A REVIEW OF INDUSTRIAL POLICY & INDUSTRIAL POTENTIAL IN SRI LANKA

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PN-ABQ-023

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March, 1993

This paper is one of the 18 papers, published under a special series of publications by the Sri Lanka Economic Association (SLEA) with financial assistance from the United States Agency for International Development (USAID). The objective of these publications is to provide economic literature on current and topical themes on the economy of Sri Lanka to a broad audience that is interested in economic issues, but has little or no background in theoretical economics, while maintaining high analytical standards. Hence, the papers have been written in simple language avoiding the use of sophisticated technical terms, mathematical equations and models etc. which are normally found in economic literature.

A REVIEW OF INDUSTRIAL POLICY AND INDUSTRIAL POTENTIAL IN SRI LANKA

Introduction

The need for industrialising the country has been stressed by almost all governments that came to power since independence and various policy measures have been adopted to achieve this goal. The process of industrialization has, however, not been automatic nor has it been free of setbacks and conflicts. There were shortcomings and slippages in the implementation of policies. The pace of the expansion of industrial activities has sometimes been rapid and sometimes painfully slow. Sri Lanka's experience with industrialization suggests that the policy environment is the crucial factor influencing the pace, structure and efficiency of the industrialization process. Therefore the most important task of "industrial policy" is to promote a business environment which is conducive to entrepreneurship, investment, production and marketing. The stance of industrialization policies has varied from time to time depending on the economic thinking of the respective Governments that were in power. The differences in the policy approaches are reflected largely in the importance attached to the price mechanism vs. state intervention and protection vs liberalization of controls.

In a market economy, private investors are expected to play the leading role in expanding the economic base and enhancing economic activities. Since the objective of private investors is maximisation of profit, they may not invest in industries if a satisfactory level of profit is not ensured. Economic policy could influence the prices of products and through the prices, it could increase or decrease the profitability of an industry. Policy, therefore, plays a crucial role in attracting investment required for economic activities. The creation of economic activities depends on the ability to exploit the potentials of various sectors of the economy. The level of industrial activity depends on the extent to which industrial potentials are exploited in the country. The pace and character of industrial activities, however, depend on the effectiveness of the policy measures affecting industrial activities in the country.

The purpose of this study is, therefore, to review the industrial policies, Sri Lanka has pursued since its colonial period to date, especially with regard to the prospects for rapid industrial development. Apart from this the industrial potential in the country will also be examined.

Background to a Policy of Industrialisation

Industrial development was not a concern of policy-makers under the colonial rule. This is because the maintenance of the existing pattern of economic activities i.e. the colony continuing to be a source of primary products to the metropolitan country on the one hand, and a market for the products

of its own manufacturing industries on the other was in the interest of the colonial government. For this reason, the colonial government was not inclined to engage itself in the promotion of the colony's industrial development. The emphasis of the colonial economic policy was, therefore, on the provision of facilities for the plantation sector which was largely foreign owned. However, the second world war and the shortages of consumer goods resulting from the disruption of international trade and communication compelled the government to abandon its policy of non-interference by the state in business activities for a short period of time. The government pioneered the establishment of several factories[1] on the basis of strategic and economic considerations. These industries, however, could not survive in the face of an influx of imports resulting from the normalisation of trade after the war.

Economic policy pursued from independence till the late 1950s was more or less a continuation of the free trade policy of the colonial administration. Policies at this time were influenced by two study reports namely, the Report of the World Bank (IBRD: 1952) and the Report of the Commission on Commercial Undertakings (sessional paper No. 19 of 1953). Consequently, government policy discouraged the active involvement of the State in industrial activities because of its discouraging effect on private initiatives. Thus, government policies pursued during this period reflected a policy bias towards the private sector.[2] The Government Sponsored Corporations Act which passed into the statute book in 1955 facilitated the initial transfer of the existing

state owned industries to semi-autonomous public corporations. Thereafter, the government envisaged the gradual transfer of state owned industries to the private sector with the disposal of government shares in these corporations. This policy, however, could not be implemented as the then government lost the election held in 1956.

Under the liberal trade policies pursued during the period till late 1950s, products manufactured in foreign countries were freely available in the domestic market as they could enter into the domestic market without restrictions. If local investors were to replace imported products, they had to manufacture their products at least to be on par with the price and the quality of the imported products. Otherwise they could not survive. This involved a high risk on their investments. This, in fact, explains as to why under free trade policy local businessmen were not interested in investing in industries. Sri Lankan entrepreneurs and expatriates found that plantation and trading activities were safer and more profitable.

Emergence of a Policy of Protected Industrialisation

The economic prosperity the country enjoyed since independence began to diminish by the late fifties. The country's major exports had encountered unfavourable price trends in the world market while the prices of imports continued to increase. This led to a rapid depletion of the country's external assets. The country's reserves reached a critical level by 1959 and the liberal economic policies followed hitherto had to end.

As in many developing countries facing similar situations, Sri Lanka was also influenced by economic theories[3] which gained acceptance among developing countries during this period. Developing countries realised the need to narrow the widening gap between their living standard and that of developed countries. The need to overcome problems associated with poverty and under development was felt very strongly. The difference in the economic conditions between developing and developed countries was generally explained in terms of lack of industrial activities in the former. Setting up of industries and the expansion of industrial activities were therefore seen as the solution. Rapid industrialisation was expected in a protected domestic market, avoiding competition from established industries abroad.

"The infant industry" argument - which claims that in the initial stage, industry needs protection - became a central element of Sri Lanka's industrial policy. "The terms of trade" argument - which claims that overwhelming reliance of developing countries on the export of a few primary products to developed countries' markets in return for their manufactured goods resulted in a deterioration of gains from trade for the developing countries - was put forward as a case for shifting emphasis towards industrial development. Industries substituting imports were expected to raise revenue and reduce the pressure on declining external assets. The political argument for import substitution centred around the desire for greater self-sufficiency and independence. The government was convinced that

domestic industrial production would help save foreign exchange, provide employment opportunities for the growing work force and reduce the vulnerability of the economy from the reliance on three plantation crops. Thus Sri Lanka began to embark upon industrialisation through protection.

The government policy as reflected in policy documents indicated that "the stage is already set for initiating a process of industrialisation on the basis of import substitution, if Ceylon is to pursue industrialisation on a substantial scale there would appear to be no alternative but to initiate a serious and effective policy of protection" (National Planning Council: 1959: 31).

Thus, by 1957, high priority was placed on industrial development with government's active participation in economic activities. The industrial policy segmented industries into three groups[4] with small scale industries left for the private sector. The role of the public sector was strengthened through legislation which provided for a take over of an existing industry or the setting up of a new industry under public ownership. Accordingly, a large number of state owned enterprises was set up.[5]

Policy Measures

With external reserves at a low ebb and dim prospects for export growth, several policy measures were introduced in early 1960's to arrest this situation and encourage domestic production.

The policy measures included (a) licensing - A permit issued by the Government was required not only to start an industry but also to import necessary raw materials -, (b) high tariffs - products coming from foreign countries were subject to a high tax which made imported goods expensive -, (c) quotas - industrialists were permitted to import only a certain quantity of their import requirements such as raw materials -, (d) a complete ban on a large number of items considered to be non-essentials (e) restriction of payments in foreign currency and (f) a greater degree of intervention on the part of Government in the allocation of resources in the country.

In 1959, monetary methods of import control were used to minimize imports. Since they were not very effective, restrictions on imports were introduced in January, 1961 by bringing forty nine items[6] under a scheme of import licensing. A system of quotas was also introduced for 31 items in the same year. The coverage of goods for import controls was further widened over the years. By 1964, with the exception of a few items of negligible importance, all private sector imports were brought under individual licensing.

On the tariff front, all round increases on duties on imports were introduced in 1961. Import duties were further increased in 1962 and 1963. These increases which had a strong protective effect, covered mostly luxury and semi-essential goods such as washing machines, refrigerators, floor polishers, tape-recorders etc. In many cases, the tariff increases

were in the range of 200 to 300 per cent. Moreover, the importation of a large number of items was banned as these items were considered to be non-essential.

Controls over foreign exchange payments began to be tightened with the introduction of import restrictions from 1961. Payments for imports were closely scrutinised. In 1963, a system of budgeting foreign exchange was introduced with a view to minimising the depletion of external assets through better management of available foreign resources.

The setting up of new industries required the approval of the Ministry of Industries. The Ministry which reviewed the progress of new ventures, had the power to cancel the approval and withhold concessions in cases where the progress of any industrial unit was not satisfactory to the Ministry. The approval procedure and regulatory mechanism became more complex and cumbersome over the years. However, by 1963, the Ministry of Industries had to withhold approvals of new industrial projects due to difficulties in ensuring foreign exchange for the importation of plant and equipment for the newly approved industries. Therefore, only industries with foreign participation received approval until 1968.

