

Chapter 8

Export Promotion Strategy and Trade Policy Reforms in Sri Lanka

I. Introduction

Major changes in global economic environment during the last two decades have induced many developing countries to re-examine their economic policies and bring about significant strategic shifts in their economic management. In most cases, there has been an attempt to move away from a relatively inward looking economic regime marked by various types of controls and dominance of state owned enterprises to an outward looking liberalised economy in which the private sector is expected to play a dominant role. Two successive oil shocks of the seventies have dealt a severe blow to the balance of payments position of many low income countries and the urgent need to tackle the resulting economic crisis seems to have hastened the process of economic liberalisation in several developing countries.

One of the main elements of this economic transition in developing countries has been a distinctive strategic shift from import substitution-based development strategy to export-led growth strategy. Among the developing Commonwealth countries which have attempted this kind of strategic shift in recent years, Sri Lanka can be regarded as an early starter. In Sri Lanka, the process of economic liberalisation and re-orientation of economic strategy commenced as early as in 1977. Hence, it would be interesting to examine Sri Lanka's experience with regard to export promotion and trade policy reforms to gain insights into some of the issues involved in the formulation and implementation of export-led growth strategy.

II. The Background

During the last five decades, Sri Lanka has completed a full circle with regard to its broad economic policy. In late 40's, Sri Lanka was a free market economy fully based on the principle of *laissez-faire*. After gaining Independence in 1948, Sri Lanka started moving towards a regime of controls which progressively tightened during the fifties and sixties and culminated in two decades of highly controlled and strictly regulated economic regime dominated by state enterprises (1958 to 1977). Significant economic deterioration experienced during this period led to a sharp turnaround in economic policy in 1977 which marked the beginning of Sri Lanka's journey back towards economic liberalisation and by the end of 1991 Sri Lanka had already travelled a long distance towards *laissez-faire* to emerge as a highly liberalised market oriented economy (Hettiarachchi, 1991). However, in this process Sri Lanka's relative economic position vis-a-vis other countries in South-East

Asia deteriorated considerably. In early 50's, Sri Lanka's per capita income was about half of Japan's, about the same as Malaysia's and significantly higher than that of Korea and Thailand. Now in early 90's, Sri Lanka's per capita income is less than 5% of Japan's, less than a fifth of Malaysia's and considerably below that of South Korea and Thailand (World Bank, 1992). Since Sri Lanka enjoyed a relatively high living standard in early 50's, several of its socio-demographic indicators such as life expectancy at birth, literacy rate, infant mortality rate, etc., were significantly higher than most developing countries at that time. While inadequate economic growth during the subsequent period has affected the development of the country's broad socio-economic profile, some of the socio-economic indicators of Sri Lanka are still significantly higher than those of many developing countries in early nineties and especially the health indicators are comparable to those of several middle income countries (see Exhibit 1).

During the initial years of the post-independence period, Sri Lanka's balance of payments was under severe pressure which led to a sharp decline in its foreign exchange reserves. Given the fixed exchange rate system which prevailed during that period, the government tried to achieve the required balance of payment adjustments by introducing the regime of controls. Accordingly the exchange controls and import restrictions were introduced in Sri Lanka for the first time in August 1957. However, the situation worsened during the subsequent period and by 1960, Sri Lanka faced the first severe foreign exchange crisis with the foreign exchange reserves falling sharply to the low level of Rs. 458 million indicating a sizeable loss of Rs. 521 million during 1958-60 (Hettiarachchi, 1991). Such a low level of external reserves was not considered good enough to support a sustained and large inflow of imports and, therefore, the government tightened import controls through various instruments such as import licensing, quota restrictions, significantly higher import duties, etc. Since all these measures failed to improve the BOP position, more controls and restrictions were clamped and by December 1964 the system of open general licence virtually ceased to operate and the entire range of private sector imports was brought under import licensing restrictions. Thus, by mid-sixties, the country's BOP was managed through the system of an implicit foreign exchange budget (Hettiarachchi, 1991). Finally when all these attempts failed to produce the desired results, the Sri Lankan rupee was devalued by 20% in November 1967 and a new scheme called, "The Foreign Exchange Entitlement Certificate Scheme" (FEEC) was introduced in May 1968. The FEEC scheme was in effect a dual exchange rate system under which one category of foreign exchange transactions were carried out at the official exchange rate while another category of transactions were carried out at a higher exchange rate which consisted of the official exchange rate plus the premium on FEEC. This measure was aimed at promoting and diversifying exports and simultaneously relaxing import controls, but it could not function effectively because the system of imports under OGL which was reintroduced in May 1968 was again abolished in August 1970 and all imports during the period from 1970 to 1977 continued to be governed by individual licensing and quota restrictions. The net impact of such strict regime of import controls and restrictions was felt in terms of severe shortages of essential consumer goods and the emergence of black markets for both foreign exchange as well as imported goods (Hettiarachchi, 1991). Moreover, it created an economic climate that discouraged foreign investment. Per capita income measured in real terms was virtually stagnant during 1970-77 and the rate of unemployment exceeded 20% of the working force.

In the Parliamentary elections held in July 1977, the ruling party, viz., the Sri Lankan Freedom Party (SLFP) suffered a stunning defeat with its strength in the Parliament reduced from 91 seats to only 8 seats and the United National Party (UNP) stormed into power by an unprecedented majority. In November 1977, the UNP came up with a new economic policy which aimed at transforming the Sri Lankan economy from an inward looking closed economy managed through administrative controls and regulations to a growing economy that was outward looking and market oriented.

On the political front, substantial changes in the governmental system were made by a new Constitution adopted in 1978, which introduced the Presidential system of government with the President becoming Head of the State and the Head of the Executive and the powers of the Prime Minister and Cabinet being drastically reduced. Mr. Jayewardene became the first President under the

1978 Constitution with Mr. Ranasinghe Premadasa as the Prime Minister. Subsequently, the life of the 1977 Parliament was extended through a Referendum held in 1982, to August 1989. Mr. Jayewardene's Presidency was also extended for a second term (EIU, 1992). While the economic policy reforms introduced during the 1977-82 were partially successful in accelerating economic growth and promoting employment generation and investment, the Sri Lankan economy continued to be characterised by bureaucratic intervention and a relatively high degree of State involvement in economic activity. Almost half of the industry remained in the public sector and in the plantation sector, two large state corporations accounted for nearly two-thirds of tea production, one-third of rubber production and one-tenth of coconut production (EIU, 1992). Moreover, returns on public sector investment were low and fiscal imbalances grew during this period. In December 1988, Mr. Premadasa (UNP) was elected as the President. Under his leadership, a new and more rigorous liberalisation programme was launched in 1989. Full liberalisation of the external sector, new thrust on export promotion and privatisation of state-owned enterprises were the main elements of the new liberalisation package.

The pace of liberalisation programme and economic policy reforms slowed down during mid-eighties. This was partly due to the outbreak of ethnic disturbances in the northern and eastern provinces in 1983 which continued unabated during the subsequent years and partly also because several favourable external factors enabled the government to postpone tough policy decisions during that period. During the first half of eighties, Sri Lanka had easy access to sizeable aid from donor countries, especially the aid consortium of western countries and the government was also able to tap concessional as well as commercial sources of external finance. In fact, continued inflow of significant volumes of foreign aid has played a crucial role in averting BOP crisis in Sri Lanka during the eighties. Moreover, there was a boom in tea prices in 1984 and there was also a significant inflow of remittances from Sri Lankan workers which eased the pressure on BOP (World Bank, 1992).

