FOREIGN TRADE EXPERIENCE IN THE POST LIBERALISATION PERIOD

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FOREIGN TRADE - EXPERIENCE IN THE POST LIBERALISATION PERIOD

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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.

FOREIGN TRADE: EXPERIENCE IN POST LIBERALISATION PERIOD

Introduction

Since the early 1960s Sri Lanka has experimented with a controlled economic policy regime with varying degrees of controls for nearly two decades. The controlled economic policies failed to address the country's deep-rooted problems of slow growth, unemployment, inflation, and of achieving long-term balance of payments viability. In order to find an effective solution to these problems a program of economic and financial policy reforms was launched in late 1977. These reforms and the subsequent changes made to these policies primarily envisaged an export-led growth through re-orientation of the Sri Lankan economy towards the export sector. This paper examines the performance of the foreign trade sector in Sri Lanka under the liberalized policy set-up and evaluates the successes and failures of these policies.

The first section of the paper provides a brief historical overview of the major policy shifts in Sri Lanka since gaining political independence in 1948. Section 2 examines the meaning of 'export-led growth' and presents briefly the gains arising through a shift from a distorted trade policy regime to a market-oriented or liberalized policy regime. The performance of the foreign trade sector in Sri Lanka after 1977 is reviewed in the third section. This will be followed by a critical evaluation of the performance of the external trade sector and related policies within the broad macro-economic framework. The final section offers some concluding remarks with further thoughts on policies which could be helpful towards strengthening the export-led growth process in Sri Lanka.

2. Historical Back Ground

Sri Lanka, when it gained political independence from Great Britain in 1948, inherited a small agricultural open economy which specialized in the export of a few primary commodities and depended heavily on the import of most of the basic consumer, intermediate and investment goods. The economy was highly sensitive to changing conditions in the rest of the world due to its heavy external dependence particularly due to heavy concentration of its foreign exchange earnings from three major agricultural products viz tea, rubber and coconut. It maintained a relatively open trade and payments environment for about a decade after independence without making concerted effort to improve the structure of its external sector. Meanwhile, the government was able to maintain a liberal trade and payments system while also running a welfare oriented state characterized by large consumer subsidies until end 1950s because of the accumulated foreign exchange reserves during two brief boom periods experienced in the early fifties, viz. improvement in mainly rubber prices in 1950-51 during the Korean war boom and a large improvement in tea prices during 1954-55.

Sri Lanka's external payments position deteriorated sharply after 1957 as the expansionary fiscal policies created so much domestic liquidity that there were large leakages by way of additional imports causing excessive pressure on foreign exchange reserves. As a result, in early 1960s Sri Lanka's international payments situation reached a critical stage and the high and growing demand for imports was suppressed by vigorous controls and rationing of foreign exchange. In 1960, the government enforced a series of controls and regulatory measures to reduce the demand for imports.

The government experimented with the controlled policy regime, with varying degrees of controls, for 18 years without any success. By mid 1960s, it was becoming increasingly apparent that severe controls on imports, coupled with a large over-valued exchange rate, were neither capable of correcting the fundamental imbalance in the country's external account nor solving any of the other major economic problems. An attempt was made in the late 1960s to partially liberalize the economy. Following the devaluation of the sterling in November 1967, the rupee was devalued by 20 per cent to avoid a large misalignment of exchange rates between the Sri Lanka rupee and other currencies. It was also felt that the devaluation would help to correct the large over-valuation of the rupee and would further help to do away with a substantial array of exchange restrictions. A noteworthy change was made in the exchange rate system with the introduction of the Foreign Exchange Entitlement Certificates scheme (FEECs) in May, 1968 when a payment of a margin over the official exchange rate was introduced for transactions involving FEECs which exporters of non-traditional products and most other recipients of foreign exchange were entitled to receive. The depreciated exchange rate was also applicable to non-essential imports and most other foreign payments. With the introduction of the FEECs, mainly with a view to encouraging non-traditional exports, there emerged a dual exchange rate system adding further complications to the already complicated trade and payments system [1]. In addition to FEECs a Convertible Rupee Accounts (CRA) scheme was also introduced to encourage the exports of gems and other non-traditional products whereby CRA holders were able to credit 25 per cent of their export earnings to CRA which could then be used for financing of imports, travel abroad or effecting other foreign payments such as education and training abroad. These changes were accompanied by a partial liberalization of import restrictions. Import of non-essential imports were liberalized and brought under open general licensing. However, this was abandoned in May 1970 and all imports were brought under individual licencing.

A five year development plan for 1972-77 was launched with a view to addressing the above mentioned major economic problems within a framework largely expected to meet the socialist aspirations of the government which came to power in May 1970 [2]. The plan was based on an unrealistic assessment of domestic investment and savings capacity of the economy without adequate incentives and a supportive macro-economic foundation. The plan became a failure owing to weaknesses in the plan itself and to severe resource constraints. It was only another experiment of mixing the same type of instruments within the framework of an inward-looking development strategy without making any attempt to free the economy from severe direct and indirect controls.

Eventually it was realized that although various incentives had been offered to encourage non-traditional exports and diversify exports, there were large inconsistencies and weaknesses in the policies and that the strengthening of the balance of payments position required more fundamental changes in the structure of the trade and payments system, prices and incentives. Therefore, the Government which came to power in 1977 announced a series of policy reforms in November, 1977 [3]. These measures represented a substantial policy initiative to free the economy from excessive administrative controls and to improve the allocative efficiency of resources in the economy by greater private sector participation in economic activities, particularly in activities which are geared towards the promotion of exports.

The economic liberalization measures which were implemented during late 1977 and thereafter included the following:

(a) Trade policy reforms:

- Elimination of quantitative restrictions on imports.
- Termination of public monopoly on the import of a number of imported commodities [4].
- Removal of licensing requirements for most imports [5].

- Reduction of tariffs and rationalization of the tariff structure [6].
- Removal of export licencing requirement
- Export duty revisions

(b) Liberalization of exchange controls and restrictions on most current transactions [7].

(c) Devaluation of the rupee, unification of the exchange rate and adoption of a managed floating system.

(d) Removal of price controls except for a few essential commodities and restructuring of subsidy schemes.

(e) Interest rate reforms

(f) Establishment of Free Trade Zones (FTZ) and offshore banking facilities.

It is outside the scope of this paper to discuss each of these policies separately in detail. As indicated earlier the prime objective of these policy changes has been to pave the way for a greater outward-orientation and an export-led growth.