Although industrialisation during this time was heavily biased towards public sector industries, it did not prevent the government from offering an array of incentives to private sector industries. Tax relief in the form of five years tax holidays was offered to government approved industries. Moreover, the annual depreciation allowance was replaced by a lump

sum depreciation allowance. (33 1/2 per cent for industrial buildings, 50 per cent for durable plant and machinery, 66 2/3 per cent for normal machinery, 80 per cent for short-lived equipment). Furthermore, a development rebate of 20 per cent on purchases of plant and machinery (double the amount in the case of approved projects) and an exemption from wealth tax for five years were also offered.

The latter part of the 1960s witnessed certain changes in Sri Lanka's economic policy with the change of government in 1965. Attempts were made to relax controls on imports and encourage exports. The Bonus Voucher Scheme which was introduced in 1966 provided industrialists exporting industrial products with an additional import entitlement to the value of 20 per cent of the value of the exports. This import entitlements given in the form of bonus vouchers were transferable and could be utilised for the purchase of machinery, spares, accessories, raw materials over and above the level of quotas already approved by the government. This scheme which was expected to serve as an incentive to increase industrial exports was, however, terminated in 1968, with the introduction of an alternative scheme under Foreign Exchange Entitlement Certificate Scheme (FEECS). The main objective of the FEECS was to encourage non-traditional exports by providing an additional cash incentive through a higher exchange rate. Thus, the scheme comprised two rates of exchange', i.e. the existing official exchange rate and the FEEC rate which favoured non-traditional exports. Meanwhile, the liberalisation of imports was to be achieved by allowing a substantial range of imports consisting

primarily of raw materials and machinery to be freely imported under the Open General Licence (OGL) Scheme (items classified under this scheme could be imported without licenses) without any restrictions on quantities. Such imports were however subjected to a higher rate of exchange (FEEC rate).

The liberalisation attempt came to an end with the change of government in 1970. A salient feature of the post-1970 economic policy was the increased government involvement in economic activity. Government intervention in industrial activities became greater than ever before. The Business Undertakings (Acquisition) Act which was enacted in 1970 provided the necessary powers for the government to take over any business undertaking employing more than 100 persons.

The economy of Sri Lanka reverted back to a regime of controls of the type that existed during the period 1961-1967. The role of the private sector was again restricted. The approval for private sector projects was given in accordance with the production and consumption priorities and targets set in the Government's plan. Industries were approved on the basis of their ability to use local raw materials, export their products and create employment opportunities.

The system of imports under the OGL was abolished in 1970. All imports under the OGL were brought under import licensing However, the FEEC scheme continued to operate. These policy measures aimed at relieving the growing foreign exchange shortage and offering preferential treatment

to certain industries. The foreign exchange budget was reintroduced. The quantum of foreign exchange granted to industries was determined on the basis of the allocation released to these industries in 1971. High tariffs on non-essential and luxury items also continued.

An array of fiscal incentives was also offered to industries. These included tax relief, depreciation allowances and development rebates on the purchase of plant and machinery. In addition, exporters of manufactured products were given priority in the allocation of exchange for raw material imports and were entitled to a FEEC Premium. A duty rebate of 10 per cent on the value of exports was also given to them.

Pattern of Industrialisation 1960 - 1976

A large number of local businessmen who earned large profits by importing and selling products in the domestic market found that their profitability was seriously affected by the Government's policy of restricting and finally banning imports in the early 1960s. They realised that the best way to make profits was to produce them locally. Thus, a large number of importers of consumer goods varying from food, beverages and tobacco to garments, footwear, leather products and chemical products set up factories during the early 1960's to produce these goods locally. The bulk of such investment came from the trading community which prospered in the 1950s.

The most prominent feature of industrialisation in the early 1960s was the emergence of a large number of

consumer goods industries. The number of medium and large scale industrial units approved increased considerably after 1961. During the period May 1961-December 1962, a total of 287 projects was approved, covering a wide range of goods mainly in the consumer category. There was a sharp increase in the number of industrial units, industrial output and employment in the 1960s. However, most industrial activities were confined to final finishing operations and the assembling of imported ingredients and components. Industrialists in the private sector seeking quick profits found that the light consumer goods industry to be highly profitable as it demanded relatively little capital and technical know-how.

Prior to the 1960s Sri Lanka's industrial activities had mainly been undertaken by state owned enterprises. Although there were a few industrial enterprises in the private sector (e.g. biscuits, aerated water, cigarettes, matches and soap etc.) the spurt of industrialisation did not take place until the early 1960s. Government measures aimed at curbing the importation of many consumer goods and offering various incentives given to private entrepreneurs were responsible for the sharp expansion in the consumer goods oriented industrial activity in the early 1960s. The total ban on a large number of consumer items and high tariff barriers gave industrialists the assurance of a protected market.

The manufacture of food, beverages and tobacco dominated industrial output accounting for more than 1/2 of the industrial production during 1963-1964. The category of textiles, wearing apparel and leather

products and the category of chemicals, petroleum, rubber and plastic products accounted for a little below 1/3 of the output. Non-metallic mineral products and fabricated metal products, accounted for 5 per cent each during the same period. With regard to employment creation, the highest level of employment was recorded in food, beverages and tobacco (38 per cent of the total) during 1963-1964. Textiles, wearing apparel and leather products was the second largest sector of employment during the same period (25 per cent). Rates of growth in output and employment in the industrial sector recorded 35 per cent and 27 per cent respectively during the period 1961-1965.

The system of approval of industries led to a creation of monopolies in industrial activities. In the absence of a competitive market for his products the quality of the products was not the major concern of the manufacturer. These factors, together with tax concessions, created an ideal climate for the growth of industries in the private sector. Industrial activities, however, were considerably curtailed by 1964 due to the shortage of foreign exchange resulting from an increasingly adverse development in the foreign trade and payments.

During the second part of the 1960s there were attempts at revising economic policies pertaining to industry. Policy changes aimed at relaxing restrictions on imports to a certain degree by 1967. These measures had some encouraging effects on output and employment in the industrial sector. Increased imports consequent to the relaxation of imports infused a greater dynamism to industrial activities and this had

a significant impact on the level of industrial development, particularly in the late 1960s. The introduction of the FEECs Scheme which allowed a free flow of certain imports, made possible the increased availability of imported machinery and raw materials in the industrial sector at a more realistic cost. This was the first attempt made to relax restrictions since the introduction of controls in 1961. However, attempts at relaxation of restrictions came to an end in 1970.

The period 1971-1977 saw the re-emergence of a comprehensive system of restrictions, high tariffs and rigid price and foreign exchange controls. Industrial policy was biased towards the public sector. The private sector was hard hit by these developments and their activities began to decline. This resulted in the private sector being technologically less developed and its product range being more limited than in comparable countries. Together with considerable inefficiencies in the public sector, this decline in private sector activity caused the real rate of growth of industrial output to drop to its lowest level by the 1970s. Although the industrial sector expanded rapidly in the initial stage, it had become virtually stagnant by the middle of the 1970s. The poor performance of the industry sector was reflected not only in the slow rate of growth of investment, output and employment but also in the poor quality and high cost of their products.

The structure of industry saw certain changes during the period 1960-1977. The share of food, beverages and tobacco industries which had been the largest category of manufactured output in the

early part of the industrialisation era declined sharply by 1977. Chemicals, petroleum, rubber and plastic products became the largest category of the industrial output during this period. This was due to the commencement of petroleum refinery activity in the late 1960s.

A prominent feature of this protected industrialisation period was the gradual decline in the rate of growth of output and employment, particularly after 1971. Although the period 1961-1965 saw a rapid rate of growth in employment and output this reflects the low base of the initial stage of industrialisation. The period 1971-1976 witnessed the lowest rate of growth in output and employment mainly due to the tightening of controls which were reflected in the deterioration of import-dependent industrial activities. Growth rates for output and employment reached only 8 per cent and 1.6 per cent respectively during 1971-1976.

The low level of capacity utilisation in industry resulting from the rationing of foreign exchange for import of raw materials, was a salient feature in the protected industrialisation period. The heavy dependence of local industries on imported raw materials which had an adverse impact on the utilisation of installed capacity. The share of foreign raw materials to total raw materials was 71 per cent during the period 1970-1976. Thus, the availability of foreign exchange for raw material imports largely determined the level of capacity utilisation in most industries. Capacity utilisation in the manufacturing sector during 1970-77 was only 53 per cent thus resulting in a high

cost of industrial production. Despite the high cost, many of these industries were able to survive, because of the heavy protection given to them. They were not only protected from foreign competition but also from domestic competition through a strict system of granting approval for setting up industries. The end result, however, was substantial inefficiencies and erosion in consumer welfare.

Under-utilisation of capacity in industry was reflected in shortages of a number of critical commodities such as textiles, cement, asbestos sheets, barbed wire, animal and poultry food, safety matches, soap and a number of other consumer goods in the early part of the 1970s. Although the installed capacities of the industries producing these items were sufficient to produce the entire requirement of the country, actual production fell far short of demand levels mainly due to the shortages of imported raw materials.

