from the study that majority of import and export transactions have been effected between related Companies. Even though, these Companies did not indicate any restrictions imposed by the buyer, one Company clearly illustrated the position by stating "Parent buys materials for all subsidiaries in bulk and keep stocks in their warehouses and allocate to subsidiaries whatever is needed in the production.

This way all affiliates have the same quality of materials throughout and the parent Company can easilly designate or transfer orders from one subsidiary to another."
Another Company engaged in garment manufacture stated that, "as far as fabric is concerned, there are specific buying arrangements..."

This clearly confirms the results derived from the data collected ie. heavy dependence on inter-firm transactions. This dependency cannot be an incidental situation. But should be looked at as an arrangement that gives them the opportunity of significant cost advantage. While the Sri Lankan venture is benefitted in that manner the operations of the entire network of production centers of the group will be strengthened. Creation of these linkages with their other production centres abroad is a significant factor in any corporate strategy, ensuring that the entire group is benefitted by comparative advantages prevalent in respective economies where group production centers are located.

Secondly, developed countries also have introduced certain policies to stimulate their exports. These facilities, specially custom duty waivers on re-imports of exported articles, (such as OPT quota system in EEC or duty rebate in American imports) have induced Zone Enterprises to procure direct production inputs from the buyers home market countries. This stimulates Companies to arrange with the buyers to supply them raw material requirements, which again hinders creation of backward linkages in procuring materials in host country.

Thirdly, the defficiency in the local supply base. It was revealed from the survey that except three Companies, all have indicated that they do not want to buy locally due to following two main reasons.

1) Cost effectiveness.

2) Defficiencies in quality and quantity.

One Company has stated that "local supply base should have the capability of meeting quality standards expected by our buyers, at competitive price less than those quoted by our suppliers in Hongkong".

As discussed in the introduction, it is noted that the import substitution policy that prevailed in the country for a long time did not create a sound industrial base. The policies introduced since 1977 were, primarily export biased and almost all the facilities, institutional arrangements, tax concessions etc., have and are being designed to encourage heavy export orientation.

This perhaps may have been the reason for insignificant linkages between Zone Enterprises and the rest of the economy. Hence a closer look on this problem is desirable.

It is interesting to note that neither the Inland Revenue Laws nor the GCEC Regulations recognize the supplies made to Zone Enterprises as indirect exports or as an import substitution activity.

As a result, neither the existing local companies nor the new projects have been developed to cater to the Zone Enterprises. The only exception to this position is that, the Export Development Board had decided that supplies made to GCEC Companies are eligible to a duty draw-back under a scheme administered by the Board. In this regard it is appropriate to note a comment made by Enterprises surveyed under the study which states "..... suppliers are not keen in applying for duty rebate due to the difficulties they experienced in getting applications processed by the authorities. (Therefore) a simple procedure for obtaining duty rebate for our local suppliers (should be formed)". It is interesting to note that this comment was made by 100% foreign owned Company. It may be that the local suppliers have not vigorously pursued the establishment of contacts with Zone Enterprises due to the following reasons;

1) If the requirements of the Zone Enterprises can be met it means that they have achieved certain level of quality standards. As such it is advantageous for them to concentrate on export possibilities than trying to cater to Zone Enterprises, which will not attract any fiscal concessions as a result of the heavy bias of incentive packages, prevalent in the national policy package towards exports.

2) The sole concession that is available, is said to have been designed in a manner in which complicated procedures are involved.

3) Financial and technical assistance were not available to local industrialists to take risks in undertaking product diversification or new product development, in order to cater to import substitition requirements (to meet the requirements of local Enterprises) or to cater to indirect export markets (to supply to Zone Enterprises).

As a result, the capability to supply major raw material inputs such as fabrics required for the garment industries had not been developed, even though significant industrial capability had been achieved by the country in general, in exporting apparel products. Significance of the level of growth of the industry, can be seen from the fact that Sri Lanka is now having more than 30 categories of garments under quota restriction to U.S.A., while 04 items are under restriction to EEC countries. In spite of the level of growth in this highly labour intensive industry, no efforts have so far been made to develop a supply base, capable of meeting the fabric requirements of these companies. This situation is evident in the other sectors as well.