During the period 1983-1991, Sri Lanka completed the implementation of an eight-year programme supported by IMF's structural adjustment facility. The initial phase of this programme could not achieve the desired degree of success. However, the new government formed in April 1989 formulated a special programme for 1989-1992 with IDA and IMF support, which focussed on the need to restore economic stability in the short term and resuming the structural adjustment effort in the medium term (World Bank, 1992). The new government was fully committed to this package of structural reforms with a special sense of urgency, especially in view of the serious balance of payment crisis that loomed large on Sri Lankan economy in 1989. The sudden spurt in terrorist activities in the southern part by the Janata Vimukthi Peramuna (JVP) disrupted normal life and caused a tremendous setback in Sri Lanka in 1989. In fact during the second half of 1989, the economy reached a stage where its foreign exchange reserves were not enough to finance even one day's imports (Karunatilake, 1991). It was under such difficult conditions marked by unprecedented economic adversities and grave ethnic disturbances that the new government had to act decisively and launch another phase of liberalisation programme. The new phase of structural reforms achieved a reasonable degree of success during 1989-1992 and to sustain the economic revival, the IMF approved in September 1991 loans aggregating US \$ 455 million to be disbursed over a three-year period under the Enhanced Structural Adjustment Facility (ESAF) to support the government's structural reform programme during 1991-1994 period (FEER, 1992).

It would be interesting to examine the trends and pattern of Sri Lanka's economic growth during the post-1977 period. Exhibit 2 brings out the trends in Sri Lanka's GNP at current prices as well as at constant 1982 prices, while Exhibit 3 shows the pattern of sectoral growth rates during the post-1977 period. It is evident from Exhibit 3 that the growth rate of Sri Lanka's economy peaked to 7% per annum during the five year period following economic liberalisation in 1977 (1977-1982), but it dropped again to 3.9% during the subsequent five year period (1983-1988). However, it is interesting to observe that the growth rate of industrial sector showed significant acceleration to 6.3% during 1988-1988 from 3.7% observed during 1977-1982 (see Exhibit 3). In fact, the growth rate of industrial sector has improved further to 6.9% during post-1988 period and, as a result, the share of

manufacturing sector in GDP has increased from 14.5% in 1980 to over 18% by 1991 (see Exhibit 4). Thus, the process of economic liberalisation in Sri Lanka has helped the manufacturing sector to achieve significantly higher rates of growth during the last decade.

III. Trends in Balance of Payments

Like most LDCs, Sri Lanka experienced persistent deficits in the balance of payments. During the initial phase of economic liberalisation (1977 to 1980), Sri Lanka's balance of payments position deteriorated considerably. By 1980, the current account deficit increased sharply to 613 million SDRs (19.8% of GDP) from the initial low level of 121 million SDRs in 1978 (5.6% of GDP). This deterioration in the current account balance was mainly due to a significant surge in imports which was not accompanied by adequate growth of exports during the period 1978-1980. However, as shown in Exhibit 5, there was a significant improvement during the subsequent period and by 1984 the current account deficit declined to 249 million SDR (4.2% of GDP). The post-1988 period has again been marked by deterioration in BOP and this has imparted a sense of urgency to Sri Lanka's trade policy reforms and export promotion strategy. It is interesting to observe that the ratio of Sri Lanka's exports to imports was as high as 82% in 1978 which dropped to 52% by 1980 and again increased significantly to 70% in 1984 (see Exhibit 6). The deterioration in BOP experienced in recent years can be attributed to a decline in this ratio especially during 1988 and 1991.

To finance the persistent high levels of current account deficit, Sri Lanka has resorted to both short term as well as long term borrowings. Sri Lanka's external debt has increased from 3.4 billion SDRs in 1987 to 4.6 billion SDRs by 1991 (see Exhibit 7). However, since current account receipts have also increased rapidly from 1.6 billion SDRs in 1987 to 2.3 billion SDRs in 1991, the overall debt service ratio has actually declined from 23.2% in 1987 to 15.5% in 1991. Hence, the growing external debt of Sri Lanka is not likely to pose any serious problems in the medium term, but it could become a serious constraint in the long run if the growth of exports fails to accelerate during the 1990's.

IV. Trade Policy Reforms

The period of economic liberalisation in Sri Lanka which started from 1977 can be broadly divided into two sub-periods : the initial phase of partial liberalisation spread over the ten year period 1978-88, and the second phase of nearly full liberalisation which commenced from 1989. In both phases of liberalisation trade policy reforms constituted a major element of the package. During the first phase, a large number of trade-related controls were dismantled. Import quotas and restrictions were largely abolished (see SLEDB, 1985). Tariffs were lowered and rationalised. In November 1977, Sri Lankan rupee was devalued from Rs.9.1 to Rs.16.6 per US dollar (i.e., from SLR 1 = US \$ 0.11 to SLR 1 = US \$ 0.06), and the Foreign Exchange Entitlement Certificate Scheme (FEEC) and the Convertible Rupee Account System (CRA) were abolished. By this measure, the system of dual exchange rate prevailing prior to November 1977 was replaced by a unified exchange rate. The extent of depreciation was 46% from the previous official exchange rate and about 11% from the earlier certificate rate. Moreover, the exchange rate was tied to a basket of currencies and the country switched over to a floating exchange rate system that would allow the demand and supply conditions in the market to determine the exchange rate with only limited intervention by the central bank primarily aimed at eliminating erratic short-term fluctuations in exchange rate (Hettiarachchi, 1991).

Under the liberalised trade regime, the focus of trade policy was shifted from non-tariff instruments to tariff based instruments. Accordingly, a large proportion of the licensing and quota restrictions on imports was removed and the rest was liberalised to a significant extent. In October 1980, the first Presidential Tariff Commission was appointed to make recommendations regarding the simplification and rationalisation of import tariff structure. In 1985, following the recommendations of the Commission, the tariff structure was simplified and the maximum duty rate was brought down from over 300% to 100%. The maximum duty rate was further brought down to 60% in 1987. Thus, the

overall weighted average rate of duty, which used to be well above 125% during the sixties and over 100% during the seventies was already brought down to less than 60% by 1987.

The second phase of economic policy reforms initiated in 1989 saw further rationalisation of the tariff structure and also a further reduction of duty rates. In November 1990, the maximum rate of tariff was reduced from 60% to 50% and in November 1991 a four-band tariff structure was adopted, which effectively reduced the number of tariff bands from 19 in 1977 and 13 in 1990 to only 4 bands by 1991. The new tariff structure adopted in 1991 is given alongside.

Tariff Bands	Tariff Rates (Per cent)
Essential Commodities, Basic Raw Materials and Capital Goods	10
Intermediate Inputs and Semi-finished Products	20
Finished Products and Components for Assembly in Manufacturing Industries	35
Luxury Goods and Protective Tariff Items	50

In 1989, Sri Lanka adopted the harmonised system of tariff which has 5019 different tariff headings identified by a six-digit code as against 1011 tariff headings in the earlier BTN classification. The harmonised system takes into account the diversity and complexity of products resulting from rapid technological changes, and it also facilitates better coordination among different agencies and closer correlation between trade information system and production statistics.

In the second phase of trade policy reforms, a renewed emphasis was placed on the exchange rate as an important instrument for export promotion and efficient import substitution. The main objective of the exchange rate policy during the post-1989 period has been to ensure that the Sri Lankan currency does not appreciate in terms of real effective exchange rate vis-a-vis the currencies of Sri Lanka's major trading partners. In terms of the nominal exchange rate, the Sri Lankan rupee depreciated considerably vis-a-vis US \$ and other major currencies during the period 1978 to 1991. However, in terms of the real exchange rate, the Sri Lankan currency in effect appreciated against the US \$ during 1982-1988 and there were similar periods during mid-eighties when it appreciated against other major currencies, as indicated in Exhibit 8, which brings out the trends in the nominal exchange rates and real exchange rates of Sri Lankan rupee vis-a-vis selected currencies during the period 1978-1991.