The quantum of foreign exchange granted to industries was determined as a percent of the allocation released to these industries in 1971. From 1972 onwards the real value of foreign exchange allocations to industries steadily declined due to price increases in the world market. It should be noted that the changes that took place in the world economy after the first oil crisis imposed additional constraints on the availability of foreign exchange. This method of foreign exchange allocation enabled industries producing luxury and semi-luxury items to obtain foreign exchange to meet only a fraction of their production capacities. When import restrictions were later applied to intermediate and capital goods many industries were unable to obtain not only raw materials, but also

inputs such as spares and other capital requirements, resulting in a slow growth in industries substituting imports.

The industries that emerged in the early part of the protected industrialisation period tended to rely almost entirely on the domestic market. The value of exports of manufactures was only 0.1 and 0.2 per cent of the value of industrial production in 1966 and 1967. Foreign firms which were in a more advantageous position compared with local firms had not made a positive contribution to industrial exports. The lack of an export orientation in the manufacturing sector can be explained by the absence of export promotion policies in the early industrialisation era. The Government industrial policy favoured production for the domestic market as against the export market. The expansion of industrial production, however, faced severe constraints such as the limited size of the domestic market. Moreover, the majority of industries had reached saturation point by the late 1960s. Therefore, most existing industries could expand only by promoting exports. Access of new firms to manufacturing was possible only on the prospect of developing export markets.

Industrial exports showed some positive signs for the first time in response to several incentives introduced in the late 1960s. The liberal allocation of foreign exchange for export oriented industries and the high priority given to approvals of export oriented private industries since 1971 clearly show the shift in the emphasis of the industrialisation strategy towards export promotion. In response to this shift the value of industrial exports rose from Rs. 38.4 million in

1970 to Rs. 905.9 million in 1977 at current prices. The value of industrial exports as a percentage of total industrial production rose from 1.9 per cent in 1970 to 12.9 per cent in 1977.

The increase in industrial exports in the early part of the 1970s was due to the entry of new firms into the export sector and the expansion of export activities by existing firms. The growth in manufactured exports can be attributed to the liberal allocation of foreign exchange to service export orders, the duty rebate scheme and the convertible rupee accounts and tax concessions. The biggest attraction, however, had been the special allocation of free foreign exchange for the import of raw materials to process export orders.

However, the increase in exports did not diversify the country's export structure. Industrial exports accounted for only 14 per cent of total exports reflecting the heavy dependence of the economy on the three traditional exports even in 1977. The failure of the industrial sector to account for a substantial share of total export value was largely due to the fact that overall policy was still not in favour of exports. Industrialists found that the home market was more profitable in the face of severe import restrictions. Given the overall industrial policy strategy which discouraged production for exports, the increase in industrial exports in the middle of the 1970s was a noteworthy achievement. Moreover, the investment climate during the period of protected industrialisation was not favourable to the private sector. These factors tended to reduce the rate of growth of the export oriented industrial sector during the pre-1977 period.

The pre-1977 period was characterised by a low level of private investment in the manufacturing sector. The protected industrialisation policy which placed emphasis on the development of large capital intensive industries in the public sector was unable to attract sufficient private investment into the manufacturing sector. The actual private investment in the industrial sector was only 12 per cent of the required annual average investment of Rs. 200 million per year estimated by the Government (Five-Year Plan 1972-1976). The increased state intervention in economic activities particularly during the period 1970-1976 resulted in the poor investment by the private sector. The poor investment climate and the sluggish economy which characterised that period explains the slow growth of the sector.

Private foreign investment played a relatively insignificant role in the protected industrialisation period. Although there were a few foreign subsidiaries [8] of international firms even in the pre-independence era, the bulk of the limited foreign investment which came into the manufacturing sector in the pre-1977 period came during the period 1960-1970. Three product categories namely chemicals, machinery and equipment and food and drink (these three categories accounted for 3/4 of total manufacturing firms with foreign investment) were the main attraction to foreign investors These were the product lines which were subject to severe import restrictions from 1960-1961. In the face of strict import restrictions, multi-nationals began to manufacture items which had been exported earlier in Sri Lanka. Several foreign firms whose market share was relatively small

also responded to the policy of import restrictions or ban by collaborating with local enterprises with a view to increasing their share in the local market. The nature of investments made after 1960 clearly show a very close connection between import restrictions and the inflow of foreign investment.[9] The production activities of the limited amount of "tariff jumping" investment that was attracted during this period was largely confined to the domestic market.

The inflow of foreign investment to the manufacturing sector declined sharply during the period 1970-1977. Product categories which attracted foreign investments during this period were readymade garments, ceramic-ware and wall tiles which were all export oriented.

Policies of Liberalising the Economy

The unsuccessful experience of a policy of protection in developing countries and spectacular growth reported from a few developing countries[10] pursuing an alternative policy strategy led many countries to pursue an export oriented policy. It is claimed that the success of these countries is due to the implementation of the "right" strategy which brought factor prices in line with market forces.

The main objective of the export oriented policy is to achieve a rising share of the world market instead of concentrating on the domestic market. This objective is expected to be achieved through eliminating or minimising distortions in prices in the product and factor market by relying upon market forces. An improvement in economic performance is expected

from improved export promotion. It is argued that the export oriented policy would promote a more efficient and internationally competitive form of industrialisation through making use of comparative advantage and maximising economies of scale. Fast and efficient economic growth is expected through an improved allocation of domestic and foreign resources. This policy strategy aims at attracting private foreign investment by the prospect of higher exports and to take advantage of the country's abundant resources.

As in the case of many developing countries, Sri Lanka too felt that the shortcomings of a policy of protection[11] needed to be corrected. The poor performance of the industrial sector which was characterised by slow growth in output, low levels of employment, poor quality of output, high cost of production, heavy reliance on the domestic market and insufficient investment necessitated a change in the policy towards industry. The government which came to power in 1977 introduced a package of economic policies aimed at removing or relaxing controls in economic activities.

The main objective of the new policy was to achieve a higher level of economic performance by eliminating government interference which had distorted prices in the market. The hall-mark of the policy measures was "promotion"[12] in contrast to "protection". The salient features of this policy strategy were (a) stimulating private sector activities, (b) diverting resources to the export sector by making

exports other than tea, rubber and coconut more attractive, (c) attracting export oriented private foreign investments into export oriented activities.

The policy objectives also included (a) generating greater employment and income opportunities for a growing population, (b) a higher rate of growth in the economy, (c) achieving a progressive improvement in trade and payments, (d) ensuring a more equitable distribution of income and improving the living standards of the people.

Policy Measures of Liberalisation

Most of the quantitative restrictions were removed substituting high tariffs for them in 1977. However, a limited list of items remained under the import licensing scheme. The number of items under the import licence scheme was gradually reduced. Export controls were limited to a few instances. Price controls were removed.

The tariff structure was revised and simplified aiming at reducing high protection levels. However, it was in 1985 that a major revision in tariffs took place, reducing the tariff from 100 per cent to 60 per cent for many items. Textile imports were liberalised only in 1987 with a reduction of duty from 100 per cent to 60 per cent. In early 1991, tariffs on many items were brought down to 50 per cent.

The exchange rate was unified with a devaluation and a managed float was adopted on the basis of underlying market forces. Adjusting the value of our

currency against a foreign currency is meant to help producers to obtain a remunerative price for their exports. Over time, the role of market forces in the determination of the exchange rate has been improved.

The tax structure was revised and simplified. The rates of personal and company taxation were lowered, envisaging an increased role for the private sector. Tax incentives were offered to encourage export industries through foreign as well as local investment.

Steps were taken to restrict the expansion of the public sector industries and to rationalise the operation of existing public enterprises. A program of transferring the ownership of public owned industries to the private sector was initiated in the late 1980s.

The approval requirements for the establishment of new industries by nationals were discontinued in 1990. Production quotas imposed on certain industries as a form of protecting individual industries were removed in 1989.

Specific measures were taken to promote foreign private investment. A number of institutions was also set up to attract investment and promote exports. They included the Greater Colombo Economic Commission (GCEC), the Foreign Investment Advisory Committee (FIAC)[13] and the Export Development Board (EDB). The GCEC and the FIAC institutions were merged to form a "One-Stop Investment Promotion Centre" in 1990, with a view to facilitating and speeding up the process of foreign investment. This was renamed Board of Investment (BOI) in November, 1992. Regulations pertaining to foreign private investment were relaxed and simplified in 1991.

Overall Performance of the Economy

The overall performance of the economy has improved substantially during the period 1977-1991, compared with the period 1971-1976. The GDP in real terms increased at 5.3 per cent during 1977-1991 compared with 2.7 per cent growth during 1971-1976. The higher growth momentum the country experienced since 1978 has however declined during 1987-1989. This was largely due to a substantial decline in economic activities on account of civil disturbance and weather conditions that affected agricultural production adversely. However, a recovery of the economy was evident in the post-1990 period, with a 6 per cent growth in the GDP in 1990.