Hence the general consensus, shown by Zone Enterprises in responding to the survey undertaken, that cost effectiveness and deficiency in the local market compelled them to resort to the present sources of supply was made with a clear understanding of the factual situation regarding the local supply base.

As was discussed earlier, the other two types of linkages, namely the establishment of labour contracts (a new feature) undertaken mainly by companies which have reached a optimism employment levels, within the factory premises in the zone and where the sheer logistics of expansion does not permit them to undertake such operations within the Zone Enterprise itself to meet seasonal demands. These contracts are primarily for assembly type operations and cannot be considered very fruitful,in strenghtening the local supply base. However this type of operations would enhance the manual dexterity of our workforce.

Forward Linkages

GCEC enterprises are in general 100% export oriented. Only in exceptional cases some are permitted to sell a small percentage not exceeding 10% of the manufactured products in the local market. This general rule is applicable to all enterprises located in Katunayake Export Processing Zone. In fact only a handful of companies are permitted to sell their products in the local market.

Even if permission is granted for the enterprise to undertake local sales, it will invariably be subject to the condition that goods removed out of the enterprises for sales within the country will carry customs duty as if these goods have been imported into the country.

As such GCEC enterprises cannot compete with other local industrialists in selling in the local market as these industrialists pay import duties on raw materials while GCEC companies have to pay such duty on the finished products. Therefore it is possible to construe that KEPZ enterprises have not created any significant forward linkages.

With regard to the conditions made by us regarding the unsatisfactory levels of local linkages created, it would be now necessary to futher identify whether the non recognition of the need to strenghten the local supply base was a question of priorities attached to multifarious development objectives. For this purpose, a brief note on the concessions and facilities granted by both GCEC and FIAC are given below.

The FIAC is an administrative arrangement and have authority to grant approval for foreign investors to participate in the equity of a local company. The tax incentives are those available in general under the Inland Revenue laws of the country. Other facilities such as employment of expatriates, local market access etc., are determined by the inter Ministerial Committee, where decisions are taken on the basis of recommendations made by the national authority such as the Ministry responsible for the development of that particular activitiy proposed in the project.

The FIAC as a general rule insists on joint venture arrangement where majority of shares should be held by local investors. However, where the project is heavily export oriented, this requirement of majority share to local partner, may be relaxed.

At the same time the project is given the right to raise local finances without limitation while foreign equity is to be utilized to bring in foreign capital goods only required for the project.

Inspite of these requirements, the FIAC is also heavily export oriented. The other institutions created to assist these projects, such as Export Development Board, Sri Lanka Export Credit Insurance Corporation, as the names implied, have been created to strengthen the export orientation, and provide financial and other benefits such as market research, product adaptation facilities to both 100% locally owned projects approved by the Local Investment Advisory Committee and joint venture projects approved by the Foreign Investment Advisory Committee.

Evolution of the Inland Revenue policies in the country clearly illustrate the fact that the incentives packages had been made more and more export biased, which compels the FIAC also to be oriented towards exports.

Given below is a brief summary on the GCEC policy package, which again is indicative of heavy reliance on exports.
In terms of GCEC Law, authority of the Commission to vary, modify and exempt the application of certain laws can be effected within the scope of regulations published under the Law. These regulations give the Commission right to

(1) grant a tax exemption period of between 2 - 10 years,
(2) duty free concessions on imports and exports,
(3) double taxation relief
(4) exemptions from Exchange control regulations,
(5) exemptions on following tax payments:

i) Tax on royalty payments

ii) Liability on withholding income tax on dividends

iii) Payment of wealth tax etc.,

Additionaly, the Inland Revenue Law provides for the following exemptions to the GCEC Enterprises;

1) Exemptions on income tax of the remunerations paid to expatriate staff of an Enterprise.

2) Exemptions on payment of income tax on dividends on shareholders.

3) Exemptions on income tax on capital gains, arising from share transfer

Furthermore, in terms of the Gazette notifiaction published under Business Turnover Tax Act No. 69 of 1981, all exports are exempted from the payment of BTT, while imports of GCEC Enterprises are also exempt from this liability.