V. Export Promotion Strategy

The basic rationale for an export-led growth strategy adopted by Sri Lanka is three-fold : Firstly, exports are a major component of Sri Lanka's GNP and hence a significant expansion of exports would lead to a sustained growth of GNP and general living standards in the country. Secondly, the size of domestic market in Sri Lanka being relatively smaller, tapping the export market is the only method by which the country can achieve economies of scale and thereby improve the overall efficiency of resource utilisation. Thirdly, rapid growth of exports is the only viable long term solution to the persistent deficit in Sri Lanka's BOP (SLEDB-NEDP, 1990). In formulating the strategy of export-led growth, policy-makers have emphasised the following aspects as the main ingredients of Sri Lanka's export promotion strategy :

- (1) *Institutional Infrastructure for Export Development* : The government established several specialised institutions to cater to the needs of export promotion such as the Sri Lanka Export Development Board (SLEDB), Sri Lanka Export Credit Insurance Corporation and Greater Colombo Economic Commission (GCEC). Sri Lanka Export Development Board was established in August 1979 as the apex organization of the Government of Sri Lanka for the formulation of policies and programmes with regard to exports. The main objective of SLEDB is to promote and develop various products and services for export promotion from Sri Lanka (for details, see Annexure 1). The GCEC was set up in 1978 to administer the

investment promotion zones/export processing zones. The main thrust of GCEC was to attract foreign investors who were prepared to accept a 100% export obligation. The GCEC enterprises were given various types of special tax concessions and other incentives (for details, see Annexure 2). The GCEC set up its first export promotion zone at Katunayake in 1978, the second zone at Biyagama in 1983 and the third zone was set up recently in 1990 at Koggala. The information on total number of enterprises, investment and employment in these export processing zones and other GCEC projects is given in Exhibit 9, while the information on gross and net exports of GCEC during the period 1982-1990 by individual product groups is given in Exhibit 10.

(2) *Export Incentives* : The government provide a wide range of fiscal and other incentives to promote exports during the post-1977 period. The following are the main elements of the export incentives offered during the liberalised regime:

- (a) Import duty concessions;
- (b) Tax incentives;
- (c) Special schemes for export promotion; and
- (d) Special incentives to attract foreign investments.

To ensure that Sri Lankan exporters have access to various inputs at international prices, the government offered various forms of import duty concessions to exporters. Under the Duty Rebate Scheme (DRS), import duties paid by exporters on raw materials, packing materials and consumables used in the production of non-traditional exports are fully reimbursable. The special feature of this scheme is that the exporters who are eligible for duty rebates are not required to make actual duty payments at the time of import, because the scheme allows the Customs to accept bank guarantee in lieu of such duty payments. This mechanism eliminates the problem of delays in the settlement of claims for duty rebates. Another scheme in operation is Manufacture In Bond Scheme (MIBS). Exporters are allowed duty-free imports of all inputs including packing and publicity material for 100% export-oriented production with the proviso that the inputs imported under MIBS should be stored in "bonded stores" approved by the Customs (SLEDB, 1990). Moreover, 100% export-oriented firms are also eligible for duty import of machinery used in the manufacturing process, while the firms exporting more than half of their output are eligible for a 50% exemption on duty. In addition to customs duty concessions, all manufactured exports have also been exempt from business turnover tax since 1968.

Another crucial element of the export incentive package has been the direct tax concessions given to exporters. Profit arising from all types of non-traditional exports are fully exempt from income-tax. This provision came into effect from April 1984 onwards. Similarly, the firms whose exports had a domestic value added content of 75% or more were eligible for a ten year "half-tax holiday" from April 1, 1985 and this provision was subsequently enlarged in 1988, whereby half-tax holidays were granted for a period of 5 years even to those companies who had a value-added content to 50% in their export turnover. In cases where an exporting company is eligible for a tax holiday, all dividends declared by the company during the period of tax holiday are exempt from income-tax in the hands of its shareholders, with an upper limit of Rs.12,000 per year in the case of individuals. Moreover, individuals investing in approved export companies are eligible for tax relief from their investments upto one-third of their assessable income or Rs.50,000, whichever is lower (SLEDB, 1990). It is evident that these measures would go a long way to channel private investible resources into export business.

In addition to the above fiscal incentives there are special schemes for providing assistance to exporters on various counts. Thus, for instance, there are financial assistance schemes which provide short-term pre-shipment credit as well as media term and long term credit to

exporters at concessional rates. The Export Development Board also operates a special scheme called "Export Development Investment Support Scheme (EDISS), under which specified payments are made to exporters of non-traditional items (excluding gems and garments exported under quota arrangement) at rates which represent a given percentage of the FOB value on their exports. It is significant to note that payments received under EDISS are exempt from income-tax. The rates of EDISS vary according to net foreign earnings percentage as indicated below :

In addition to the above rates, a special rate of 7% of the FOB value of exports is also paid to exporters of products where the value-added proportion exceeds 50% and where a special effort needs to be made for market development (SLEDB, 1990).

Category	Net Foreign Exchange Earnings Range (%)	EDISS Rate % on FOB Value)
A	20-30	3%
B	30-60	4%
C	More than 60	5%

While the export incentive mentioned above are available to domestic exporters, the government has also introduced several incentives which are designed specifically to attract foreign investors in export-oriented enterprises. Such incentive packages are covered under GCEC incentives, the details of which are given in Annexure 2.

- (3) *Export Development Planning* : The Sri Lanka Export Development Board prepares medium term and long term export development plans with the explicit objective of expanding and diversifying exports. The first National Export Development Plan (NEDP) prepared by SLEDB in 1983 covered the period 1983 to 1987 while the second NEDP prepared by SLEDB in 1990 would operate for the period 1990 to 1994. The NEDP contains a detailed sectoral planning exercise with explicit focus on the strategies and actions that need to be taken to overcome the constraints in the fulfillment of specified export targets for individual products and commodities. Moreover, in 1991, the government announced National Export Policy under which the priorities and specific policy measures for export promotion were clearly spelt out. The details of National Export Policy 1991 and related aspects are given in Annexure 3.

VI. Export Performance

It would be interesting to examine the impact of Sri Lanka's export promotion strategy and trade policy reforms on the performance of export sector during the post-1977 period. Exhibit 11 shows the trends in exports by major sectors measured in terms of both the domestic currency as well as SDRs during the period 1978-1991, while Exhibit 12 indicates the average annual growth rates of exports during this period.

It is evident from Exhibit 11 that Sri Lanka's exports valued in terms of nominal Sri Lankan Rupees (SLRs) have registered impressive growth during the post-1977 period. Traditional exports have increased by 140%, while non-traditional exports have registered a sixteen-fold increase and, as a result, total exports have increased more than five-fold during 1978-1991. However, the growth of exports valued in terms of SDRs has been much lower than the growth indicated by nominal SLRs primarily due to a significant depreciation of Sri Lankan currency during that period. In fact traditional exports measured in terms of SDRs, consisting of tea, rubber and coconut actually declined by 16%, while non-traditional exports registered a five-fold increase resulting in an increase of 120% in total exports during 1978-1991. Thus, liberalisation and trade policy reforms appear to have contributed to the rapid growth of non-traditional exports in Sri Lanka during the post 1977 period. In the process, the share of traditional exports has declined sharply from 72% in 1978 to 27% by 1991 and, correspondingly, the share of non-traditional exports has increased from 28% to 73%. In fact,

tea used to be the single largest export item in Sri Lanka's exports during the sixties and the seventies, but by 1991 textiles and garments emerged as the single largest item of export accounting for almost 40% of the country's total exports.