Although total value added has expanded at a higher rate after 1977, in response to the economic liberalisation policy, there is only a small change in the structure of the GDP. The disaggregation of value added by sectors indicates that the Services sector, which continued to expand during the period 1977-1990, resulting largely from an expansion of trading activities, recorded an increase in its share from 46 per cent in 1975 to 50 per cent of the sector during this period. The agriculture sector experienced a continuous decline in its share from 28 per cent in 1975 to 23 per cent of the GDP in 1990. Agriculture had the lowest growth rate recorded by any sector during this period despite the fact that this sector accounts for more than 1/5th of the total GDP. The share of value added in Mining & Quarrying has shown a marginal increase while that of the Construction sector recorded a decline by 1990. The sectoral structure of GDP indicates only a marginal change in favour of the

Manufacturing sector. The Manufacturing sector, which accounted only for 17 per cent of the GDP by 1990, showed relatively slow expansion, although the sector recorded a rate of growth higher than GDP during the period 1977-1991. This reflects the fact that two sectors, namely Services and Agriculture have dominated the activities of the economy throughout the period upto 1990. This suggests that the economic liberalisation has still not been effective enough to transform the economy from one dominated by the Services and Agriculture sectors into a rapidly industrialising economy following the development trends experienced by the newly industrialised countries in South East Asia in the recent past.

Performance of the Industrial Sector 1977-1992

The manufacturing sector which was severely constrained by the scarcity of raw materials, machinery and spare parts under the controlled regime showed an immediate response to the policy measures of liberalisation introduced in 1977 and thereafter. The unprecedented level of growth in the industry was attributed mainly to the sudden availability of raw materials, machinery and spare parts in industries which had been starved of these essential components before 1977.

The present structure of industrial production reflects the response of industrialists to the package of incentives/protection offered by the Government since 1977. It also indicates the pattern and the level of the exploitation of industrial potential of the country. Industrial production recorded an annual

growth of 8 per cent during 1978-1991. However, this came entirely from private sector industries. Private sector industrial output grew by 16 per cent while, that of the public sector declined by 1 per cent during 1978-1991. The share of the public sector in total industrial output has declined from 64 per cent in 1980 to 25 per cent in 1990 as a result of the reduced production levels of public sector industries and the privatisation of a number of public enterprises after 1988.

Industrial output, which recorded a sudden increase soon after the introduction of economic liberalisation measures in 1977, began to expand at a faster rate during 1989-1991. This was mainly due to the reduction of civil disturbances in the southern part of the country and the improved economic and business environment created by the new policy measures introduced in the second round of economic liberalisation since 1989.

The improved level of industrial production in the post-1977 period was reflected in the increased level of capacity utilisation and creation of new capacity in existing industries as well as the emergence of a large number of new industries. The rate of capacity utilisation in industry rose from 55 per cent in 1974-1977 to 80 per cent in 1988-1991. Textile, wearing apparel and leather industries improved the utilisation of its capacity throughout this period having reached 99 per cent in 1991 from a lower level of 56 per cent in 1976. With the introduction of the 200 garment factory programme by the Government in 1991 installed capacity of the garment

industry is likely to double by 1993. The new products that have been introduced in the latter part of 1980s were largely in the categories of food and beverages, chemical products, non-metallic mineral products and fabricated metal products.

The structure of industrial output indicates that three categories, namely, textiles, wearing apparel and leather products and chemical, petroleum, rubber and plastic products and food, beverages and tobacco accounted for more than 3/4 of the total industrial output in 1992. The most significant change in the structure of industrial output is the rapid increase in the share of textile, wearing apparel and leather products, (which recorded an increase of its share from 24 per cent to 38 per cent during the period 1985 to 1992) due to the rapid expansion of the garment industry resulting largely from the increased capacity utilisation and the creation of new capacities coupled with a successful market penetration. This sector accounted for 1/3 of the total industrial production in 1991.

The share of the food, beverages and tobacco category which accounted for about 1/3 in 1977, declined to 1/4 of total industrial production by 1992. Chemical and petroleum output, which accounted for about 1/3 of total output in 1977, largely due to oil refinery activities, declined to about 1/6 by 1992. This indicates that although the industrial output recorded a rapid expansion, this growth was largely contributed by sectors with low value added such as textiles and garments. High value added sectors such as the food, beverages and tobacco sector have recorded a relatively slow growth.

Manufacturing Value Addition

The value added in manufacturing which grew at 4.3 per cent per year during 1977-1982, continued to expand during 1983-1988 when the economy was affected adversely by civil disturbances, reflecting a high degree of resilience of the sector. The period 1989-1992 witnessed a further expansion of value added in manufacturing, showing a greater ability of the sector to expand under more stable conditions in the economy.

The manufacturing sector comprises export processing of plantation crops, factory industries and other industries including handicrafts. Factory industry has become the main component of value added in manufacturing, accounting for 80 per cent of the total manufacturing value added by 1992. The share of the value added in export processing has declined sharply from 22.6 per cent in 1980 to 11 per cent in 1992, mainly due to the deterioration of the prices of plantation crops during the period. Although the share of value added in the "other" category, particularly small and cottage industries, showed a marginal drop in 1990, the activities in this category have shown an expansion since 1990.

The value added in factory industry which grew at 4.3 per cent per year during 1977-82 continued to expand at a highr rate during 1983-88 when the economy was affected adversely by civil disturbances, reflecting a high degree of resilience of the sector. The period 1989-92 witnessed a further expansion of value added in manufacturing showing a greater ability of the sector to expand under more stable

conditions in the economy. The value added in factory industry recorded an expansion of 8.1 per cent and 11 per cent during 1983-88 and 1989-92 respectively.

Total value added in manufacturing industry in 1992 amounted to Rs. 47,096 million. This as a percentage of value of output, amounted to 37 per cent. Among ratios above 50 per cent included wood and wood products, fabricated metal products, non-metallic mineral products, food, beverages and tobacco, paper and paper products.

Although the growth momentum of the manufacturing sector increased during 1988-1992, this was not adequate to raise its share in the GDP by a substantial amount. This clearly suggests the need for a rapid expansion of industrial production in order to raise the level of value added in the sector.

Export Oriented Industries

Industrial exports recorded a substantial increase in the post-1977 period. The composition of total export earnings of the country shows that the relative share of industrial exports increased from 14 per cent in 1977 to 69 per cent in 1992. The growth in industrial exports was mainly due to the expansion of exports from two product categories, namely ready-made garments and petroleum products, which accounted for about 75 per cent of the total industrial exports in 1990. These two product groups yield a relatively low net foreign exchange gain to the country in view of their high import content. The share of exports of non-metallic mineral products has

increased substantially in the recent past largely due to the increased exports of precious and semi-precious gems and diamonds.

The most significant feature of the structure of industrial exports has been the rapid increase in the share of textiles and garments. The output of the textile and apparel sector recorded the highest export orientation, with exports accounting for over 85 per cent of total production in that category. This sector's share has increased to nearly 2/3 of the total manufacturing exports by 1991. The expansion of garment exports depends heavily on the utilisation of available quotas to the country as the non-quota items account for only about 30 per cent of the total value of garment exports. Higher earnings from quota based garments is determined by the extent of quota utilisation and the move from low value added to high value added items. The performance of the garment industry shows that the quota utilisation has not been satisfactory. Utilisation of the U.S. quota in 1989/1990 was less than 70 per cent. The utilisation rate of the EEC quota in 1990 has also not exceeded 70 per cent. The high rate of under-utilisation of the textile quota, which reflects a wastage of the country's potential in export earnings and employment generation, questions the efficacy of the allocation system that is based on administrative decision making.

The chemicals and petroleum category, which contributed 15 per cent of total industrial exports showed a declining trend in its share over time. The share of petroleum products in total industrial exports declined from 66 per cent in 1977 to 10 per cent

in 1990. The non-metallic mineral products category, which accounts for 11 per cent of total industrial exports, records that more than 1/2 of its total production is exported.

The food, beverages and tobacco category which accounted for 1/4 of the total industrial output, has shown poor export orientation. Ninety per cent of the total production of this sector is confined to the domestic market. The bulk of the output in this category is agro-based. The share of food, beverages and tobacco in total industrial exports has declined since 1982.

Certain industrial products such as ceramics, machinery, electrical appliances and rubber products, have improved their share in total industrial exports, over time.

Earnings from industrial exports indicate an impressive improvement, despite the disappointing feature of their heavy concentration on two products. This raises the question as to why the structure of industrial exports has remained more or less the same during the last one and a half decades. Industrial products which have entered the export markets recently in a small way include rubber products, machinery and electrical appliances, canned fruits and juices, coir products, activated carbon, travel goods, footwear and woven fabrics. The share of these products in overall exports has so far only been marginal. However, an encouraging feature is that these new products, which bring a diversity to the

industrial export structure may have an impact on future export development. The important policy issue here is how these exports can be expanded faster.