An export oriented development strategy was preferred because it was recognized that a small country like Sri Lanka cannot target a faster rate of economic growth without greater integration with the world economy and that effective penetration into export markets is necessary to ensure a steady flow of foreign exchange resources into the country in order to pay for the required imports on a sustainable basis and to service external debt. Export growth requires efficient and competitive cost conditions which need to be accompanied by macro-economic stability and an appropriate exchange rate policy. Such conditions are also necessary for the maintenance of an efficient import-substitution sector.

It is sometimes, argued that although economic liberalization in Sri Lanka has brought about a number of beneficial effects, particularly in terms of improving economic efficiency and higher economic growth and employment, a *sufficient* re-orientation of the economy towards the export sector has not taken place [8]. It is also questionable whether Sri Lanka has experienced an adequate export-led growth after the 1977 policy reforms. It is also said that the growth of Sri Lanka's export volume lags behind those of her major competitors and that efforts to diversify, both in terms of products and markets, have not made significant progress. It can also be questioned whether an efficient import-substitution sector has emerged after trade liberalization. Some of these issues are discussed in detail in the remaining sections of this paper.

3. Economic Liberalization, Foreign Trade and Economic Growth.

Economic liberalization is a wider concept which includes the changes in domestic and external sector policies towards increased market orientation of all types of economic activities. Changes in trade, payments and exchange rate policies are directed towards greater outward-orientation of the economy, Although a development strategy characterized by this feature is sometimes identified as an export-led growth strategy such a development strategy does not mean only an export expansion. Economic liberalization envisages neutrality in the incentive structure for all producing sectors, whether they be import substitution or export promotion. In essence an outward-oriented strategy is neither a discrimination in favour of exports nor bias against import substitution.

An outward oriented development strategy therefore, aims at an efficient export sector as well as a similarly efficient import-substitution sector. Outward oriented policies favour regulation of trade flows through tariff rather than through quantitative controls, lower tariffs rather than higher tariffs, a unified or non-discriminatory exchange rate system which gives equal incentives to producers of both exports and import substitutes rather than a multiple exchange rate system, and a payments system free of controls. It is widely accepted that given various other constraints the liberal economic and financial policies help countries to come closer to optimal allocation of resources and acclerate their rate of economic growth [9]. A liberalized policy set-up, therefore, contributes to economic growth not only due to its favourable effects on real exports, but also due to the fact that it helps to maintain an efficient import-substitution sector.

A shift from an inward-oriented development strategy to an outward oriented strategy has favourable consumption and production effects. While a larger basket of goods and services for consumption will be available with liberalization of trade and payments controls, the economy will be able not only to maintain a high level of consumption (standard of living) but also to increase its consumption possibilities further by favourable production effects associated with the correction of price and non-price distortions affecting factor and product markets. Provided stable macro-economic policies are in place, the economy under a liberalized atmosphere should be able to venture into activities in which it has a comparative advantage. This will eventually expand the productive capacity of the economy, particulary in favour of goods in which it has a comparative advantage.

When a country shifts from a controlled economic policy regime to a liberalized policy setting there will be significant adjustments in both the production and consumption bundles of the nation. The trade gap widens with the expansion of trade after the correction of distortions. If the imported goods are not inferior there will be, at least during the initial years, a contraction of the import substitution sector and an increase in the inflow of imported goods. Therefore, the growth rate of the economy is expected to be driven by an export expansion until efficient import substitution industries are in place. Profitable export industries will attract additional investments both foreign and local. Expanding exports also encourage new investments in ancillary industries to cater to the export sector, thereby generating additional incomes. However, the sustainability of this growth process will depend on the strength of the supportive policies and the speed of response from the export sector. The ideal situation would be that during the adjustment process that there is an increase in the domestic value added component in the exports and import-substitution sectors and conversely a reduction in the import content in the two sectors. This will be reflected in a reduction in the trade gap as a ratio to Gross Domestic Product (GDP.)

Increased capital flows, of course, are part and parcel of economic liberalization. However, the presence of capital flows would not make any change in the above analysis except that provided the right macro-economic policies are in place the country will have more resources for investment without tightening its belt. However, increased capital flows could unwarrantedly delay the required adjustments in macroeconomic policies, particularly in the exchange rate thereby offsetting the incentives for export expansion while helping to maintain an artificially high consumption level. Sri Lanka's experience over the last thirteen years is a clear example to illustrate how slippages in macro-economic policies and continuance of sectoral policy biases have become serious impediments to export-led growth. There were also exogenous factors which constrained the envisaged export-led growth process in Sri Lanka.

4. Performance of the Foreign Trade Sector after Economic Liberalization.

4.1 Export Trends

With the implementation of the liberalized policy package, Sri Lanka was able to remove most of the distortions and create a conducive environment for export expansion. As expected, the relaxation of trade and payments controls and the shift into a unified exchange rate system helped to change the terms of trade in favour of exports and generate a reasonably high rate of growth in exports during the first few years after liberalization (Table 1).

The positive effects of trade liberalization on exports was evident in a quick upsurge in exports of industrial products. While the overal export volume index increased at an annual average rate of 25.6 per cent during the first three years after liberalization as against a virtually stagnant export volume index during the controlled policy regime, the export volume of industrial exports excluding petroleum products grew by 57 per cent per annum during those three years. The value of exports in this category rose from U.S. 39 million in 1977 to U.S.$ 171 million in 1980 (Table 2). As shown in the Table, all major categories of industrial products responded very positively to the improved incentive structure. Exports of ready made garments, activated carbon, electrical and mechanical appliances, ceramic products, leather products etc. gained momentum with the new policy set-up.

Although the favourable prices for the three major plantation products - tea, rubber and coconut that prevailed during 1977-79 period, among other factors, provided a helping hand to carry out the trade and payments liberalization measures, the performance of these crops has been rather disheartening. Similarly, other agricultural products did not show much dynamism after liberalization. The volume of agricultural exports dropped by 5.8 per cent per annum during the 1978-80 period.

Exports of mineral products which include gems declined in volume terms while stagnating around U.S.$ 40-41 million during this period. The export volume of gems declined by 43 per cent between 1978 and 1980. The state owned Gem Corporation continued to exercise supervisory power on gem exports by the private sector through the continuation of the licensing requirement for gem exports.

There was a slowing down of the export growth rate during the next seven years. Industrial exports continued to move along the same path with some stagnation in 1985. The volume of industrial exports excluding petroleum products rose by 20.4 per cent per annum during 1980-88 period. Exports by Free Trade Zone enterprises became increasingly important and their share in total industrial exports excluding petroleum products increased from 16 per cent in 1980 to 46 per cent by 1988. The growth rate of industrial exports decelerated to 2.2 per cent in 1985. Plantation products other agricultural products and mineral products showed mixed fortunes during the seven years since 1980. However, their overall performance was relatively unsatisfactory. Agricultural products, without showing any dynamism in the export structure, stagnated and export earnings from this source fluctuated depending on price movements in international markets[10] The volume of agricultural exports rose at an annual average rate of 2.1 per cent during the period 1980-88 largely due to the growth in non-plantation products.