In the light of the background information on Sri Lanka's economy and liberalization process given in Section II above, we can divide the post-1977 period into three sub-periods : 1978 to 1982 (initial years of liberalised regime), 1982 to 1988 and the post-1988 period (second phase of liberalisation). It is evident from Exhibit 12 that there are significant differences and fluctuations in the average annual growth rates of export of different items during these sub-periods. Thus, for instance, among the three items of traditional exports, the growth rate of coconut exports (valued in SDRs) has increased significantly during 1988-1991, while the exports of rubber have declined sharply during this period. Similarly, there has been a significant acceleration in the growth rate of manufactured exports and garments during 1988-1991 in relation to 1982-1988, while the exports of marine products have declined in recent years. On the whole, the declining trend in traditional exports (valued in SDRs) taken together seems to have been arrested during 1988-1991, while growth rate of non-traditional exports has increased significantly from less than 6% during 1982-1988 to more than 16% during 1988-1991.

It would be interesting to examine the composition of imports in relation to the changing composition of exports especially during the recent years. Exhibit 13 shows the growth of Sri Lanka's imports by major categories during 1986-1991. During 1988-1991, imports of investment goods have increased sharply, while the imports of intermediate goods have shown a moderate increase. As a result, the share of investment goods in total imports has gone up from 17% in 1988 to 23.5% in 1991, while the share of intermediate goods has declined from 56.8% to 50.7% during this period. It may be noted that despite rapid growth of non-traditional exports in recent years, total earnings from non-traditional exports are still well below total expenditure on imports of intermediate and investment goods as of 1991.

Information on the direction of Sri Lanka's foreign trade is provided in Exhibit 14. It is evident that there is no perceptible change in the broad direction of Sri Lanka's exports during the period 1986-1991. Industrial countries account for more than three-fifths of Sri Lanka's exports, while Middle-East countries account for another one-sixth. However, there has been a significant change in the direction of imports. During 1986-91, the share of industrial countries in Sri Lanka's imports has declined from around 44% to 37%, while the share of Asian developing countries has increased from less than 34% to 49%.

It would be interesting to segregate the overall growth of foreign trade into two components of volume and price and examine the impact of price changes on the terms of trade. Exhibit 15 shows the movement of foreign trade indices during the period 1985-91, while Exhibit 16 provides the changes in unit values of traded goods during 1978-91. The behavior of terms of trade is brought out by the figures given in Exhibit 17. It can be seen from Exhibit 15 that the volume index of exports has actually declined during 1985-88, but it has been increasing at a significant rate thereafter and this increase is largely due to the rapid growth of export volume index for industrial products. While the overall volume index for imports also shows a similar pattern, the increase in the import volume index during 1988-1991 is significantly lower than the increase in export volume index. As against this, the overall price index for exports shows a lower increase (45.8%) during 1988-91 as compared to the overall price index for imports (58.2%) during the same period. Thus, there is a marked difference in the behaviour of volume and price indices for exports vis-a-vis imports during the recent years. Contrasting behaviour of export prices and import prices is also brought out by the comparative unit values of selected items of exports and imports shown in Exhibit 16.

It is evident that, in a situation where the import price index continues to grow at a relatively faster rate than the corresponding export price index, the terms of trade would progressively deteriorate with the passage of time. Exhibit 17 clearly shows that in the case of Sri Lankan economy, the import

price index has persistently grown at a rate that has been much higher than the rate of increase in export price index. Accordingly, Sri Lanka's terms of trade have registered a significant decline during the period 1970-1991. However, it is interesting to observe that the rate of decline in the terms of trade has been particularly sharp during the period 1977 to 1988, when the terms of trade (with 1970-71 as the base year) declined from 96 to 34. The rate of decline in terms of trade has reduced considerably thereafter. A major implication of the steadily deteriorating terms of trade is that it reduces the import capacity of the given volume of exports and thereby partially nullifies the positive impact of steady growth of exports on the country's BOP. In the case of Sri Lanka, the import capacity of exports declined by more than 40% during 1977-1988. However, during the subsequent period, there has been considerable improvement in the import capacity of Sri Lanka's exports, the index showing an increase from the level of 59 in 1988 to 67 by 1991.

VII. Future Outlook

According to the public investment plan for 1992-96, prepared by the Ministry of Policy Planning and Implementation, the overall growth rate of Sri Lankan economy is expected to be around 6% per annum during 1992-96 and the current account deficit as a ratio of GDP is likely to decline from 7.8% in 1991 to 5.3% in 1996. Fulfillment of both these targets requires sustained export growth of more than 7% in real terms with imports growing at a slower rate. According to the World Bank estimates, the annual external financing requirements of Sri Lanka over 1993-95 is expected to be around US \$ 1 billion (World Bank, 1992). Assuming that a large proportion of this would be met from foreign aid flows, Sri Lanka may be able to maintain gross official reserves at the current level of more than three months of imports. If these targets and expectations actually materialise, the Sri Lankan economy would certainly be poised for a significant economic revival during the nineties. However, the crucial factor that would determine the ultimate outcome in this regard is the degree of success that Sri Lanka is able to achieve in its export promotion efforts.

The Sri Lanka Export Development Board¹

1. The Purpose of the Board

The purpose of the Sri Lanka Export Development Board is to promote and develop products and services for export from Sri Lanka. The Board motivates exporters by providing incentives and removing disincentives. It is the apex organization of the Government of Sri Lanka for the formulation of policies and programmes with regard to exports. The production for exports is encouraged through a number of incentives and assistance schemes. The Board also provides services which are essential for the production for export.

2. The Export Development Act and the Export Development Board

The Export Development Board of Sri Lanka was established in August 1979 under the Sri Lanka Export Development Act, No. 40 of 1979. The Act and the subsequent setting up of the Board reflects the recognition of exports as a priority area in the economic development of the country.

3. The Export Development Council of Ministers

An Export Development Council of Ministers was set up under the Act with the President of the Republic of Sri Lanka as Chairman. The Council of Ministers comprises the Ministers in charge of Trade and Commerce; Ports and Shipping; Industries, Science and Technology; Agriculture Development and Research; Plantation Industries; Handlooms and Textile Industries, Fisheries, and Aquatic Resources, Finance; Foreign Affairs; Tourism and Rural Industrial Development; and Policy Planning and Implementation. The subject of Export Development falls within the purview of the Ministry of Trade and Commerce.

4. The Export Development Board

The Export Development Board is the executive arm of the Export Development Council of Ministers.

The Board is headed by a Chairman and comprises of 18 other members. They include the secretaries of the ministries in the Export Development Council of Ministers, six members who are experienced in the field of industry, business, commerce, finance or any other field relevant to exports appointed by the Minister of Trade and Commerce and a member representing the Greater Colombo Economic Commission appointed by the Minister in concurrence with the President.

5. The Board of Secretariat

The Chairman is the Chief Executive of the Organization. The Director-General and the Additional Director-General assist the Chairman in the overall management, control and administration of the Board. The Board Secretariat coordinates implementation of the policies and decisions of the Board and monitoring of its progress.

¹ Source: *EDB and Its Activities*, Sri Lanka Export Development Board, September 1992.