Foreign Private Investment

As the export oriented policy expected, foreign private investment (FPI) has played an important role in manufacturing in the post 1977 period given the poor record of inflows of foreign investment into the economy prior to 1977. Number of industrial enterprises with foreign capital participation increased from 70 in 1977 to 209 in 1985. Of these, 74 enterprises had been located in the Investment Promotion Zones (IPZs) or in the areas specified by the GCEC. Setting up of IPZs namely Katunayake, Biyagama and Koggala has become an effective way of attracting export oriented foreign private investment into the industrial sector. The number of enterprises that has signed agreements with the BOI by January 1993 was 352. The total investment involved in these projects amounted to Rs. 38.4 billion of which 68 per cent was foreign. 211 BOI [11] enterprises (excluding FIAC approved enterprises) were in operation by January 1993. Actual investment in these projects as at September 1992 amounted to Rs. 25 billion, of which 52 per cent was foreign.

The pattern of inflow of FPI has shown that Sri Lanka has a comparative edge over other neighbouring countries pursuing similar economic policies, despite her being a late comer to the field. The factors behind the relative success in attracting FPI included creating an economic and political climate conducive

to foreign investors, the availability of a relatively cheap and well educated labour force, textile quotas, infrastructural facilities and the provision of generous fiscal incentives.

The performance of GCEC exports showed an increasing trend. Export earnings rose from Rs. 152 million in 1979 to Rs. 22,093 million in 1991. The share of GCEC and FIAC exports in total industrial exports rose from 7.5 per cent in 1979 to 65 per cent in 1991, indicating the increasing importance of the role of foreign private investment in industrial exports. Total industrial exports accounted for 60 per cent of the country's total exports in 1991.

A salient feature of the GCEC export structure is the decline in the dominance of garment exports. In the initial stage, the bulk of the foreign investors came from South East Asian countries whose industries had been affected by substantial quota restrictions in western markets. The motive of these firms had been to take advantage of the hitherto unutilised Sri Lanka's export quota in the markets of Western Europe and the U. S. A. The share of garment export which was as high as 95 per cent in 1979 has declined to 50 per cent of total export earnings from BOI exports in 1991. This indicates that the GCEC has been effective in diversifying the structure of GCEC exports particularly since late 1980s. This process is expected to be accelerated with the extension of the BOI incentive package to industries that are located in rural areas.

Direct employment opportunities created in the industrial sector by the BOI amounted to 85,457 by the end of 1991, of which 64 per cent

was on account of the textile and garment sector. Non-metallic mineral products, chemical products and food, beverages and tobacco categories accounted for 7 per cent, 6 per cent, and 2 per cent respectively. The majority of the industrial work force fall within the category of unskilled or semi-skilled workers A significant feature of employment creation in the BOI industrial activities has been the large proportion of women who account for more than 75 per cent of total employment.

The bulk of the export oriented FPI has been located in the IPZs and the area specified by the GCEC. At the policy level the important issue was whether the impressive inflow of FPI has resulted in a net benefit to the Sri Lankan economy. This was because of the "enclave" nature of the GCEC activities reflecting the low level of their linkage with the rest of the economy until the latter part of 1980s. However, factors such as extension of the BOI status to a large number of industries located in various parts of the country and the setting up of an IPZ in an under developed rural area (Koggala), are expected to increase linkage effects and advance the domestic industrialisation process in the country.

Industrial Potential

Manufacturing Industry possesses a greater flexibility for growth and employment generation, compared to other sectors. An acceleration of the industrialisation process, therefore, becomes essential if Sri Lanka is to be transformed into a rapidly industrialising economy. However, the sectoral performance shows that the growth performance of

the manufacturing sector has been less impressive compared to the services sector. This strongly suggests that activities in manufacturing have been less attractive to investors vis-a-vis services.

The pattern of Sri Lankan industrialisation during the last one and a half decades indicates that the manufacturing sector has responded to the liberalisation policy in a positive manner, although the rate of industrial expansion was much below the expectation. It was evident that technological capabilities, skills and quality of products have been improved in many product areas due to the increased competition. This was reflected in the increased output, creation of new capacity and the introduction of new products in the industrial sector. However, this process has still not gained a high growth momentum mainly due to the fact that the implementation process of liberalisation measures was slow.

The role of the private sector in the manufacturing sector was clearly reflected in the increased expansion of the private sector industries in the post-1977 period. However, the growth momentum of the private sector industries did not increase to a satisfactory level. This suggests that the economic and business environment that existed in the 1980's could not attract substantial investment, including private foreign investment, into the manufacturing sector. The privatisation of State industries, which was on the policy agenda for more than a decade, was initiated actively only in 1989.

The expansion of the import substitution sector has been constrained by the narrow domestic market. However, this sector which continued to expand, has

improved its competitiveness as evidenced by the improved quality and competitive prices in many product areas such as instant food products, biscuits, confectionery, beverages, milk food, clothing, plastic items, paints and ceramics. There are prospects for further expansion of the import substitution sector given the large volume of imports of consumer and intermediary items flowing into the country.

Our field study revealed that the import substitution sector has begun to expand significantly through household industrial activities in the rural areas, largely as a result of increased credit facilities granted to small producers during the post-1989 period. These industrial activities, which include the manufacture of a large number of consumer items such as clothing and shoes, by imitating imported products have converted many households into small industrial units in the rural areas.

Given the limitation to the expansion of the import substitution sector due to the narrow domestic market, an acceleration of the industrialisation process depends upon the expansion of industrial exports. The performance of industrial exports shows that its base is still small compared to newly industrialised countries. This suggests the urgent necessity for maximising the exploitation of the industrial potential in the existing product areas as well as tapping the growth potential in new product areas. Relaxation and simplification of regulations have already shown a positive impact on the flow of foreign private investment into the manufacturing sector. Recent experience shows that

increased participation of the country in the international division of labour has facilitated the process of exploitation of industrial potential substantially in the country.

Given the present high under-utilisation rates of the textile quota, it is possible to raise the output and value added substantially in the textile and garment sector by infusing market elements into the quota allocation system. This is particularly important since bureaucratic decision making tends to discriminate against efficient producers and will result in a mismatch between the demand and supply of garments. Infusing market elements into the allocation system will not only raise production and export earnings but also help the industry to shift from low value to high value added products in the structure of garment exports. Given the fact that Sri Lanka's labour force is highly literate, and that its wage rates are lower than those of many of our competitors, there is further possibility of attracting and expanding labour intensive industries in the country. A marked upward trend in the inflow of private foreign investment to the industrial sector since 1991 clearly shows the country's increased ability to participate in the international relocation of industries.

It is argued that the new developments in the sphere of technology could erode the comparative advantage in surplus labour economies. This suggests the importance of diversifying industrial exports by shifting from labour intensive products towards more skilled and technology intensive product areas which has already taken place in the newly industrialised countries.

Traditional export crops, namely, tea, rubber and coconut, accounted for 29 per cent of total export earnings in 1990. Value added in the processing of these crops amounted to about 3 per cent of GDP. Exports of tea in 1990 totalled 216 million kgs. 37 per cent of which was exported in bagged and packeted form. In the case of rubber, 75 per cent of rubber production is exported in block and ribbed smoked form. This indicates the prospects for further processing of these products as wall as converting them into more value added items i.e., final products.

During the past 10 years exploitation of certain mineral resources in the country has increased, largely due to the expansion of the construction industry and new industrial projects such as phosphate fertilizer, ceramic ware, mineral sands. Mineral resources accounted for about 3 per cent of GDP and 5 per cent of total export earnings in 1991. Recent surveys reveal that many existing mineral resources are still not exploited. Most of Sri Lanka's valuable minerals are still exported almost in raw or semi-finished state, although processing of minerals and converting processed minerals into final products increases their value to a great extent. What is therefore necessary is to design policies so as to ensure not only the full exploitation of mineral resources but also export them in the higher value added form.

Exploration of mineral resources has revealed that a wide variety of mineral deposits are available for economic use all over the country. These deposits include limestone, dolomite, magnetite,

vein quartz, feldspar, mica, iron ore, graphite, rock phosphate, clays, mineral sands, silica sands and gem stone. The potential of the sea as a source of minerals, is also enormous. Apart from salt, chemicals that can be extracted from sea water include magnesium sulphate, magnesium chloride, calcium sulphate, bromine and iodine. Sri Lanka's maritime boundaries cover an area four times its size and therefore the amount of marine minerals available to the country is allmost limitless.

The process of converting of some of these minerals into final products requires a high level of capital investment, technology and entrepreneurship. Private sector has been allowed to take part in production activities in the mineral sector since late 1980s. However, apart from the development of ceramics products, the expansion in other areas was still limited. Even in the case of the gem sector, where Sri Lanka is endowed with a wide variety of natural stones, they have not been exploited so as to provide the maximum benefits through value-addition and export earnings. Given the vast prospects for exploitation of mineral resources, attempts need to be made to attract foreign investment to supplement local capital, technology and access to export markets.