There were several external and domestic factors which retarded the growth rate of exports in general during the period after liberalization.

They are:

(a) Appreciation of the real effective exchange rate in the wake of high inflation stemming from large and continuing fiscal imbalances.

(b) Inefficiency in state managed enterprises.

(c) Policy discrimination against plantation products vis-a-vis other export products.

(d) Differential tax treatment or incentives among products within the same export sector (within the plantation sector and within the non-traditional export sector).

(e) General deterioration of the investment climate due to the eruption of civil disturbances since 1983.

(f) Restrictive trade practices adopted by industrial countries.

While some of these problems are being addressed in the context of on going structural adjustment efforts much remain to be done in order to move Sri Lanka on to a sustainable export growth path. The export growth rate recovered from 2 per cent in 1989 to 16.5 per cent in 1990. The growth rate of export volume declined to 4.2 per cent in 1991 due to the set-back in agricultural exports. Meanwhile exports have shown favourable response to improved domestic conditions and some improvement in the incentive structure during the last two years. The volume of industrial products grew by 21 per cent in 1990 and further by 11 per cent in 1991. Between 1988 and 1991 the value of industrial exports excluding petroleum products rose by more than U. S. 500 million which is a significant achievement (Table 2). The export volume of agricultural products also recovered significantly and also benefitted by an up-turn in tea prices in 1990. However, agricultural exports declined in volume terms by 4.5 per cent in 1991. Total exports in U.S. dollar terms rose by 11.4 per cent during the last three years, as compared with an average annual growth rate of 4.1 per cent during the 1980-88 period. Strengthening of structural adjustment measures, especially the correction of a large misalignment in the exchange rate, and the improvement in domestic conditions were primarily responsible for the high growth in exports during the last two years. However, one cannot be complacent with the achievements on the export front, as Sri Lanka's export sector is still very weak.

4.2 Export Performance in Relation to GDP

Exports to GDP ratio, which rose from 18 per cent in 1977 to 31 in 1978, largely due to favourable price movements for Sri Lanka's major agricultural commodities, had been on a declining trend since then up to 1986. Exports to GDP ratio in 1986 was 19 per cent. It reflected some upward movement during the tea price boom in 1984. There has been a gradual increase in the ratio since 1987. However the exports to GDP ratio was still at 22.5 per cent in 1991, which was slightly higher than the level that prevailed in 1977. While exports to GDP ratio has risen from 18.2 per cent in 1977 to 22.5 per cent by 1991, imports to GDP ratio has risen from 16.5 per cent to 33.7 per cent during those two years, implying a widening of the trade gap by 12.9 per cent during this period.

On the whole, the proportion of exports to GDP has risen during the period after 1977. In contrast the proportion of the import-substitution sector which has been approximated for the purpose of this study by taking the real consumption of domestically produced goods and services from national accounts data, has remained virtually unchanged for a considerable period during the last fifteen years upto 1991.

It may be worthwhile to examine some of the other indicators of Sri Lanka's export performance prior to an analysis of the extent of export-led growth and a detailed examination of the more fundamental impediments to export growth in Sri Lanka.

4.3 Products Diversification of Exports

The above review of Sri Lanka's export growth after liberalization over the last thirteen years revealed that there has been a significant expansion in non-traditional or industrial exports with a stagnating plantation crops sector. It is sometimes said that although there has been decline in the concentration of exports of a few primary commodities like Tea, Rubber and Coconut, exports are now concentrated largely on one or two industrial products, primarily the exports of ready made garments. However, a number of other industrial products falling into major categories such as (a) food and beverages, (b) leather, rubber and ceramic products, (c) processed diamonds, (d) electronics and mechanical appliances etc. have gained some momentum. In order to see the degree of diversification of exports, a diversification index based on the Gini-Hirschman concentration co-efficient was estimated[11]. According to this index, much of the product diversification, took place within the initial five years after liberalization. Indicating an improvement in the product diversification the index moved from .437 in 1977 to .597 by 1982. With the improvement in tea prices in 1983-84 the diversification index declined and recovered after 1986 and remained static thereafter. The product diversification index in 1990 was .574. Market diversification of Sri Lanka's exports after liberalization has not shown any improvement during the last thirteen years. Meanwhile, three major markets, namely the U.S.A. Germany and Benelux have become particularly important for Sri Lanka's exports after 1977 mainly reflecting the increased volume of ready - made garments to the first two markets, and processed diamonds in the latter (Table 4).

4.4 World Export Market Shares

Sri Lanka's export market share in total world exports declined by 10 per cent between 1977 and 1990. The export market share of the Asian Newly Industrialized Countries (Hong Kong, Korea, Singapore and Taiwan) increased by 135 per cent during this period while that of Malaysia and Thailand increased by 61 and 128 per cent respectively during this period (Table 5). With the exception of a few years when Sri Lanka experienced commodity price booms, her total market share has been fluctuating with a downward trend. Although in 1990 Sri Lanka was able to recapture its market share by about 13 percentage points, in terms of market penetration her export performance has been far below expectations,

4.5 Import Trends

As expected there was an acceleration of the growth rate of imports immediately following the introduction of the liberalised policy package in 1977. Imports which had shown a negative growth rate (0.4%) during the 1974-77 period rose by 45 per cent in US dollar terms, during the first five years after liberalization. While there was a normal growth in imports, a larger portion of the import growth took place to meet the pent-up demand. There were four major reasons for the sudden surge in imports during the initial years after liberalization, viz; (a) to meet the pent-up demand as mentioned earlier, [b] import requirements of the ambitious investment programs undertaken by the government, particularly the capital intensive accelerated Mahaweli Programme, (c) imports becoming relatively cheaper with the appreciation of the rupee due to slow adjustment in the nominal exchange rate in the wake of increased domestic inflationary pressure associated with bank financing of large fiscal deficits and (d) the rise in import prices.

During the first five years after liberalization all major categories of imports expanded significantly. While consumer goods imports rose at the annual average rate of 23.3 per cent, in U.S. dollar terms, imports of durable consumer goods increased by 80-122 per cent. Imports of intermediate and investment goods rose by 59.2 per cent and 80.3 per cent, respectively during the period 1977-80. Therefore, as mentioned in an earlier section a larger volume of goods and services was available to the economy after liberalization. The import prices continued to be unfavorable for Sri Lanka. Between 1977 and 1980, on an annual average basis, import prices increased by 29 per cent. in U. S. dollar terms. The second oil price rise in 1978/79 was primarily responsible for the large increase in import prices during this period.