GCEC Enterprises are not subject to import and export control regulations.

Eventhough this package of incentives does not clearly illustrate a heavy bias towards exports the policy package introduced and the legal and administrative frame work read together with certain objectives of the GCEC Law referred to earlier shows that such a bias "exists".

The main criteria for project acceptance by GCEC is that the project should be principally export oriented with a minimum export turnover of Rs. 10 Mn per annum.

One other criteria is that projects already established in Sri Lanka, will not be considered for approval as the GCEC concessions are meant to attract new investments.

100% foreign owned Enterprises approved by the GCEC are required to finance, the total cost of fixed assets, from foreign sources, and recourse to the domestic system, either by way of guarantees, or short term or long terms credits etc. are not permitted.

Joint venture projects, with Sri Lankan participation are required to meet the foreign cost of fixed assets from foreign sources, either by way of foreign equity and/or borrowing from foreign sources, and recourse to the domestic banking system will not be permited. However, recourse to the domestic financial resources to raise either the equity or bank borrowings are permitted to a maximum limit equivalent to the cost of local fixed assets.

100% locally owned Enterprises will also be subject to the above condition.

In regard to working capital requirements, the GCEC Regulations clearly specifies that working capital needs have to be met from remittances of convertible foreign currency unless, the Commission grants an exemption to this rule with the concurrance of the Ministry of Finance and Planning. These requirements been imposed to attract foreign capital.

Projects using domestic raw materials will be entertained only where the projects involves the conversion of such raw materials, through a manufacturing process, to an end product. All such projects should be capable of, opening of new markets abroad and also introduce a technology presently not available in the country. Nonetheless, the greater risks taken by these entrepreneurs have not been fully recognised through the policy package.

Certain aspects of the policy package and the legal and administrative framework discussed above relating to the operations of the Greater Colombo Economic Commission clearly indicate that the objectives expected at the initial stage of the Commission's activities are four fold.

1) Creation of employment opportunities.

2) Increase or enhance foreign exchange earnings.

3) Attraction of foreign capital for the strengthening of capital formation.

4) Acquisition of new advanced technology for the purpose of processing domestic raw materials.

Therefore, one can conclude that the role expected to be played by the Commission, through Enterprises approved by it, was to achieve a limited set of objectives while giving the Commission the right to adjust itself an appropriate time to change this policy package to achieve a broader set of objectives.

In spite of the urgent necessity that prevailed in achieving these limited objectives, the Commission having reconsidered the need to strenghten the relationship between GCEC enterprises and the rest of the economy have taken certain positive steps, to achieve this long term objective.

These steps are described in brief in following paragraphs.

1) In the appraisal procedure a formulae nas been designed to determine the extent of tax exemption period to be granted to a project where net foreign exchange earnings capacity is given considerable weightage. In view of the given financial requirements for GCEC Projects, net foreign exchange earnings would constitute the local input plus return to domestic factors of production or (domestic value added).
Therefore, in case of a 100% foreign owned Enterprise, net foreign exchange earnings would be limited to the local inputs and services, salaries and wages, payments for rates and taxes. Hence in order to obtain better tax concessions such projects would have to resort to more and more to the local market.

2) In the latter part of 1984 the authorities having recognized the need to enhance domestic value added generation by GCEC projects, amended the GCEC's regulations to permit inter-Zone Company transactions. As a result of this policy change if a product of a Company is used by another Company as its input, transactions involving the transfer of such goods between the Enterprises were permited without attracting customs duty. Although this policy change will result in retention of value added of certain companies it cannot be considered as a very strong step towards creating linkages with the domestic economy. However, this may yield desired benefits when the projects approved in the latter part of 1985 and 1986 commence commercial operations as certain products such as industrial moulds, precision tools etc., are to be produced by such Companies.

3) Until recently, the Commission, as a matter of policy did not permit any Enterprise to sub-contract any part of the production process either within the Zone or outside the Zone. But having realised the possible gain that would accrue to the country from such sub-contracting arrangements the commission has now changed the policy, whereby, certain production processes are permitted to be undertaken in local companies which have developed capabilities in meeting requirements of Zone Enterprises.