**Greater Colombo Economic Commission (GCEC)
Incentives for Export²**

Exporters registered with GCEC or who enter into agreements with the GCEC are eligible for various types of concessions and incentives as described below :

- I. Manufacturers and exporters of non-traditional products with at least 90% of the output exported or deemed to be exported under GCEC rules are eligible to the following incentives. A minimum investment in the project should be US \$ 250,000, all fixed assets procured from abroad and all working capital requirements should be funded from foreign sources. In the case of wholly owned foreign enterprises, the total project cost should be funded from foreign sources. Non-traditional goods manufactured and sold to other direct exporters also qualify for the incentives.
 - i. Tax holiday upto a maximum of 15 years reckoned from the first year of profits.
 - ii. Concessionary rate of income-tax varying between 2-5% if annual turnover after the expiry of the tax holiday for a period of 5 years.
 - iii. Exemption from income-tax on dividends paid to non-resident shareholders.
 - iv. Exemption from income-tax on dividends paid to resident shareholders out of exempt profits during the tax holiday period and one year thereafter.
 - v. Exemption from income-tax on royalties to non-residents during the tax holiday period and thereafter at 15% or at a lower rate stipulated in a Double Tax Relief Agreement.
 - vi. Exemption from income-tax on emoluments of foreign employees during the period of the tax holiday.
 - vii. Duty free imports of plant, machinery, equipment, raw material and other project related goods.
 - viii. Exemption from turnover tax and excise duty at the point of importation in respect of plant, machinery, equipment, raw materials and ancillary materials used in the manufacture of products for export.
 - ix. Duty free export of finished products.
 - x. Exemption from the Import and Export Control Act.
 - xi. Exemption from the Exchange Control Act and authorization to open Foreign Currency Banking Unit Accounts.
 - xii. Exemption from income-tax on capital gains arising from the transfer of shares of an enterprise.

- II. Export trading houses set up to undertake the business of exporting agricultural products, handloom textiles and non quota categories of textile apparel products and rural industrial products with a minimum investment of Rs. 7 mn. which is 100% locally owned, 100% foreign owned or a joint venture is eligible for the following incentives. It must also export not less than 90% of the product purchased by it from local sources. The products should be supplied by approved purchasing centres set up under the Janasaviya scheme registered growers and/or manufacturers.
 - i. Five year tax holiday reckoned from the first year of making profit.
 - ii. Five year half tax holiday or partial tax credit of 50% of the normal tax for a period of 5 years reckoned from the expiry of the tax holiday.
 - iii. Exemption from income-tax on dividends paid to non-resident shareholders.

² Source: Sri Lanka Export Development Board, *Incentives for the Sri Lankan Exporter*, October 1992.

- iv. Exemption from dividend tax on dividends paid to resident shareholders out of exempt profit during the tax holiday period and one year thereafter.
- v. Exemption from income-tax on royalties to non-residents during the tax holiday period and 15% or thereafter or a lower rate specified in a Double Tax Relief Agreement.
- vi. Exemption from income-tax on emoluments of foreign employees.
- vii. Duty free imports of plant, machinery, equipment, raw material and other project related goods.
- viii. Funding and credit facilities obtainable from local commercial banks and development banks.
- ix. Right to maintain a foreign currency banking account.
- x. Exemption from turnover tax and excise duty at the point of importation of plant, machinery equipment, raw material and ancillary materials.
- xi. Duty free export of finished products.
- xii. Exemption from the Import and Export Control Act.
- xiii. Exemption from income-tax on capital gains arising from the transfer of shares of the enterprises.

National Export Policy³

National Export Policy was adopted by the Export Development Council of Ministers in March 1991. The highlights of the framework of this policy are as follows :

- a) The exchange rate will be maintained at a realistic level in order to ensure competitiveness of exports.
- b) Duty/tax free and unrestricted access to imported inputs will be ensured to all exporters.
- c) Export industries will be offered incentives comparable with those found in competing countries.
- d) Licensing and other bureaucratic controls will be reduced to a minimum. In particular, except for an identified "negative list", export licensing will, in fact, be completely dispensed with.
- e) Priority in the provision of public utilities and services will be given to all exporters.
- f) Access to finance at internationally competitive rates will be improved for all exporters.

In general, steps are being taken to ensure that the export sector is as competitive as other sectors of the economy, so that resources might flow into the sector on the basis of competitive advantage. Tariff policy has been a major instrument used to promote the competitiveness of Sri Lanka exports. The high protective duties have now been brought down to a five band tariff with a maximum tariff of 50% which makes Sri Lanka the most open economy in South Asia. The resulting increase in competition from abroad has induced local industries to be more efficient. However, they have complained of an inadequacy of support for adjustment, especially the high cost of long-term credit. As a part of the export drive the year 1992 has been declared the "Year of Exports" and the years 1992-2001 as the "Decade of Exports".

In view of the critical importance of the strategy of export led growth, a National Steering Committee has been set up with the intention of working out programmes and developing implementation strategies for the Export Decade, 1992-2001.

The Committee will consist of the Prime Minister, Minister of Trade and Commerce, Governor, Northern and Eastern Provinces, and the Chief Ministers of other provinces. The Committee is expected to carry out the following tasks :

1. The identification of sectors and sub-sectors of the economy which disclose high prospects for export development.
2. The determination of strategies for exploiting the potential of these sectors, sub-sectors, etc.
3. Overseeing of implementation by devising proper mechanism for coordination and execution of policy.
4. The identification of foreign markets, given the potential for export development in the Decade of Exports.
5. The determination of the various support needs of an export thrust, including incentives, tariff concessions for imported inputs, the development of the packaging sector, post harvest technology, R&D to assist in product development and innovation, etc.

As a part of export promotion activities undertaken in the Year of Exports - 1992, a World Trade Centre has been established in the heart of the city of Colombo. It will serve as a permanent display window and an information centre for the benefit of potential buyers of Sri Lanka export products.

³ Source : *Public Investment, 1992-1996*, Ministry of Policy Planning and Implementation, Government of Sri Lanka, October 1992.

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Exhibit 1

Selected Socio-economic Indicators for
Sri Lankan Economy, 1991⁴

	<u>1991</u>
<u>Total Population (Mn)</u>	17.2
Annual Growth Rate (%)	1.5
Density (per Sq.km.)	277
Urban Population (%)	21.5
 <u>Total Land Area (Sq.Km)</u>	 64453
 <u>National Income</u>	
Per Capita GNP (SLRs.)	19235
Per Capita GNP (US\$)	465
<u>Composition of GNP (%)</u>	
Agriculture	22.8
Industry	27.0
Services	50.2
 <u>Demographic Features</u>	
Birth Rate (per 1000)	20.0
Death Rate (per 1000)	5.8
Infant Mortality Rate (per 1000)	19.4
 <u>Life Expectancy at Birth</u>	
Total	72.5
Male	70.1
Female	74.8
 <u>Adult Literacy Rate (%)</u>	
Total	88.6
Male	93.4
Female	83.5
Female Labour participation Rate (%)	26.8
 <u>Government Expenditure by function (%)</u>	
Defence	3.8
Education	11.6
Health	6.7
 <u>Investment and Savings Rates</u>	
Investment Rate (% of GDP)	23.0
Domestic Savings Rate (% of GDP)	12.8

⁴ Sources:

1. *Sri Lanka Socio-Economic Data, 1992*, Statistical Department, Central Bank of Sri Lanka, Colombo, June 1992.
2. *Asia Year Book, 1992*, Far Eastern Economic Review

<u>Balance of Payments/GDP</u>	
Exports (%)	24.9
Imports (%)	37.4
Trade Balance (%)	-12.5
Current Account Deficit (%)	-7.8
<u>Government Finance/GDP at MP</u>	
Revenue (%)	20.4
Expenditure (%)	32.0
Current Account Surplus/Deficit (%)	-2.0
Budget Deficit (Before grants) (%)	-11.6
<u>Public Debt</u>	
Total Debt/GDP (MP) (%)	97.7
Domestic (%)	40.5
Foreign (%)	57.2
<u>Inflation Rate (1988-91)</u>	
Wholesale Prices (%)	13.4
Consumer Prices (%)	15.0
<u>Unemployment Rate (%)</u>	11.5
Length of Railways (Km)	1394
Length of Paved Highways (Km)	10582
<u>Health Care Indicators</u>	
Persons per hospital bed	340
Persons per Doctor	1164
<u>General Indicators (per 1000 population)</u>	
TV Sets	53
Radios	149
Telephones	15
Cars	10

Exhibit 2

Trends in Sri Lanka's GNP

(SLRs. Million)