Although, the compositional change in imports in favour of development orinted goods, i.e. intermediate and investment goods, was a favourable develop ment, the pressure on external assets and the balance of payments became unsustainable in the early 1980s. While a larger portion of the import bill was met out of concessional official financial assistance, several commercial borrowings were made in order to supplement foreign exchange reserves. Although the conditions of the international financial markets were not conducive to such borrowing, the authorities were compelled to borrow abroad at exorbitant interest rates. The slowing down of the export growth rate and these market borrowings aggravated the balance of payment difficulties in early 1990s. When the trade deficit rose to record high levels of over U. S dollars 980 million in 1980, several fiscal and monetary policy measures were introduced to reduce the growth rate of imports. These policies included the curtailment of capital expenditures, withdrawal of the lump-sum depreciation facility and imposition of selective credit controls. These policy measures temporarily helped to reduce the import demand.

However, no specific action was taken on the exchange rate front, perhaps due to the fact that an accelerated depreciation of the rupee would have aggravated the problem of high domestic inflation.

Notwithstanding these measures, the trade deficit remained excessively high (over U.S. dollars 800 million) during the four years since 1980.

The import growth rate decelerated significantly during the next seven years. This was due to both the reduction in import volume and slow growth in import prices. Import prices grew by less than 2 per cent on an annual average basis during 1980-88. While the value of consumer goods and intermediate goods increased by an annual average rate of 3 per cent and 1.4 per cent respectively, investment goods imports dropped by 3.2 per cent. The reduction in imports was brought about by several factors, namely (a) the completion of heavy investment programmes, (b) the larger nominal depreciation of the rupee after 1985, (c) smaller increase in import prices and (d) the slow growth in economic activities particularly after 1983 with the escalation of ethnic disturbances and civil disturbances in the rest of the economy. The value of total imports grew by only 1.1 per cent per annum during the period 1980-88.

Reflecting the improvement in domestic conditions and the normalization of economic activities in many parts of the island, the import growth rate registered an increase during the last three years. The consumer goods, intermediate goods and investment goods rose by 7.4 per cent, 9.5 per cent and 23.8 per cent respectively, per annum during the last three years. Overall imports have risen by 11.1 per cent per annum during this period. In the wake of inadequate export growth, high growth in imports has again expanded the trade deficit from U.S.

dollars 667 million in 1989 to U.S. dollars 1,022 million in 1991. A large portion of the increased imports was financed out of the balance of payment support loans received from the IMF, the World Bank, the ADB and Japan. However, without a fundamental improvement in the export sector, the maintenance of the balance of payments viability in the medium term could be a challenging task. Structural adjustment measures are currently underway to address the external sector issue and other aspects relating to the overall growth performance of the economy.

4.6 Terms of Trade

Taking the 1977-91 period as a whole, the terms of trade had been more unfavorable during the period after economic liberalization than in the pre-liberalisation period (1970-77). The import prices had increased at an annual average rate of 8.2 per cent as against a 1.9 per cent growth in the export prices. Consequently, the term of trade deteriorated by 5.8 per cent during this period as compared with 0.6 per cent deterioration during the pre-liberalisation period. Despite a significant diversification of export and import trade, the behaviour of the terms of trade has been a dominant influence on the performance of the trade account even after economic liberalization. It is clear from Table 10 that the large trade deficits are mostly associated with large deterioration of the terms of trade. The years, 1980, 1981, 1985 and 1986 had shown the largest decline in the terms of trade index. The decline in 1985 and 1986 was after a significant improvement in the terms of trade, by 22 per cent each in 1983 and 1984.

4.7 Import Substitution

The liberalisation process was accompanied by a massive investment programme, the accelerated Mahaweli Programme. In addition to the primary objective of increasing the hydro electric capacity of the country, a key objective of this programme had been the expansion of domestic agricultural output. While the liberal economic policies enabled the authorities to mobilize a considerable volume of foreign assistance for this massive development programme, foreign financial assistance was also available to develop the agricultural sector in general. An attempt was made in this paper to identify the extent of import substitution in the paddy sector and the associated cost saving (Table 9). The cost of actual imports were compared with the imported cost of imports had there been no import-substitution. As shown in Table 9 there has been a cost saving of U.S. dollars 2.9 billion due to reduced import demand (increased domestic production) of rice during the period 1978-91 as compared with U.S. dollar 0.3 billion during the period 1970-77. The ratio of actual imports of rice to total rice requirements has declined from 83 per cent in 1977 to 12.7 per cent in 1991, indicating a significant achievement in the area of import substitution in rice (see also Chart 1). A further analysis of the relative contribution of the import - substitution sector is undertaken separately in a later section of this paper.

5 Evaluation of the Export Performance and Policies

5.1 Exports and Economic Growth

Despite some of the weaknesses in the performance of exports during the period after the major policy shifts in 1977 there is enough evidence to show that export expansion has had a significant impact on economic growth in Sri Lanka during this period. The available case studies on the export-led growth hypothesis for other countries have often attempted to examine whether the contemporaneous and lagged export growth has significantly contributed to output growth. For example, Feder (1983) found that there is a positive correlation between export growth and growth of GNP and that export-oriented policies have led to an optimal allocation of resources and resulted in an improvement in productivity. On the other hand, Michaely (1977) argued that exports are essentially a component of national product and that regressing real export growth rate on the growth rate of the economy would inevitably result in a positive correlation of the two variables[12]. He found a strong relationship between the economic growth rate and the growth of export share of GDP among more developed countries but not among least developed countries, and concluded that export growth influences economic growth only after countries have achieved some minimum level of development. In some studies the growth rate of aggregate output has been correlated with an explanatory variable derived as the product of export shares in GDP and the growth rate of real exports[13]. The latter includes some measure of the degree of openness of an economy. There are also methods developed to examine the causality between variables such as the Granger-Sims causality test which examines whether over time a particular variable precedes another[14]. This paper deploys first method to test whether exports have had a statistically significant impact on the growth of real GDP after the policy reforms in 1977. The economic growth process, however, is more complex and in order to quantify precisely the contribution of exports to economic growth, a comprehensive structural model is needed which has not been attempted in this paper.