The plastic industry is playing an important role in this regard. However, it is too early to comment on this matter as a whole, as it is a recent phenomena.

4) Having realised that linkages could be created by the Zone Companies in the area of processing raw materials such as rubber, gems which are now exported in primary form, the Commission is now consulting the national authorities to amend the related policies in order to recognize the higher investment risk taken by investors in these fields and to grant further facilities within the given framework of the law. However no further ellaboration is possible at this stage regarding this issue.

In view of the foregoing one can construe that;

1) The local supply base has not developed to cater to the requirements of Zone Enterprises due to heavy reliance on export led growth.

2) Even though the Zone authority has been given wide range of legal powers, the policy package, introduced through administrative mechanism, have been restricted to achieve limited objectives.

3) Other national agencies also, have not recognized the need to create these linkages.

In the light of the above conclusions, it may well be desirable to consider whether at least at this stage steps should be taken to create an environment in which such linkages could be developed, as it is now felt that the Zone Enterprises have played significant role in achieving the limited objectives expected from them.

However, a question has to be raised whether the overall achievement of the country is now sufficient to discard the present policy package and to resort to a more rigorous selection process where foreign investors are compelled to adhere to requirements such as localization process in manufacturing or dilution of ownership etc.

In this regard I wish to quote few excerpts from a speech of secretary of Finance & Planning, given at a recent meeting of exporters forum.

" The development strategy follwed by the Government in the initial phase has produced results. The accelarated Mhaweli Programme, the housing programme and other development stratagies have helped the country to achieve a relatively high growth rate, high rate of investment and lower rate of unemployment

The resources required for this development efforts were well in excess of national savings and the gape was filled through recourse to foreign finance. Some of it came as outright grants some through extremely concessionery loans and some small amounts from foreign commercial borrwings.

Thus, since 1978 there have been continuous current account deficits (in balance of payments) ranging over SDR 500 million in 1980 and 1982 to less than SDR 100 million in 1978 and 1984 and these were financed from foreign resources. In terms of our Gross Domestic Product these deficits have averaged around 8.5% while they have been as high as 16% in 1980

.... Already our debt service burden is around 30% of our earnings on exports of goods & services.

.... The answer lies in expanding our exports of goods and services to enable us to maintain an adequate level of imports and meet our debt srvicing burden. ....

The case for giving the most urgent priority to exports in the Sri Lankan context can be given in another way. The sectors that have generated buoyancy in the economy over the last 09 years have mostly matured. ....

There is some room for import substitution activity in sugar production dairy development and fisheries. However increased activity in these sectors will not be adequate to maintain growth momentum that we have built up to generate sufficient employment oppertunities to reduce the backlog of unemployment and absorb the 135,000 new entrants to the labour force each year.

The export sector must, therefore be the engine of growth in the economy.

There is some potential for expanding minor agricultural exports ie. commodities other than tea, rubber and coconut. However here again the scope is rather limited.

Futhermore these exports will be subject to the same uncertanities both exogenous and endogenous which besect our three traditional commodity exports.

The major share of the onus for providing the locomotive effect in the economy and for creating livelihods falls on industrial exports including agro-industrial products."

Taking into consideration factors such as present foreign exchange earning levels, balance of trade deficulties, unemployment levels and the defficiencies in the local manufacturing sector it is felt that the present policy package should continue. At the same time, opportunities should be kept open to attract foreign investors either into the Zone or outside the Zone, by the Greater Colombo Economic Commission to achieve a wider spectrum of objectives as given in the Greater Colombo Economic Commission Law.

However it would be necessary to emphasis the fact reliance of these exports on imported raw materials and intermidiate goods will nor permitt the utilisation of otherwise unutilisable domestic resources to expand outputs, income and improvement in productivity of domestic resources through economies of large scale production. Eventhough Sri Lanka is a country with limited domestic market and relativily narrow resorce endowment it would be best to explore the posibilities of laying a solid foundation for expansion of industrial exports of resource based product categories which have considerable potential. A concerted effort over a wide front is also therefore required to improve the performance of existing exports to develop new export lines while strengthening linkage efforts within the domestic economy.

Strenghtening the local supply base through linkages with export enterprises could be achieved by a two fold approach.