S.No		At Current Prices					At Constant 1982 prices			
		1982	1988	1989	1990	1991	1988	1989	1990	1991
1.	Agriculture	24964	53600	58462	76504	91148	27984	27666	30011	30869
2.	Mining	2238	5567	5980	7098	7204	3392	3576	3901	3511
3.	Manufacturing	13601	31298	34941	43128	48361	19622	20488	22427	23979
4.	Construction	7959	14943	17332	21541	24376	8463	8514	8761	8963
5.	Electricity	1089	2492	2788	3652	4930	1499	1526	1681	1812
6.	Transport	10666	21988	23109	28655	34870	13619	13883	14410	15260
7.	Trade	19694	40578	46625	61812	71616	25164	25588	26497	28423
8.	Services	14468	33050	38901	48105	56553	19307	20488	21556	22572
9.	Gross Domestic Product	94679	203516	228138	290495	339058	119050	121729	129244	135389
10.	Net Factor Income from Abroad	-1959	-5266	-5739	-6685	-7316	-2836	-2855	-2818	-2964
11.	Gross National Product	92720	198250	222399	283810	331742	116214	118874	126426	132425

- Note:
1. Agriculture includes Forestry & Fishing
 2. Mining includes quarrying
 3. Electricity includes gas, water supply and sanitary services.
 4. Transport includes storage and communication
 5. Services include Banking, Insurance, Real Estate, ownership of dwellings, public administration, defence, and other services.

Source: Central Bank of Sri Lanka, Annual Report, 1991.

Exhibit 3

Growth Rates of GDP (at 1982 prices) By Sector of Origin

(Per cent per annum)

Period	Agriculture	Mining and Quarrying	Manufacturing	Construction	Services	GDP
1971-76	0.7	4.7	1.3	-1.4	4.7	2.7
1977-82	5.4	5.3	3.7	10.2	8.2	7.0
1983-88	1.9	7.2	6.3	1.0	4.5	3.9
1989-91	3.1	1.2	6.9	1.9	4.5	4.4

Source: Central Bank of Sri Lanka : Annual Report (various issues)

Exhibit 4

**Trends in Sectoral Distribution of GDP
(At 1982 Prices)**

(Per Cent)

Year	Agriculture	Mining & Quarrying	Manufacturing	Construction	Services	GDP
1970	31.2	0.5	17.6	10.2	40.5	100.0
1975	28.2	1.8	16.0	7.8	46.2	100.0
1980	26.7	2.4	14.5	9.8	46.5	100.0
1985	25.9	2.3	14.8	7.4	49.7	100.0
1991	23.3	2.6	18.1	6.8	49.2	100.0

Source: Same as Exhibit 3.

Exhibit 5
Trends in Sri Lanka's Balance of Payments : 1978-91

(SDR Millions)

	1978	1980	1984	1988	1990	1991
1. Trade Balance	-144	-758	-453	-568	-518	-725
1.1 Exports	675	818	1427	1098	1456	1491
1.2 Imports	819	1576	1880	1666	1974	2216
2. Services (Net)	6	40	-66	-114	-72	-78
2.1 Receipts	99	214	-329	306	391	465
2.2 Payments	93	174	395	420	463	543
3. Goods and Services (net)	-138	-718	-519	-682	-590	-803
4. Private Transfers	17	105	270	238	268	288
5. Current Account Balance	-121	-613	-249	-444	-322	-515
6. Official Transfers	46	106	198	154	130	143
7. Non-Monetary Capital	133	306	335	194	344	475
7.1 Direct Invest. (net)	1	35	36	32	31	74
7.2 Other Private (net)	7	150	193	-20	15	11
7.3 Government	125	121	237	182	298	390
8. Errors & Omissions	7	23	13	32	-19	47
9. Overall Balance	65	-178	297	-64	133	150
10. Monetary Movements	-65	178	-297	64	-133	-150
11. Exchange Rate (SLRs./SDR)	19.58	21.52	26.08	42.76	54.42	56.61
12. Current Account Deficit as Percentage of GDP	5.6	19.8	4.2	8.6	5.4	7.8

Source: Central Bank of Sri Lanka : *Annual Report and Review of the Economy* (Various issues)

Exhibit 6
Growth of Sri Lanka's Foreign Trade, 1978-1991

Year	Exports (Slrs. Mn.)	Imports (Slrs. Mn.)	Balance of Trade (Slrs. Mn.)	Ratio of Exports to GDP (%)	Ratio of Imports to GDP (%)	Ratio of Exports to Imports (%)
1978	13206	16049	-2843	31.2	37.9	82.3
1979	15282	22603	-7321	29.1	43.0	67.6
1980	17595	33942	-16347	26.4	50.9	51.8
1981	21043	36583	-15540	24.7	43.0	57.5
1982	21454	41946	-20492	22.7	44.3	51.1
1983	25096	45558	-20462	20.5	37.3	55.1
1984	37347	47541	-10194	24.2	30.8	78.6
1985	36207	54049	-17842	24.4	36.4	67.0
1986	34072	54559	-20487	20.8	33.3	62.4
1987	41133	60528	-19395	23.1	34.1	68.0
1988	46928	71030	-24102	23.1	34.9	66.1
1989	56175	80225	-24050	24.6	35.2	70.0
1990	79482	107729	-28247	27.4	37.1	73.8
1991	84379	126643	-42264	24.9	37.4	66.6

Source : 1. Central Bank of Sri Lanka.
2. Sri Lanka Customs.

Exhibit 7
Sri Lanka's External Debt and Debt Service, 1986-1991

		(SDR Million)					
Item	1986	1987	1988	1989	1990	1991	
1. Medium & Long-Term Debt	3227	3228	3531	3642	3828	4249	
1.1 Government	2551	2615	2848	2976	3190	3601	
1.2 Public Corporations	266	232	189	160	141	135	
1.3 Private Sector	176	216	240	231	209	233	
1.4 IMF Drawings	234	165	254	275	288	280	
2. Short Term Debt	151	203	179	297	294	349	
3. Total External Debt	3378	3431	3710	3939	4122	4598	
4. Debt Service Payments	356.8	383.3	402.8	374.7	328.5	353.5	
4.1 Amortization	213.5	253.5	258.8	217.3	182	197.7	
(i) To IMF	58.6	69.3	64.1	46	31.8	63.6	
(ii) To Others	154.9	184.2	194.7	171.3	150.2	134.1	
4.2 Interest Payments	143.3	129.8	144	157.4	146.6	155.8	
(i) To IMF	21.3	18.3	18.5	22.7	20.6	14.7	
(ii) To Others	122.0	111.5	125.5	134.7	126	141.1	
5. Earnings from Merchandise Exports and Services	1352.6	1384.4	1404	1522.4	1847.3	1955.7	
6. Receipts from Merchandise Exports, Services & Private Transfers	1622.4	1654.7	1670.6	1801.6	2143.7	2275.5	
7. Debt Service Ratios							
7.1 As a Percentage of (5) Above							
(i) Overall Ratio	26.4	27.7	28.7	24.6	17.8	18.1	
(ii) Excluding IMF Transactions	20.5	21.4	22.8	20.1	14.9	14.1	
7.2 As a Percentage of (6) Above							
(i) Overall Ratio	22.0	23.2	24.1	20.8	15.3	15.5	
(ii) Excluding IMF Transactions	17.1	17.9	19.2	17	12.9	12.1	

Source : Central Bank of Sri Lanka, Annual Report, 1990 & 1991.