The results of regressing (OLS) current and lagged values of growth rate of real exports (GX) and the growth in real consumption of I-S products on growth rates of real GDP (G) for the period 1978 to 1990 are given in Table 11. The growth rate of the economy was largely affected by the escalation of domestic disturbances in 1987, 1988 with spill-over effects into 1989. It has been assumed that the impact of these disturbances had a similar impact on both export activities and activities in the I-S sector. This, in fact, is a valid assumption and the need to take account of this factor separately in the growth equation is conveniently avoided.

The estimated equations indicate that there is a statistically significant positive relationship between the economic growth and the real growth rates of both the exports and import-substitution sector. In all estimated equations the coefficient for the current growth rate in export volume and the consumption of substitution products were statistically significant. According to Eq 7, which is the best in terms of goodness of fit, the coefficient for export growth is significant at 2 per cent level while the coefficient for import-substitution is significant at 1 per cent level. The multiple correlation coefficient adjusted for the degrees of freedom in Eq 7 is 0.73 which is reasonably high considering the fact that the regressions were run using the growth rate format. The null hypothesis that all estimated coefficients of the regression are zero is rejected according to the F-statistic. According to the estimated coefficients real growth in the I-S sector had a larger impact on the growth rate of the economy, For example a 10 per cent growth in real consumption of import-substitution products increases the economic growth rate by 3.6 per cent while an equivalent growth in real exports in the current year increases the economic growth rate by 0.55 per cent.

The above finding can be justified on several grounds. As explained earlier the stagnation of the agricultural products (both plantation crops and other agricultural exports) implies that the exports of products which could have contributed more to domestic value added have not grown during this period. For example, the proportion of agricultural exports to GDP has dropped from 23 per cent in 1978 to 8.7 per cent by 1990. In the meantime, the larger share of the growth in industrial exports is attributable to the increased exports by FTZ enterprises where the domestic value addition is estimated to be less than 15 per cent. On the other hand, the import-substitution sector continued to be the dominant sector in the economy accounting for about 60 per cent of the GDP during this period. These three factors taken together explains the relatively smaller contribution of exports to the economic growth rate in Sri Lanka during the sample period. On the basis of the estimated coefficients, the export sector with an annual average growth rate of 15.7 per cent has increased the GDP growth rate by 0.9 per cent annually after the 1977 policy reforms. Subject to the weaknesses in this simple analysis the export generated economic growth in 1990 was 1.43 per cent out of the 6.2 per cent average growth rate. Therefore, although the positive effect of export growth on the overall economic growth rate is not refuted, the overall growth rate of the economy has been, largely influenced by the growth in import-substitution activities.

5.2 Determinants of Export Growth and Policies

The long-run export growth as well as the overall growth in the economy largely depends on the ability to maintain a reasonable macro-economic balance and appropriate exchange rate system. There were large inconsistencies in the macro-economic policies followed by Sri Lanka even after the introduction of the liberalized policy package in 1977. Although the government was expected to play a minimal role in economic activities under the liberalized policy set-up, heavy investment projects undertaken by the government created excessive pressure on budgetary resources leading to large fiscal imbalances.

Sri Lanka's macro-economic situation registered the worst imbalance by 1980 when the government budget reflected a deficit of 23.1 per cent from 13.8 per cent in 1978 (Table 12). In 1980 the investment GDP ratio was 33.8 per cent as compared with 16.3 per cent in 1978. Although, private sector activities were picking up, particularly in exports, the sudden jump in the investment to GDP ratio was largely attributed to heavy investment projects undertaken by the Government. The capital expenditure of the government rose from 12.4 per cent of GDP in 1978 to 19.3 per cent in 1980. The average inflation rate, according to the Colombo Consumers' Price Index (CCPI) rose to 26.2 per cent from 12.1 per cent in 1978. In the absence of compensatory adjustments in the nominal exchange rate, there was a large erosion of export profitability and cost-price competitiveness for Sri Lankan products. However, without attacking the root cause emanating from the budgetary operations, depreciation of the exchange rate alone at that time could not have been very effective. Several expenditure reducing measures were introduced in early 1981 to ease the excessive pressures on prices and the balance of payments, including the imposition of selective credit controls. While some improvement was seen in the macro-economic picture after these policy measures, the large fiscal deficits financed by expansionary policies exerted heavy pressure on prices and the exchange rate during most of the past thirteen year period (Table 13). The problems of macro-economic management became more complicated after 1983 with the increase in defense expenditures.

Sri Lanka's real effective exchange rate, on an annual average basis appreciated continuously from 1980 to 1984 causing a substantial deceleration of the export growth rate. Although the rupee continued to depreciate against the U. S. $. the intervention currency, the marginal nominal depreciation against the U. S. $. was not sufficient to compensate for the adverse spill over effect of the internationally overvalued dollar and high domestic inflation. While the depreciation of the dollar against other key currencies after 1985 helped Sri Lanka to experience some automatic correction in the misaligned exchange rates during the subsequent period the expansionary fiscal policies have been a continuing threat to macro-economic stability thereby hindering the export-led growth process. Overall real effective exchange rate with export competitors had remained appreciated for nine years of the thirteen year period considered in this paper. While the maintenance of a better fiscal balance is a must to enhance the export-led growth process, and if the fiscal constraints are given slow adjustment in the other areas could easily slow-down the rate of export expansion.

As mentioned earlier, the presence of large official capital flows which amounted to 7.5 per cent of GDP on an annual average basis during 1978-90 enabled Sri Lanka to maintain an appreciated exchange rate, although it was not a valid justification to support an appreciated rate in a country like Sri Lanka.

Although liberalization measures helped to largely reduce the distortions that existed in the previous policy regime, the incentive structure continued to be discriminatory. For example, leaving aside the problems of financial management in the state owned plantations sector, there has been a policy bias against plantation products. This has been due to the heavy dependence on this sector for revenue purposes. The nominal effective exchange rate (defined as the amount of Rupees received per dollar earned after incorporating the direct effect of export taxes and subsidies including the subsidy element of Central Bank refinanced Credit) was much lower for the three plantation products than for non-traditional experts excluding exports by FTZ enterprises. For example, the nominal effective exchange rate for plantation products was only 50 per cent of that for the non - traditional sector in 1978. Subsequent lowering of export taxes for plantation crops and increases in the refinance interest rates have narrowed-down the difference to 10 per cent. Movements of the real effective exchange rates indicate similar trends. Any deviation in the trends between the nominal effective exchange rates and the real effective exchange rates is due to cost-differentials in the two sectors. While the policy incentives between the two sectors have been moving towards convergence, the unsatisfactory performance of the plantation sector can be linked to the inefficiency of the state controlled plantations. With the exception of a few years realized producer margins for tea and rubber have eroded due to the high cost of operations.