Conclusion

The emergence and expansion of the industrial sector in Sri Lanka was a direct response to the policy of protection introduced in the early 1960s and replaced by the export oriented policy in 1977 with the change in government. Although the industrial

sector expanded rapidly in the initial stage, it had become virtually stagnant by the middle of the 1970s. The poor performance of the sector was reflected not only in the slow rate of growth, investment, output, exports and employment, but also in the poor quality and high cost of their products. The response of foreign investors to the policy of protection was disappointing. This was mainly due to the fact that the policy of protection dominated by state intervention did not provide a conducive climate for foreign private investment.

The adverse effects of the policy of protection on the industrial sector were expected to be eliminated by the economic liberalisation introduced in 1977. The industrial sector responded quickly to these policies and the rate of growth in output and employment jumped up in the initial stage mainly due to the starved market and under-utilised capacities of existing industries. The industrial sector showed a higher performance in terms of attracting investment, creating new capacities, increasing output and exports and generating employment. Technological capabilities, skills and the quality of products have been improved due to increased competition. Private foreign investment also began to flow into the industrial sector at a higher pace. Although the growth momentum of the industrial sector increased in the post-1977 period, the rate of expansion was much below expectations. In fact, the rate of expansion experienced in the industrial sector has not been adequate to raise its share in the GDP to a substantial level and thereby transform the economy into a rapidly industrialising economy. The delay in gaining

a high growth momentum in the industrialisation process has been mainly due to the fact that the implementation process of liberalisation measures was slow.

Policies have been actively initiated to advance the industrialisation process along the path followed by Newly Industrialised Countries (NIC's) since 1989. The success of this process however depends largely on the extent of the exploitation of the industrial potential in the economy. This will require a greater degree of internationalisation of production and restructuring of industries to be more competitive in the international market. In this process, establishing investor confidence becomes essential and the consistency and transparency of policies will definitely play a decisive role in Sri Lanka's drive for rapid industrialisation.

NOTES

(1) These factories included coir (1934), steel re-rolling (1941), plywood (1941), glass (1944) and ceramics (1944).

(2) The Government passed the Industrial Research Act No. 5 of 1955 and the Development Finance Corporation Act No. 35 of 1955 with a view to providing technical and research facilities and the finance for prospective investors in the private sector. The policy orientation towards the private sector was also reflected in the Government sponsored Corporation Act No. 19 of 1955 which facilitated the gradual transfer of state owned industries to private ownership.

(3) The Singer-Prebisch (Singer : 1950 : ECLA : 1950) thesis which was frequently used to support import substituting as an industrialisation strategy for countries depending on export of primary products and importing of manufactured goods from the metropolitan countries had an influence on the policy makers in Sri Lanka.

(4) For detailed discussion of the economic policies relating to industry in the post independence period. see Karunatilake (1970), Jayawardena (1970), Karunaratne (1973) Balakrisnan (1977) and Vidanapathirana (1985).

(5) The state owned industries that were set up during 1956-59 included Oils and Fats Corporation (1956), National Salt Corporation (1957), Kantalai Sugar Corporation (1957), Mineral

Sands Corporation (1957), National Textile Corporation (1958), National Small Industries Corporation (1958) and the Hard Board Corporation (1959).

(6) These included consumer durables such as all types of automobiles, refrigerators, sewing machines, wrist watches and a large range of foodstuffs.

(7) At the beginning the FEEC rate was fixed at Rs. 44.00 per certificate of a face value of Rs. 100.00. The FEEC rate was raised to Rs. 55.00 per certificate in June 1969 and Rs. 65.00 in 1972. Non-traditional exports came under the FEEC rate while all traditional exports came under the official rate of exchange.

(8) They include Ceylon Match Company (1938), Lever Brothers (Ceylon) Ltd. (1940), Ceylon Oxygen Company Ltd. (1935), Ceylon Tobacco Company (1927).

(9) The manufacturing activities, the foreign investors were involved during this period included the manufacture of sewing machines (1964), pharmaceuticals & cosmetics (1962), pharmaceuticals and toilet articles (1964), brushes (1969), batteries (1969), dry cell batteries (1968), aluminium and local packing (1969), galvanised steel (1969), electrical fans (1961), enamel ware (1964), bulbs (1961), pesticides (1969), rayon and synthetic textiles (1964), sarees and dress materials (1965), motor spares (1969) and scooters and three wheelers (1969).

(10) They include South Korea, Singapore, Taiwan and Hongkong.

(11) The results of the policy of protection in various countries have been evaluated by a number of economists and the weaknesses of this policy are widely discussed. See Little al at: 1970; ECLA, 1964: Sutcliff: 1971. The main results of the experience of this policy have been discussed in several surveys (Hirschman: 1968; Bruton: 1970; Baer; 1972: Diez-Alezandro: 1975; Schmitz: 1984).

(12) For detailed theoretical discussion of this policy see Keesing: 1967; Bhagwati: 1978; Kruger: 1978, and Balassa: 1981.

(13) Incentives offered to Foreign Investment by the GCEC and the FIAC are as follows

	GCEC	FIAC
(A)	Concessions during the life of the project	
(i)	No limits on equity holdings of foreign investors	(i) Maximum foreign equity allowed in general is 49 per cent. This was raised to 100 per cent at a latter stage.
(ii)	Free transfer of shares within or outside Sri Lanka	(ii) Free transfer to foreigners not permitted
(iii)	No tax or exchange control on such transfers	(iii) Subject to exchange control and tax.
(iv)	Dividends of non-resident share ho'ders exempt from any taxes, and remittances of such dividends exempt from exchange control.	(iv) Dividends of non-resident share holders free of tax during tax holiday period. Dividends exempt from exchange control.
(v)	No import duty on machinery, equipment, construction materials and raw materials.	(v) 5 per cent import duty on machinery, equipment, construction materials. Rebate on customs duty on imported raw materials at the point of export of finished products.
(vi)	Such imports and exports exempt from normal import control and exchange control procedures.	(vi) Subject to exchange control and import control regulations.
(vii)	Transfer of capital and proceeds of liquidation exempt from exchange control.	(vii) Subject to exchange contro'.
(B)	During tax holiday period	
(i)	Tax holiday of minimum 2 to maximum 10 years based on (a) employment, (b) net foreign exchange earnings, (c) introduction of new technology, (d) substantial exports to new markets.	(i) Export oriented industries certain import substitution industries as well as hote's are entitled to a five year tax holiday. Quoted public companies undertaking hotel projects, urban development and large scale agricultural projects could enjoy tax holidays up to 10 years.
(ii)	No income tax on renuneration of foreign personnel employed.	(ii) Taxab'e.
(iii)	No tax on royalties.	(iii) 10 per cent tax on royalties.
(iv)	No tax on dividends of resident and non-resident shareholders.	(iv) No taxes

(C) After Tax Holiday

(i)	A further concessionary tax period of up to 15 years. Thereafter, Inland Revenue laws in force will apply.	(i)	Inland revenue laws in force will apply.

A wide range of incentives/concessions offered by the BOI was extended to investors involved in different economic activities including infrastructure development in 1992. For details see BOI (1993).

(14) Greater Colombo Economic Commission was renamed Board of Investment (BOI) in November 1992.

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Statistical Appendix

Table 1

Growth of GDP by Sector of Origin
(at 1982 Constant Market Prices)

	Growth Rates					
Year	Agri-Culture	Mining & Quarrying	Manufac-uring	Construc-tion	Services	G.D.P.
1971-76	0.7	34.7	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
1989-92	1.9	-0.7	7.4	3.4	4.8	4.3

* 1992 Provisional **Source:** Central Bank of Sri Lanka

Statistical Appendix

Table 2

Distribution of GDP by Sector of Origin
(at 1982 Constant Market Prices)
Sectorwise Distribution

	Growth Rates					
Year	Agri-Culture	Mining & Quarrying	Manufact-uring	Construc-tion	Services	G.D.P.
1970	31.2	0.5	17.6	10.2	40.5	100
1975	28.2	1.8	16.0	7.8	46.2	100
1980	26.7	2.4	14.5	9.8	46.5	100
1985	25.9	2.3	14.8	7.4	49.7	100
1990	23.3	3.0	17.4	6.7	49.6	100
1992	21.3	2.4	18.5	6.9	50.9	100

* 1992 Provisional **Source:** Central Bank of Sri Lanka

Statistical Appendix

Table 3

Industrial Value Added 1975-92

(Percentages)				
Year	Export Processing	Factory Industry	Other	Manufacturing
1975	28.2	62.6	9.2	100
1980	22.6	67.9	9.4	100
1985	19.9	66.8	13.3	100
1990	15.7	76.2	8.1	100
1992	11.3	81.0	7.7	100

* 1992 Provisional **Source:** Central Bank of Sri Lanka

Statistical Appendix

Table 4

Industrial Value Added
(Growth Rates)