Exhibit 8
Trends in Nominal Exchange Rates and Real Exchange Rates of Sri Lankan Rupee
(SLRs. per Unit of Foreign Currency)

Year	US Dollar		UK Pound		German Mark		Japanese Yen		French Franc	
	NER	RER	NER	RER	NER	RER	NER	RER	NER	RER
1978	15.51	25.34	31.67	43.57	8.55	14.98	0.08	0.15	3.75	5.87
1979	15.45	25.91	34.57	48.09	9.00	15.07	0.06	0.11	3.86	5.51
1980	18.00	25.74	42.70	50.62	9.21	12.39	0.08	0.13	3.98	4.25
1981	20.55	27.42	39.10	43.44	9.01	11.17	0.09	0.13	3.58	3.65
1982	21.32	27.51	34.61	39.26	8.98	11.18	0.09	0.12	3.17	3.41
1983	25.00	26.12	35.89	34.32	9.11	9.21	0.11	0.12	2.97	2.78
1984	26.28	22.40	30.51	24.58	8.35	6.91	0.10	0.09	2.73	2.22
1985	27.21	27.21	36.02	36.02	9.48	9.48	0.12	0.12	3.11	3.11
1986	28.05	28.08	41.30	44.41	13.11	13.18	0.17	0.16	4.08	4.09
1987	29.53	26.76	48.85	48.10	16.66	14.40	0.21	0.16	4.97	4.40
1988	31.88	25.51	56.80	49.61	18.14	13.48	0.25	0.16	5.35	4.24
1989	36.31	27.96	59.30	49.94	19.49	13.93	0.26	0.17	5.74	4.39
1990	40.07	26.15	71.75	52.34	24.87	14.89	0.28	0.15	7.39	4.57
1991	41.37	24.78	72.84	51.44	23.09	12.74	0.31	0.15	7.25	4.06

Note : 1985 is used as the base year for the computation of Real Exchange Rate.

Source: 1. Central Bank of Sri Lanka; 2. Export Development Board, Government of Sri Lanka.

Exhibit 9

Investment and Employment in GCEC Projects, 1992

Location	No. of Enterprises	Foreign Inv. (March '92) (Mn. SLRs.)	Local Inv. (March '92) (Mn. SLRs.)	Total Inv. (March '92) (Mn.SLRs.)	Employment
Katunayake Export Processing Zone	77	3564	644	4208	51885
Biyagama Export Processing Zone	33	3109	315	3424	19626
Koggala Export Processing Zone	7	26	0	26	2297
Total of 3 EPZs	117	6699	959	7658	73808
Other Projects	62	5427	9528	14955	25190
Total	179	12126	10487	22613	98998
	(118)	(7832)	(8887)	(16719)	(61429)

Note : Figures in parentheses relate to the year 1989.

Source : Greater Colombo Economic Commission, Government of Sri Lanka.

Exhibit 10

GCEC Exports Classified by Product Group for the Period 1982-1990

Sl. No.	Product Group	Gross Value of Exports (SLRs.Mn)	Net Value of Exports (SLRs. Mn.)	(3) as % of (2)
	(1)	(2)	(3)	(4)
1.	Wearing Apparel	42952.6	10100.4	23.52
2.	Jewellery and Lapidary	3174.2	324.8	10.23
3.	Textiles	3056.4	629.9	20.61
4.	Fabricated Metal	2177.7	593.0	27.23
5.	PVC Products	1790.5	626.0	34.96
6.	Beverages and Tobacco	1753.0	339.8	19.38
7.	Rubber Products	1423.2	887.7	62.37
8.	Footwear	1376.0	357.0	25.94
9.	Leather Garments	1259.3	207.4	16.47
10.	Electronics and Electrical Tools	762.7	116.6	15.29
11.	Non-metallic Minerals	699.5	492.5	70.41
12.	Cosmetic Products	430.5	122.0	28.34
13.	Horticulture	225.1	125.9	55.93
14.	Fishing Gear & Accessories	103.5	18.3	18.16
15.	Food Processing	96.9	80.0	82.56
16.	Wood Products	30.7	18.0	58.63
17.	Coir Products	25.2	14.7	58.33
18.	Transport Equipment	15.6	1.2	7.69
19.	Others	1133.8	354.5	31.27
20.	Total	62486.4	15410.2	24.66

Source: N.L. Sirisena, 1991.

Exhibit 11

Trends in Exports by Major Sectors

Sector	1978	1982	1984	1986	1988	1990	1991
Value of Exports in Million SLRs.							
Tea	6401	6342	15764	9253	12299	19823	17865
Rubber	2021	2323	3301	2622	3706	3062	2663
Coconut	1120	1496	2118	2389	1538	2650	2454
Total Traditional Exports	9542 (72.3)	10161 (47.4)	21183 (56.7)	14264 (41.9)	17543 (37.4)	25535 (32.1)	22982 (27.2)
Other Agricultural Exports	813	1495	1358	1500	2561	3350	3581
Marine Products	235	434	601	624	830	912	900
Gems and Jewellery	531	704	654	1852	3810	6746	5496
Textiles and Garments	482	3502	7535	9629	14260	25556	32515
Manufactures	497	1036	1131	2169	3580	8718	10964
Petroleum Products	944	3280	3288	2358	2265	4105	3412
Others (including Re-exports)	162	842	1597	1676	2079	4560	4529
Total Non-traditional Exports	3664 (27.7)	11293 (52.6)	16164 (43.3)	19808 (58.1)	29385 (62.6)	53947 (67.9)	61397 (72.8)
Total Exports	13206 (100.0)	21454 (100.0)	37347 (100.0)	34072 (100.0)	46928 (100.0)	79482 (100.0)	84379 (100.0)
Value of Exports in Million SDRs.							
Tea	327.0	276.0	604.1	284.1	287.7	364.3	316.0
Rubber	104.0	101.1	126.5	80.5	86.7	56.6	47.0
Coconut	57.0	65.1	81.2	73.3	36.0	51.1	46.0
Total Traditional Exports	488.0 (72.3)	442.2 (47.4)	811.7 (56.7)	437.9 (41.9)	410.3 (37.4)	472.0 (32.3)	409.0 (27.4)
Other Agricultural Exports	42.0	65.1	52.0	46.1	59.9	58.2	60.0
Marine Products	12.0	18.9	23.0	19.2	19.4	16.4	15.5
Gems and Jewellery	27.0	30.6	25.1	56.9	89.1	124.0	94.4
Textiles and Garments	25.0	152.4	288.7	295.6	333.5	462.4	588.0
Manufactures	25.0	45.0	43.3	66.6	83.7	140.9	188.3
Petroleum Products	48.0	142.7	126.0	72.4	53.0	73.0	58.0
Others (including Re-exports)	8.0	36.7	61.2	51.4	48.6	113.6	77.8
Total Non-traditional Exports	187.0 (27.7)	491.4 (52.6)	619.4 (43.3)	608.1 (58.1)	687.3 (62.6)	988.5 (67.7)	1082.0 (72.6)
Total Exports	675.0 (100.0)	933.6 (100.0)	1431.1 (100.0)	1046.0 (100.0)	1097.6 (100.0)	1460.5 (100.0)	1491.0 (100.0)

Source : 1. Central Bank of Sri Lanka
2. Sri Lanka Customs

Exhibit 12

Growth Rates of Exports by Major Sectors

(percent per annum)

Sector	Growth Rate of Exports in SLRs.				Growth Rate of Exports in SDRs.			
	1978-82	1982-88	1988-91	1978-91	1978-82	1982-88	1988-91	1978-91
Tea	-0.23	11.67	13.25	8.22	-4.15	0.69	3.18	-0.26
Rubber	3.54	8.10	-10.43	2.14	-0.70	-2.53	-18.46	-5.93
Coconut	7.50	0.46	16.85	6.22	3.38	-9.40	8.51	-1.64
Total Traditional Exports	1.58	9.53	9.42	7.00	-2.43	-1.24	-0.11	-1.35
Other Agricultural Exports	16.45	9.39	11.82	12.08	11.58	-1.38	0.06	2.78
Marine Products	16.58	11.41	2.74	10.88	12.03	0.44	-7.21	1.99
Gems and Jewellery	7.30	32.50	12.99	19.69	3.18	19.50	1.94	10.11
Textile and Garments	64.18	26.37	31.62	38.26	57.13	13.94	20.81	27.50
Manufactures	20.16	22.96	45.22	26.87	15.83	10.90	31.03	16.80
Petroleum Products	36.53	-5.98	14.63	10.39	31.31	-15.22	3.05	1.47
Others (including Re-exports)	50.99	16.26	29.63	29.20	46.35	4.79	16.98	19.12
Total Non-traditional Exports	32.50	17.28	27.84	24.21	27.32	5.75	16.33	14.46
Total Exports	12.90	13.93	21.60	15.33	8.45	2.73	10.75	6.29

Source : Exhibit 11.