1) By attracting companies involving more complex manufacturing process where it will be necessary to have a production capability by the plant itself rather than being a pure assembly of imported components.

or

2) By encouraging local investors to upgrade both production and technological capabilities.

It was evident that most of the companies located within the KEPZ are heavily dependent on imported inputs and engaged in simple manufacturing process. As a result most of the companies have low-to-medium scale investment levels and are highly labour intensive. These companies could continue to operate in this fashion as long as cost effectivness in labour is a determining factor. However, if the necessity is to attract foreign investors in more complex industrial manufacturing projects, it has to be understood, that such projects will have a different technological base and a different financial structure.

This would be more so if, the comparative advantageous (other than labour costs) prevalent in the country is relatively limited. In that event, a concession package purely based on tax reliefs and labour cost advantageous will not be sufficient to cover the investment risks these companies will have to take. For example, these companies may have to incurr high costs in raising finance or in diverting resources from an already established location. The cost of aquiring technology, will also have to be considered. Costs to be incurred on continuous R & D has to be recovered. Above all, the risk they have to take for depending on local market for certain important inputs, is a fact we have to recognise.

The policy frame work should be flexible enough to grant relief to meet above costs by way of financial assistance from local sources. For example, the Export Development Board could perhaps be able to provide for these needs. If such assistance is provided, the authorities will be able to impose certain conditions to ensure that the costs incurred by the governement is recovered as national benefits.

Industries of complex nature requiring a higher technology or greater involvement in the local manufacturing sector it will have a somewhat different cost structure in view of the limited comparative advantages that prevail in the country.

When designing effective promotion policies, one has to be conscious of the fact that foreign investors take into consideration, in their strategies, relating to relocation policies, the risk factors and expected returns of their investments. The cost of raising capital and technology would form a considerable cost element in a project of this nature, thus would consider the protection available to him in a new location which could take the form of facilities available to raise finances, local market access,training grants,carry forwading of losses to post tax exemption period etc..

Hence, any financial incentives that could be provided to lower or alleviate the problem of high cost of capital and technology would form an important element in any promotional strategy to attract this kind of investment.

Such Companies, may not be able to achieve even break-even point for some time. Machinery and training costs will assume a higher significance than the labour cost in such operations. In that light, any relief given on corporate tax to the Company in the early stage will have no meaning as in fact the company will not realise any profits. Therefore, the fiscal policy should be adjusted to recognize these limitations.

In this regard it may be possible to learn from other countries who have been attracting complex industrial projects to their Zones. This policy approach would reduce the footloose nature of the project thus compelling the investors to think in terms of long term perspectives.

In order to create strong backward linkages with these Companies, the local companies expected to manufacture inputs will also have to be given encouragement in order to reduce their cost levels and to increase quality and production efficiencies.

This in turn relates to the risk the local producer will have to take in acquiring technology and/or diversifying into product developments. In order to promote these industrialists to take part in the process of supplying internationally accepted quality products in required quantities, while meeting delivery schedules, they also have to be given sufficient incentives to engage in this high risk areas (as far as local industrialists are concerned) of production activity.

This aspect should be given prominence in the overall export orientation strategy, as these activities could also be considered as indirect exports and contribute significantly to national economic benefits.

In this area, incentives such as duty free import facilities, for basic raw materials and machinery, tax incentives and concessionary finance, granting financial assistance to recover initial losses etc., could be considered.

These commitments by the national authorities would in fact involves a significant cost element to the government but however, this can be justified in view of the long term benefits that would accrue to the country.

One other important aspect that has to be considered is the possibility of permitting local enterprises to aquire technology for the purpose of developing local supply capability. This is an area where the concerned agencies can promote greater coordination among themselves to identify what areas of the local supply base need strengthening.

This would only involve a readjustment of approch as almost all these facilities are now available for direct exporters through various agencies. The Commission itself can make a significant contribution in this regard as the GCEC law is flexible enough to cover any economic activity.