Year	Export Processing	Factory Industry	Other	Manufacturing
1973-76	-2.4	0.4	74 9	0.5
1977-82	-1.1	4.3	11.1	3.7
1983-88	2.3	8.1	2.7	6.3
1989-92	-2.5	10.8	-3.5	7.4

* 1992 Provisional **Source:** Central Bank of Sri Lanka

Statistical Appendix

Table 5

Industrial Output 1977-92
Growth Rates

Year	Growth Rates
1877-82	5.3
1983-88	7.9
1989-92	10.5

Source: Central Bank of Sri Lanka

* 1992 Provisional

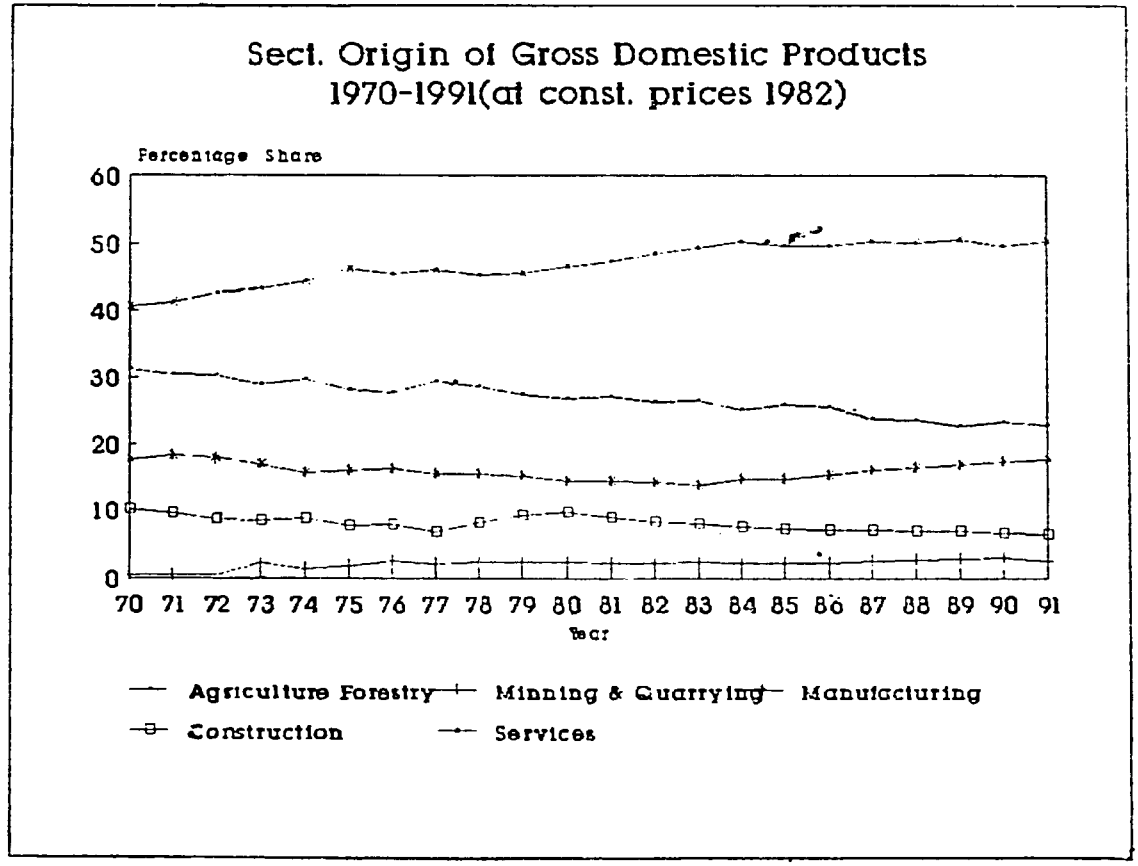
Sect. Origin of Gross Domestic Products
1970-1991(at const. prices 1982)
Percentage Share
60
50
40
30
20
10
0
70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91
Year
Agriculture Forestry
Mining & Quarrying
Manufacturing
Construction
Services