More recently, the government has given serious thought to improve the operational efficiency of the plantations sector by handing over the management to private companies. Designing a mechanism for improving operational efficiency under a framework of partial privatization, viz privatized management without ownership is a challenging task[15]. Two major issues that need to be addressed will be (a) deciding on who bears the accumulated large financial liabilities associated with past inefficiencies and (b) the tackling of labour union issues. There are a number of related issues, a discussion of which is outside the scope of this paper.

The benefits of economic liberalization did not spill over to the plantation sector largely due to inherent inefficiencies in the public sector management. As discussed earlier the stagnation in plantations exports exerted downward pressure on the overall growth rate of exports and veiled the positive contribution of non-traditional exports made to GDP. Although the relative importance of the traditional plantation products has declined from 72 per cent in 1977 to 27 per cent in 1991, efficiency of operations of this sector need to be restored if Sri Lanka is to regain its world market shares for these products, particularly in view of the fact that Sri Lanka's balance of payments as well as the entire economy depend heavily on this sector. Despite a considerable growth in non-traditional exports, the large overall deficits or surpluses in the balance of payments are still determined by the behavior of the traditional plantation products, particularly tea.

As indicated in section IV there are large disparities in the incentives among products within the broad product groups, namely traditional and non-traditional. For example, nominal effective exchange rates (calculated to compare profitability trends) varied among the three major plantation products. For example, in comparison to tea and coconut, the rubber sector appears to be taxed at a higher rate. In 1980 the nominal effective exchange rate for rubber was only 69 per cent of that for tea and 65.3 of that for coconut. These differences in the policy effects have narrowed-down over the last few years. In 1990, the nominal effective exchange rate for rubber was 80 per cent of that for tea and coconut. The relevant real exchange rates for export profitability are given in Table 14.

The incentive structure has also been assymetrical within the non - traditional exports sector. There are clear differences in the incentives available to FTZ exporters and non-FTZ exporters. For example, investors in the FTZ enterprise have access to foreign currency banking facilities, duty free imports, exemption from surrender requirement of foreign exchange, tax holidays etc. On the other hand, non - GCEC exporters have enjoyed facilities such as export development grants, duty rebates and export credit refinancing at subsidized rates. However, the policy bias is in favour of FTZ enterprises. Although these policies were aimed at helping the export sector to grow at a faster rate, some of the policies such as export credit refinancing have become counter productive and had unfavourable implications on macro - economic management due to inbuilt inflationary implications. A more equalized incentive structure would have generated better results in terms of export growth and its contribution to GDP growth rate. The differences are now been addressed with a view towards a symmetrical incentive structure for all export products. The recent liberalization of exchange controls and the granting of permission to have access to foreign currency accounts and foreign currency borrowing facilities to non-GCEC exporters are steps in the right direction. Although, the provision of foreign currency loans through off-shore banking units has helped to reduce one of the discriminatory elements in the incentive package as between FTZ and non-FTZ exporters, it could further complicate the problem of acheiving stable monetary conditions for sustainable growth.

Despite the large downward revision of import duty rates, there is still a heavy reliance on import tariffs for revenue purposes while also running an excessive budget deficit. Import tariffs accounted for 25 per cent of the government revenue. Import duty collections from imports accounted for 16 per cent with varying degrees of effective protective rates for different products. However, because of the high tariffs on non-food consumer goods imports and associated effective protection, the incentive structure is still biased in favour of the import - substitution sector.

The inadequate export growth in Sri Lanka is also partly due to other adhoc and exogenous factors which retarded the economic activities in general. The sporadic civil disturbances which started with the civil riots in 1983 are partly responsible for the deterioration in the investment climate in general. For example, the net annual inflow of direct foreign investments dropped from 1.3 per cent of GDP during 1978-82 to 0.6 per cent of GDP during 1983-90 period although there was a substantial recovery in 1991. Given these other constraints, the domestic macro-economic conditions and other factors mentioned earlier determined the fate of the export-led growth process in Sri Lanka during this period.

6. Conclusion

The above analysis of the performance of the export sector in Sri Lanka after economic liberalization revealed that despite a commendable growth in non-traditional exports, the overall performance of the export sector has been far below expectations. While many policy actions have been in the right direction there had been several domestic and external factors that have had a decelerating impact on the growth process. While there had been inconsistencies in the implementation of economic policies, economic liberalization had not taken place in some key areas in the economy, particularly in the state managed plantations sector.

In the analysis of both exports and import performance after economic liberalization, it was revealed that unstable macro-economic conditions, particularly the excessive fiscal deficits exerted heavy indirect pressure on the external sector. This was particularly so in the absence of adequte adjustments in the other macro-economic policies, particularly the slow depreciation of the exchange rate which made it necessary to make significant quantum adjustments in several occasions. While the assistance received from Sri Lanka's international donor community had been helpful in bridging the enlarged trade and current account deficits, it was revealed that a significant acceleration of export earnings is necessary in order to ensure the medium-term and long-term viability of the balance of payments. It appears that the recent improvement in domestic conditions and the on going liberalization measures have strengthened the structural adjustment and export-led growth process in Sri Lanka.

Table 1
Merchandise Exports

Item	Export Volume					
	78-91	78-80	80-88	88-89	89-90	90-91
1 Agricultural Exports	0.4	-5.8	2.1	-1.8	7.1	-4.5
Tea	0.8	-2.1	2.2	-7.1	5.8	-1.7
Rubber	-4.5	-6.4	-2.4	13.4	0.9	-12.1
Coconut	-1.0	-19.2	-0.0	82.3	-6.1	-21.8
Three major	-1.9	-36.5	2.9	128.6	-6.4	-28.2
Other	1.3	22.2	-3.3	13.3	-5.3	-2.9
Other Agricultural Products		-10.4	6.9	-20.9	9.7	21.0
2 Industrial Exports	20.9	57.0	17.2	0.0	21.4	11.2
Food, Beverages, Tobacco	0.1	5.1	1.3	-1.5	-0.4	-15.3
Textiles and Garments	24.6	66.7	21.6	-0.2	13.7	15.9
Chemicals	18.6	28.6	16.8	39.7	4.4	10.5
Petroleum	4.8	52.6	0.8	-30.3	14.3	-7.4
Electronics, Mechanical app.	40.9	30.3	35.8	26.7	226.8	6.2
Leather, Rubber, Ceramics etc	—	10.5	21.2	-0.9	8.0	32.7
Diamonds	—	—	—	28.9	182.1	-19.4
Other	—	111.1	-22.4	6.4	11.9	131.8
3 Mineral Exports	11.6	-16.1	29.6	18.1	-6.9	-32.4
Gems	20.1	-42.5	57.1	9.1	18.3	-31.4
Other		18.2	0.2	12.5	-20.1	-68.9
4 Unclassified		-47.3	26.7	58.0	52.3	-7.1
5 Total Exports	13.6	24.6	12.1	1.6	16.5	4.2