APPENDIX

QUESTIONNAIRE

1. NAME & ADDRESS OF FIRM :

2. EQUITY PARTICIPATION :

   a. Name of foreign equity holder and country of origin :

   b. Name of local equity holder :

   c. Percent share held by local equity holder :

3. SOURCE OF LOAN :

   a. Local sources
   b. International loan market
   c. Parent Firm
   d. Home country loan market

4. OPERATIONAL FEATURES :

   a. Indicate major manufacturing activity (production, assembly, etc.)

   b. Major products

5. WHAT IS YOUR RELATIONSHIP WITH BUYERS :

   a. Are you a affiliated firm of the buying company?

   b. Is your parent company an unaffiliated firm but located in buyer's country?

   c. Totally independent company contracting with foreign buyer?

   d. Other form of relationships

   e. If you have licensing or trademark agreement with buyers, please describe such arrangements in brief.

6. DESCRIBE BRIEFLY ANY SPECIAL CONDITIONS RESTRICTIONS OR CONCESSIONS UNDER WHICH EXPORTS BE EFFECTED :

   a. Imposed by the buyer

   b. Imposed by the importing country

   c. Imposed by the [illegible]

Contd: ..2

7. VALUE OF EXPORTS :

Destination

8. VALUE OF IMPORTS

Origin

9. SOURCE OF PRODUCTION INPUTS :

Parent company (headquarters) in home country
Affiliated companies in third countries
Independent producers in home country of parent
Local producers in host country

Inside Zone
Outside Zone
Independent local companies
Other local affiliates of TNCs (beside parent)
Combination of any of the above (specify which combination)

Others (please specify)

10. LOCAL INPUT, PLEASE IDENTIFY :

a. Quantity and value of major purchases, annualling for last five years

b. Relationships with local supplier

1. Local equity holder

2. Independent local manufacturer

11. ARE YOU CONSTRAINT OF BUYING FROM THE LOCAL MARKET, DUE TO :

a. Specific buying arrangements

b. Parent company's policy relating to procurement

c. Cost effectiveness in importing

d. Deficiencies in the local supply base

(Please elaborate)

Contd...3

IN YOUR OPINION :

a. Was the availability of low priced local input content excluding labour, meeting quality standards, influenced your decision to invest in Sri Lanka? If yes, please elaborate.

b. What measures are required to enhance the capability of local supply base to meet your requirements

LOCAL SALES :

Are you permitted to sell a portion of your production in the local market?

If yes, please specify.

a. Your distribution channels

b. Percentage income

c. Percentage quantity

GROUPING OF ITEMS UNDER LOCAL PURCHASES INTO BROAD GROUPS

Construction and Maintenance –	a) Construction & Building Materials b) Electricity Goods, Fittings & Equipment c) Water Service - Pumps, Pipes & Taps d) Paints, polish etc. e) Fittings - Bolts & Nuts f) Wood and Timber g) Iron h) Other/Miscellaneous
Raw Material and Accessories–	a) Packing Materials b) Fuel c) Tools Machinery & Spare Parts d) Marking Inks etc. e) Other/Miscellaneous
Office Requirements –	a) Equipment b) Furniture c) All items of Sationery d) Printing, photocopying, computer requisite etc. e) Other/Miscellaneous
Recreation, Welfare and Entertainment –	First Aid, Medical care items, disinfectants etc., radio, cassetts, tea and refreshments etc.
Transport Equip. and related Accessories –	Vehicles, tyre & tubes, cycles, wheel barrows etc.
Miscellaneous –	Items of purchases grouped together and reported as miscellaneous and provision for any unclassified items.