Figure 1.1

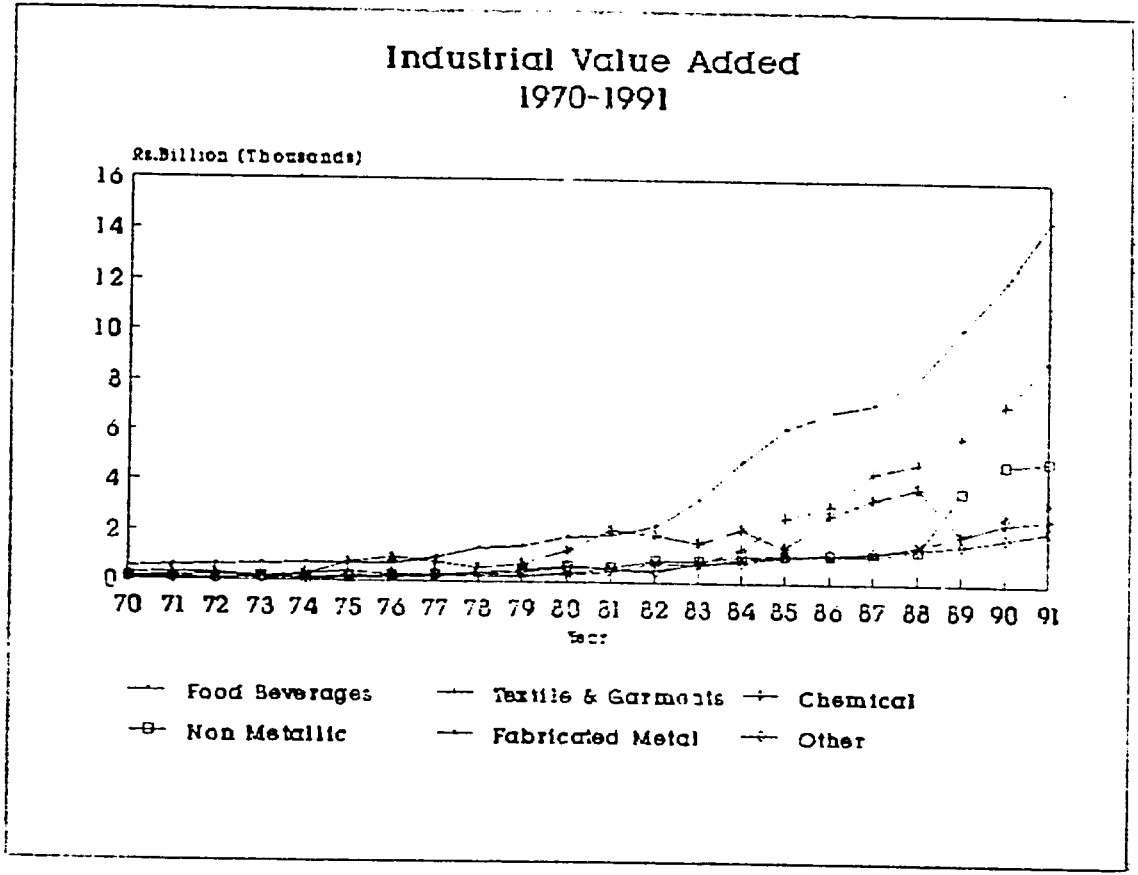

Figure 1.2

PROVIDE PAGE BREAK

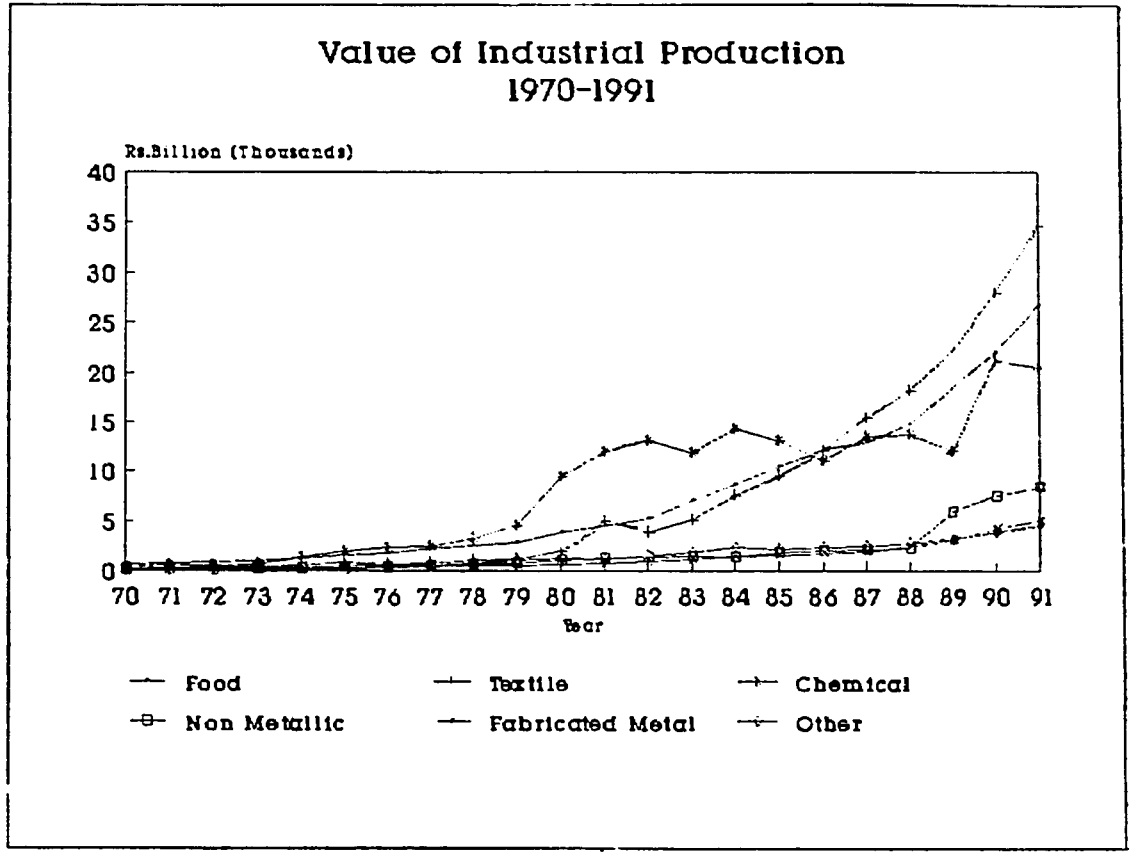

Figure 1.3

PROVIDED FOR BIGAR

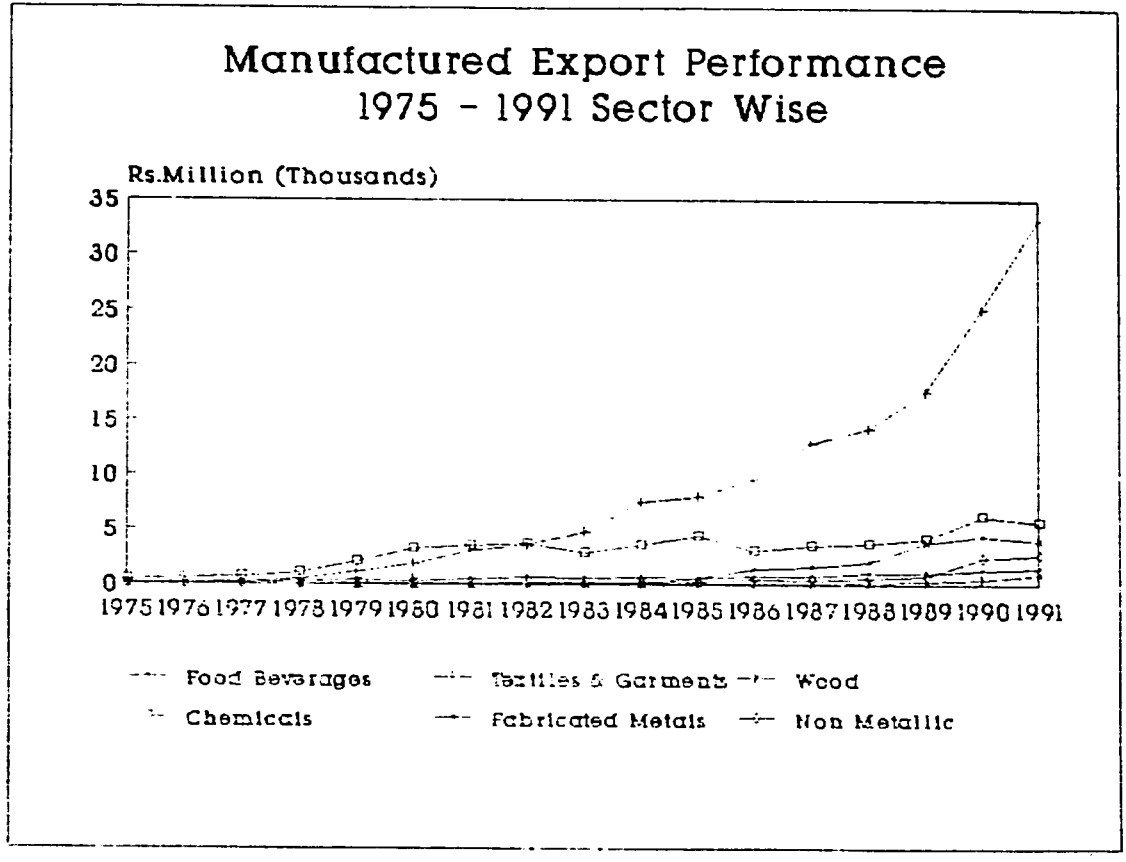
Manufactured Export Performance
1975 - 1991 Sector Wise
Rs.Million (Thousands)
35
30
25
20
15
10
5
0
1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991
Food Beverages
Textiles & Garments
Wood
Chemicals
Fabricated Metals
Non Metallic

Figure 1.4

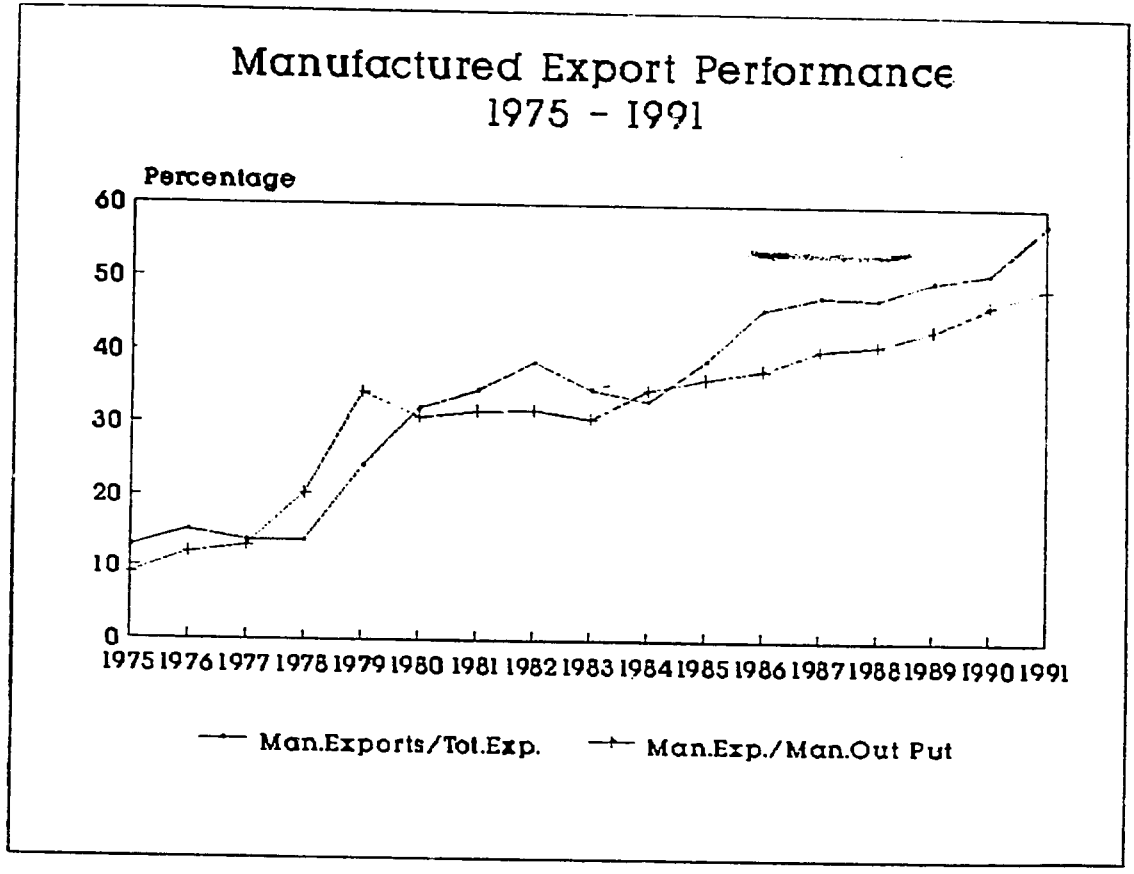
Manufactured Export Performance
1975 - 1991
Percentage
60
50
40
30
20
10
0
1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991
Man.Exports/Tot.Exp.
Man.Exp./Man.Out Put

Figure 1.5

Sri Lanka Economic Association
Office Bearers for 1992/93

President	-	Dr H.N.S. Karunatilake
Vice Presidents	-	Professor B. Hewavitharana Mr V.K. Wickremasinghe Dr M.R.P. Salgado Mr A.S. Jayawardena Dr L.L. Gunaratne
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Assistant Secretary	-	Mr K. Jegarajasingham
Treasurer	-	Mr M.R. Fernando
Assistant Treasurer	-	Dr U. Vidanapathirana
Editor	-	Dr N.L. Sirisena
Assistant Editor	-	Mr T.S.N. Fernando
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