Source: Central Bank of Sri Lanka

Table 2

Value of Merchandise Exports

U. S. $. Million

Item	1970	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Agricultural Exports	323	593	667	694	658	632	560	619	857	700	563	502	622	612	721	611
Tea	118	395	410	367	373	335	305	353	620	442	330	362	387	379	495	432
Rubber	71	105	129	160	157	150	112	121	130	94	91	99	117	86	77	64
Coconut	51	56	81	109	75	75	72	82	83	114	85	75	18	79	69	63
Three major	40	38	62	83	16	53	48	60	61	88	57	18	28	53	46	43
Other	11	18	19	26	29	22	21	22	22	26	28	21	20	26	23	21
Other Agricultural Products	11	38	46	57	53	73	72	65	55	59	54	58	81	67	80	82
Industrial Exports	7	106	125	240	360	387	397	375	508	526	567	679	713	790	1036	1226
Food, Beverages, Tobacco	1	13	17	24	19	23	30	23	26	20	26	26	32	28	32	36
Textiles and Garments	1	11	31	71	110	157	168	201	295	293	344	138	448	489	628	804
Chemicals	1	1	2	3	4	4	11	5	7	13	16	15	21	27	26	28
Petroleum	3	67	61	124	189	175	158	114	129	143	84	88	71	62	99	79
Electronics, Mechanical app.	0	0	1	1	2	5	8	8	7	12	16	14	16	20	59	64
Leather, Rubber, Ceramics etc.	0	4	7	8	9	15	22	22	28	34	42	57	69	70	96	140
Diamonds	0	0	0	0	0	0	0	0	4	12	37	40	51	90	22	68
Other	1	6	6	9	28	8	1	2	11	1	2	2	4	4	3	7
Mineral Exports	3	41	40	40	49	41	41	48	33	32	42	61	82	75	87	62
Gems	1	34	34	31	40	33	33	40	24	21	27	49	65	61	73	57
Other	2	8	6	9	9	8	8	8	8	11	15	12	17	14	14	5
Unclassified	9	8	13	8	4	32	32	25	40	74	45	64	48	82	140	110
Total Exports	342	748	845	981	1070	1093	1031	1067	1468	1333	1216	1397	1475	1558	1984	2039

Source: Central Bank of Sri Lanka

Table 3

Merchandise Exports

Item	Ratio to GDP (:)															
	1970	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
1 Agricultural Exports	14.1	14.5	24.4	20.6	16.3	14.3	11.7	12.0	14.7	11.7	8.8	8.9	9.1	8.8	9.0	7.1
Tea	8.2	9.6	15.0	10.9	9.3	7.6	6.4	6.8	10.3	7.4	5.2	5.1	5.5	5.1	6.2	4.8
Rubber	3.2	2.6	4.7	4.8	3.9	3.4	2.3	2.3	2.1	1.6	1.5	1.5	1.7	1.2	1.0	0.7
Coconut	2.2	1.4	3.0	3.2	1.9	1.7	1.5	1.6	1.1	1.9	1.3	1.1	0.7	1.1	0.9	9.7
Three major	1.7	0.9	2.2	2.5	1.1	1.2	1.0	1.2	1.0	1.5	0.9	0.7	0.4	0.8	0.6	0.5
Other	0.5	0.4	0.7	0.8	0.7	0.5	0.5	0.1	0.4	0.1	0.1	0.1	0.3	[illegible]	0.3	0.2
Other Agricultural Products	0.5	0.9	1.7	1.7	1.3	1.6	1.5	1.2	0.9	0.8	0.8	0.9	1.2	1.0	1.0	0.9
2 Industrial Exports	0.3	2.6	4.6	7.1	9.0	8.8	8.3	7.3	8.1	8.8	8.8	10.2	10.2	11.3	12.9	12.9
Food, Beverages, Tobacco	0.1	0.3	0.6	0.7	0.5	0.5	0.6	0.4	0.1	0.3	0.4	0.4	0.5	0.1	0.4	0.4
Textiles and Garments	0.0	0.3	1.1	2.1	2.7	3.6	3.5	3.9	4.9	1.9	5.4	6.6	6.4	7.0	7.8	8.9
Chemicals	0.0	0.0	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.2	0.3	0.2	0.3	0.4	1.3	0.3
Petroleum	2.1	1.6	2.2	3.7	4.7	4.0	3.3	2.2	2.1	2.1	1.3	1.3	1.0	0.9	1.2	0.9
Electronics, Mechanical app	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.3	0.7	0.7
Leather,Rubber,Ceramicsetc	0.0	0.1	0.3	0.3	0.2	0.3	0.5	0.4	0.5	0.6	0.7	0.8	0.1	1.0	1.2	1.5
Diamonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.6	0.6	0.7	0.3	1.1	1.7
Other	0.0	0.2	0.2	0.3	0.7	0.2	0.0	0.0	0.2	0.0	0.0	0.0	0.1	4.1	0.0	0.1
3 Mineral Exports	0.1	1.0	1.5	1.2	1.2	0.9	0.9	0.9	0.5	0.5	0.7	0.9	1.2	1.1	1.1	0.7
Gems	0.0	0.8	1.2	0.9	1.0	0.7	0.7	0.8	0.4	0.3	0.4	0.7	0.9	0.9	0.9	0.9
Other	0.1	0.2	0.2	0.3	0.2	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1
4 Unclassified	0.4	0.2	0.5	0.2	0.1	0.7	0.7	0.5	0.7	0.7	6.7	.10	0.7	1.2	1.7	1.2
5 Total Exports	14.9	18.2	30.9	29.2	26.6	21.8	21.6	20.6	24.3	22.3	19.0	20.9	21.1	22.3	24.7	22.5