Exhibit 13

Imports by Major Categories

(SLRs.Mn.)

Sl. No.	Category	1986	1987	1988	1989	1990	1991
I	Consumer Goods	12256 (22.5)	13814 (22.8)	17438 (24.5)	20962 (26.1)	28420 (26.4)	32357 (25.6)
II	Intermediate Goods	28618 (52.5)	34619 (57.2)	40325 (56.8)	45255 (56.4)	55757 (51.8)	64265 (50.7)
III	Investment Goods	10556 (19.3)	11334 (18.7)	12081 (17.0)	12018 (15.0)	23412 (21.7)	29792 (23.5)
IV	Unclassified Imports	3129 (5.7)	761 (1.3)	1186 (1.7)	1990 (2.5)	139 (0.1)	229 (0.2)
V	Total Imports	54559 (100.0)	60528 (100.0)	71030 (100.0)	80225 (100.0)	107728 (100.0)	126643 (100.0)

Note : Figures in parentheses indicate percentage of respective totals.
Source : 1. Central Bank of Sri Lanka.
2. Sri Lanka Customs.

Exhibit 14

Direction of Sri Lanka's Foreign Trade

Sl. No.	Group of Countries	Exports				Imports			
		1986	1988	1990	1991	1986	1988	1990	1991
I	Industrial Countries	20500 (60.2)	27460 (58.5)	46998 (59.1)	53665 (63.6)	23846 (43.7)	31318 (44.1)	41972 (39.0)	46541 (36.8)
I.1	USA	8908	11684	19732	23128	3291	4857	8322	7221
I.2	UK	1956	2574	4613	5222	2882	4025	5847	6881
I.3	France	461	905	1750	2657	704	1640	1699	1441
I.4	Germany	2335	3317	5075	6157	2405	3265	3361	4215
I.5	Japan	1879	2702	4102	4204	8934	9705	13035	14828
I.6	Others	4961	6278	11726	12297	5630	7826	9708	11955
II	Middle East	6005 (17.6)	8427 (18.0)	13383 (16.9)	13539 (16.0)	5355 (9.8)	7346 (10.3)	12135 (11.3)	11175 (8.8)
III	Asian Developing Countries	3733 (11.0)	6759 (14.4)	7652 (9.6)	8921 (10.6)	18363 (33.7)	26321 (37.1)	43004 (39.9)	62084 (49.0)
IV	Other Countries	3834 (11.2)	4282 (9.1)	11449 (14.4)	8254 (9.8)	6995 (12.8)	6045 (8.5)	10617 (9.8)	6843 (5.4)
V	Total	34072 (100.0)	46928 (100.0)	79482 (100.0)	84379 (100.0)	54559 (100.0)	71030 (100.0)	107728 (100.0)	126643 (100.0)

Note : Figures in parentheses indicate percentage of respective totals.

Source : 1. Central Bank of Sri Lanka

2. Sri Lanka Customs

Exhibit 15

Movement of Foreign Trade Indices, 1985-1991

(Base Year 1985 = 100)

S.No.	Category	1986	1987	1988	1989	1990	1991
I	Volume						
I.1	Exports	105.2	103.8	101.4	103.0	120.0	125.0
I.1.1	Agricultural Exports	103.7	99.6	96.6	94.9	101.6	97.0
I.1.2	Industrial Products	115.7	116.1	116.6	116.6	141.6	157.3
I.1.3	Mineral Products	120.8	128.6	211.3	249.5	232.3	157.0
I.2	Imports	100.8	101.0	95.6	90.0	95.2	107.7
I.2.1	Consumer Goods	103.0	104.1	100.3	95.6	106.1	118.3
I.2.2	Intermediate Goods	124.1	133.7	133.4	119.2	123.7	146.5
I.2.3	Investment Goods	81.6	82.2	71.4	64.7	73.6	85.1
II	Price						
II.1	Exports	89.5	109.4	127.8	150.7	183.0	186.4
II.1.1	Agricultural Exports	79.6	92.2	109.7	122.3	150.0	144.3
II.1.2	Industrial Products	96.0	120.6	136.1	170.8	205.1	225.7
II.1.3	Mineral Products	113.3	162.5	143.1	124.9	179.3	188.8
II.2	Imports	100.2	110.9	137.5	164.8	209.4	217.5
II.2.1	Consumer Goods	113.7	126.8	166.1	209.5	251.8	261.5
II.2.2	Intermediate Goods	77.3	87.4	100.8	128.4	165.4	161.7
II.2.3	Investment Goods	127.9	138.0	177.2	193.6	252.2	277.9
III	Value						
III.1	Exports	94.1	113.6	129.6	155.2	219.5	233.0
III.1.1	Agricultural Exports	82.6	91.9	106.0	116.0	152.4	140.0
III.1.2	Industrial Products	111.1	139.9	158.6	199.2	290.4	354.9
III.1.3	Mineral Products	136.8	208.9	302.5	311.6	416.5	296.5
III.2	Imports	100.9	112.0	131.4	148.4	199.3	234.3
III.2.1	Consumer Goods	117.1	132.0	166.7	200.4	267.2	309.3
III.2.2	Intermediate Goods	96.0	116.8	134.4	153.0	204.6	237.0
III.2.3	Investment Goods	104.4	113.4	126.6	125.2	185.8	236.4

Source : Central Bank of Sri Lanka

Exhibit 16

Changes in Unit Values of Traded Goods

(SDR Per Unit)

	1978	1988	1989	1990	1991
Export Unit Values (FOB)					
Tea (Kg.)	1.70	1.31	1.45	1.69	1.49
Rubber (Kg.)	0.75	0.87	0.78	0.65	0.61
Coconuts (nut)	0.08	0.09	0.07	0.07	0.09
Import Unit Values (CIF)					
Rice (Mt)	188	200	236	186	211
Sugar (Mt)	180	215	294	315	253
Wheat (Kg)	85	114	148	121	87
Crude Oil (Barrel)	10.2	11.3	13.7	17.3	14.2

- Sources: 1. Central Bank of Sri Lanka : Annual Reports and Review of the Economy (Various issues).
 2. Sri Lanka Customs.

Exhibit 17

Trends in Terms of Trade and Import Capacity of Exports, 1970-1991.

Year	Export Price Index	Import Price Index	Terms of Trade	Index of Import Capacity of Exports
1970	100	100	100	100
1971	100	106	94	90
1972	100	112	89	84
1973	117	150	78	78
1974	182	262	69	64
1975	171	306	56	63
1976	200	275	73	85
1977	324	337	96	98
1978	588	625	94	105
1979	641	950	67	80
1980	741	1356	55	64
1981	759	1762	43	58
1982	700	1931	36	54
1983	970	2344	41	53
1984	1218	2594	47	71
1985	1041	2877	36	61
1986	932	2883	32	59
1987	1139	3191	36	64
1988	1330	3956	34	59
1989	1569	4741	33	59
1990	1905	6024	32	65
1991	1940	6257	31	67

- Source: 1. Central Bank of Sri Lanka.
 2. Sri Lanka Export Development Board.