G.C.E.C. ACTIVITIES & ENTERPRISE PERFORMANCE 1978 - 1986

	1978	1979	1980	1961	1982	1983	1984	1985	1986	TOTAL
1. NUMBER OF PROJECTS										
APPROVALS ANNUALY	53	40	44	18	16	13	15	13	10	222
LOCAL INVESTMENT (Rs.M)	412	255	564	684	429	94	242	119	50	2849
FOREIGN INVESTMENT (Rs.M)	938	814	2698	979	1171	190	436	167	138	7531
TOTAL INVESTMENT (Rs.M)	1350	1069	3262	1663	1600	284	678	286	188	10380
2. NUMBER OF PROJECTS										
CONTRACTED ANNUALLY	30	13	25	9	12	10	13	7	7	126
LOCAL INVESTMENT (Rs.M)	169	101	323	181	320	364	218	65	51	1792
FOREIGN INVESTMENT (Rs.M)	208	525	943	312	1976	948	379	135	90	5516
TOTAL INVESTMENT (Rs.M)	377	626	1266	493	2296	1312	597	200	141	7308
3. PROJECTS IN OPERATION COMMERCIAL/TRIAL (CUMULATIVE)										
(a) In KIPZ	-	12	22	37	46	57	67	62	68	68
(b) In BIPZ	-	-	-	-	-	-	-	-	4	4
(c) Area/Licensed	-	1	3	5	6	10	14	15	19	19
TOTAL	-	13	25	42	52	67	81	77	91	91
4. ACTUAL INVESTMENT (Rs. Mn)	37	47	421	1675	2504	6273	8329	10796	11413	11413
Foreign (Cumulative)	28	37.2	121.5	1269	2050	5132	6098	7298	7872	7872
Local (Cumulative)	9	9.8	299.5	406	454	1142	2231	3498	3541	3541
5. ACTUAL EMPLOYMENT (CUMULATIVE)		5876	10581	19727	24926	28705	32725	35786	*42636	43380
6. ANNUAL EXP.EARNINGS (Rs.Mn)		152	529	1163	1653	2419	3537	3802	* 3844	17099
7. ANNUAL NET FOREIGN EXCHANGE EARNINGS (Rs. Mn)		36	120	291	437	771	1072	1213	N/A	3934
8. EXPENDITURE FOR INFRASTRUCTURE DEVELOPMENT (Rs. Mn) (cumulative)										
(a) KIPZ	19	100	168	278	314	336	375	380	N/A	380
(b) BIPZ			0.3	6.3	19.3	33.3	67.3	125.3	49.7	175

* As at end September 1966

PROJECTS UNDER CONSTRUCTION

a) In KIPZ 01

PRODUCTWISE BREAKDOWN OF INVESTMENT, EXPORTS, IMPORTS, LOCAL PURCHASES AND EMPLOYMENT OF ENTERPRISES IN KIPZ (1978-19
****

(Rs. Mn.)

PRODUCT GROUP	INVESTMENT	IMPORTS	EXPORTS	LOCAL PURCHASES	EMPLOYMEN
RUBBER THREAD	8.915	12.357	21.522	6.170	98
RUBBER GLOVES	78.631	53.884	9.821	7.386	102
SPORT GOODS	0.000	1.003	0.000	0.134	0
YARN	11.483	66.763	33.387	1.369	202
SURF SAILS	8.097	12.394	12.589	5.955	153
TERRY TOWELS	11.109	171.003	214.348	17.959	808
PORCELAIN FIGURINES	0.000	0.000	0.000	0.000	0
COIR MATTING	6.389	2.971	2.78[illegible]	2.518	20
BRUSHES	51.463	52.470	81.980	9.794	420
JEWELLERY/LAPIDARY	32.654	96.243	160.802	4.328	925
ELECTRONIC PRODUCTS	20.081	56.080	23.663	1.438	57
ELECTRICAL PRODUCTS	25.980	27.057	11.617	0.158	40
STEEL PRODUCTS	14.365	59.869	80.120	4.387	95
IRRIGATION PUMPS	32.000	62.039	56.848	6.145	40
GARMENTS	411.005	6713.527	9150.625	262.107	21847
SOCKS/STOCKINGS	70.627	136.289	114.387	7.839	313
GLOVES	14.721	340.859	405.918	12.175	852
FOOTWEAR	122.114	137.961	222.380	67.306	1266
LEATHER GLOVES	7.000	10.712	0.000	0.000	0
LEATHER GARMENTS	5.627	158.881	180.635	1.875	166
ARTIFICIAL FLOWERS	14.125	38.194	49.056	0.000	539
POLYPROPELENE GOODS	6.740	148.923	136.610	4.892	409
PVC GOODS	9.829	42.335	79.278	6.071	241
PRINTING	24.472	15.831	0.000	0.000	11
OTHERS	10.640	0.620	0.653	0.000	33
TOTAL	998.271	8418.205	11049.024	430.006	28657

****

EMPLOYMENT POTENTIAL OF CONTRACTED PROJECTS

CATEGORY	1978	1979	1980	1981	1982	1983	1984	1985	1986	TOTAL
1) Food, beverage & tobacco	56	-	-	-	-	-	-	449	-	505
2) Textiles, wearing apparel & leather products	14224	2782	5062	2914	2506	865	1487	2984	1120	33944
3) Wood and wood products (including furniture)	-	-	250	-	-	-	129	-	-	379
4) Paper & paper products	-	-	-	-	-	-	56	-	-	56
5) Chemicals, petroleum,coal rubber and plastic products	348	234	577	539	339	178	877	522	-	3614
6) Non-metalic mineral products (except petroleum & coal)	576	604	2306	649	358	389	-	-	215	5097
7) Fabricated metal products & transport equipment	-	-	804	140	99	-	143	96	356	1638
8) Manufactured products (n.e.s)	878	598	4660	571	2334	1368	1098	24	-	11531
9) Services	37	-	378	-	2025	1390	243	-	-	4073
TOTAL	16119	4218	14037	4813	7661	4190	4033	4075	1691	60837

SECTION 17

(1) The Commission shall have the power to enter into agreements with any enterprise in or outside the Area of Authority and to grant exemptions from any law referred to in Schedule B hereto, or to modify or vary the application of any such laws, to such enterprises in accordance with such regulations as may be made by the Minister.

(2) Every such agreement shall be reduced to writing and shall upon registration with the Commission, constitute a valid and binding contract between the Commission and the enterprise.

SECTION 24

(1) The Minister may, by regulation -

(a) determine the scope and extent of any exemption or modification of any of the written laws set out in Schedule B hereto which may be embodied or incorporated in any written agreement entered into between the Commission and any enterprise under this Law;

(b) modify or alter the porovisions of any written law set out in Schedule C hereto in the application of such laws to the Area of Authority and modify any provisions of the Municipal Councils Ordinance as are applicable under the provisions of this Law to any Area of Authority;

(c) provide for any matter which is deemed by him necessary for the carrying out of the principles and provisions of this Law.

(2) Every regulation made by the Minister under this Law shall be published in the Gazette and shall come into operation upon such publication or on such later date as may be specified in the regulation.

(3) Every regulation made by the Minister shall as soon as convenient, after the date of its publication, be brought before the National State Assembly for approval. Any regulation which is not so approved shall be deemed to be rescinded from the date of such disapproval but without prejudice to anything previously done thereunder.

ENVISAGED INVESTMENT OF CONTRACTED PROJECTS

CATEGORY	1978		1979		1980		1981		1982		1983		1984		1985		1986			
	(1)	(2)	(1	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
1) Food, beverage & tobacco	1	5	-	-	-	-	-	-	-	-	-	-	-	-	1	28	-	-	2	33
2) Textiles, wearing apparel & leather products	20	258	8	179	7	158	2	153	3	128	2	91	1	103	3	139	1	32	47	1541
3) Wood and wood products (including furniture)	-	-	-	-	2	2	-	-	-	-	-	-	1	4	-	-	-	-	33	6
4) Paper & paper products	-	-	-	-	-	-	-	-	-	-	-	-	1	29	-	-	-	-	1	29
5) Chemicals, petroleum,coal rubber and plastic products	4	75	1	4	2	94	3	55	2	79	-	20	2	19	1	8	-	-	15	354
6) Non-metalic mineral products (except petroleum & coal)	2	6	1	424	6	86	1	35	1	14	2	30	-	-	-	-	2	13	15	608
7) Fabricated metal products & transport equipment	-	-	-	-	2	97	1	12	1	2	-	-	2	30	1	20	1	49	8	210
8) Manufactured products (n.e.s)	2	23	3	19	5	497	2	238	4	461	4	36	5	374	1	5	-	-	26	1653
9) Services	1	10	-	-	1	32	-	-	1	1612	2	1135	1	38	-	-	-	-	6	2827
TOTAL	30	377	13	626	25	1266	9	493	12	2296	10	1312	13	597	7	200	4	94	123	7261

(1) = No. of Units

(2) = Total Investment (Rs. Mn)