Source: Central Bank of Sri Lanka

Table 4

Percentage of Sri Lanka's Exports to Each Destination

Country	1977	1980	1988	1990
Australia	3.0	1.1	1.4	1.2
Benilux	0.4	0.5	3.6	4.9
Canada	1.9	1.5	1.5	2.1
France	1.4	1.4	1.9	2.2
Germany, F. R.	3.9	5.2	7.1	6.4
Italy	1.7	2.1	1.1	1.8
Japan	4.9	3.1	5.8	5.2
Netherlands	2.8	2.7	3.2	2.4
Switzerland	0.8	0.7	0.6	0.7
U. K.	8.0	7.2	5.5	5.8
U. S. A.	7.6	10.9	24.9	24.8
South Africa	3.0	1.8	0.9	0.6
Hongkong	0.1	1.0	1.1	0.9
India	2.3	3.2	1.3	1.0
Pakistan	8.0	3.2	3.6	1.6
Singapore	1.0	1.1	3.0	2.5
Thailand	2.5	0.0	1.5	1.1
Iran	1.9	3.1	2.1	3.3
Iraq	5.4	3.5	3.5	2.0
Saudi Arabia	2.6	3.4	2.5	2.1
Syria	2.5	1.1	1.1	1.6
UAE	0.0	0.8	1.2	1.4
UAR	4.6	3.8	4.0	3.0
Mexico	1.4	0.9	0.8	0.9
USSR	1.9	2.9	0.8	2.1
Spain	0.6	0.6	0.5	0.5
Sweden	0.8	0.5	0.5	0.5
Taiwan	0.0	1.9	0.2	0.4
Poland	1.0	0.8	0.4	0.4
Romania	0.5	0.0	0.2	0.5
Jordan	4.9	1.1	0.8	0.8
Libya	0.1	1.3	1.0	1.1
Bangladesh	0.2	0.4	0.8	0.5
China	6.5	4.8	1.6	0.2
Others	11.5	22.3	10.1	13.3
Total	100.0	100.0	100.0	100.0
Diversification Index:				
Products	0.437	0.559	0.575	0.574
Markets	0.766	0.710	0.693	0.685

Source: Central Bank of Sri Lanka

Table 5

Export Market Shares: Sri Lanka with Selected Asian Countries

(Index 1977 = 1.00)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
NICS														
Hongkong	1.00	1.03	1.07	1.15	1.29	1.35	1.44	1.76	1.84	1.97	2.29	2.60	2.80	2.93
Korea	1.00	1.09	1.01	0.97	1.21	1.35	1.54	1.71	1.54	1.81	2.09	2.36	2.25	1.17
Singapcre	1.00	1.06	1.17	1.32	1.45	1.56	1.67	1.74	1.53	1.39	1.51	1.83	1.93	2.03
Taipei, China	1.00	1.11	1.21	1.48	1.78	1.97	2.03	2.16	2.60	3.08	3.52	3.48	3.53	3.28
Other Selected Asian Countries														
Bangladesh	1.00	0.94	0.94	0.93	0.95	1.00	0.97	1.17	1.24	0.99	1.03	1.06	1.02	1.06
India	1.00	0.89	0.92	0.77	0.63	0.98	1.01	1.03	0.96	0.90	0.88	0.88	0.94	1.00
Pakistan	1.00	1.10	1.19	1.25	1.40	1.27	1.66	1.30	1.37	1.54	1.35	1.47	1.46	1.45
Indonesia	1.00	0.93	0.97	1.13	1.25	1.28	1.23	1.21	1.00	0.71	0.72	0.71	0.8	0.81
Malaysia	1.00	1.05	1.23	1.19	1.10	1.23	1.47	1.63	1.46	1.19	1.33	1.36	1.50	1.61
Philippines	1.00	0.91	0.98	1.03	1.01	0.99	0.99	1.01	0.86	0.82	0.82	0.89	0.92	0.89
Thailand	1.00	1.01	1.03	1.05	1.15	1.23	1.15	1.27	1.19	1.35	1.51	1.80	2.10	2.28
Sri Lanka	1.00	0.98	0.89	0.80	0.83	0.85	0.90	1.17	1.05	0.87	0.85	0.78	0.77	0.90
Total All Countries	1.00	1.02	1.07	1.13	1.24	1.36	1.44	1.55	1.49	1.51	1.68	1.82	1.90	1.92

Source: IMF, Direction of Trade Statistics
ADB, Asian Economic Outlook, 1991

Table 6

Value of Merchandise Imports

Item	Average Growth					
	77/70	74/77	91/77	80/77	88/80	91/88
1 Consumer Goods	4.1	-4.7	8.0	24.3	3.0	7.4
1.1 Food and Drinks	5.5	-5.5	4.6	17.2	-0.4	5.8
a. Rice	9.9	-1.5	6.8	-19.8	0.8	-12.2
b. Flour	13.2	-6.8	-45.0	1.9	-26.4	-86.4
c. Wheat Grain	34.7	-2.7	12.1	28.9	12.5	-3.2
d. Sugar	-3.5	-8.1	13.1	76.7	-3.5	10.5
e. Milk Products	2.3	0.9	11.0	44.3	8.1	3.6
f. Other Food	-20.0	-32.7	28.6	136.8	5.0	19.6
1.2 Other Consumer Goods	-2.6	3.5	19.5	59.5	10.7	9.7
a. Motor Cars and Cycles	18.2	10.4	17.6	88.2	9.1	-10.4
b. Electronics	37.7	51.8	17.4	81.1	13.8	-17.2
c. Rubber Tyres & Tubes	-13.4	-25.8	21.2	109.0	3.2	8.0
d. Medical items	11.0	15.3	10.8	15.6	10.3	7.4
e. Garments	-9.5	-24.2	6.1	-18.8	37.8	-30.9
f. Other	-22.1	33.9	31.6	122.0	5.6	40.4
2 Intermediate Goods	21.2	2.4	12.5	51.1	1.4	9.5
a. Fertilizer	-11.6	44.3	18.1	141.5	-0.5	-9.0
b. Petroleum	49.1	6.1	4.8	44.4	-8.2	8.1
b.1 Crude Oil		5.2	3.2	41.5	-8.4	3.4
b.2 Other	3.2	19.8	14.0	73.3	-7.4	30.5
c. Textiles	23.2	23.4	19.1	46.1	10.3	18.8
d. Chemicals & Compounds	5.3	-27.1	-38.5	34.5	7.6	-93.7
e. Dyeing,Tanning & Color	15.5	11.8	11.9	38.7	4.1	9.6
f. Paper and Paper Boards	-0.0	-8.2	19.0	54.0	10.5	12.6
g. Other	12.4	20.2	17.2	61.5	6.1	11.0
3 Investment Goods	-1.2	7.0	16.6	80.3	-3.2	23.8
a. Building Materials	-4.4	-13.0	19.0	36.4	-1.5	71.7
b. Transport Equipments	3.1	21.1	14.9	77.6	-13.9	60.7
c. Machinery	-5.1	4.8	16.9	99.2	-1.7	9.0
d. Other	15.0	31.0	15.5	69.7	5.1	1.0
4 Unclassified	13.4	14.9	-3.3	-7.1	22.9	-47.0
5 Total Imports	8.3	-0.4	11.4	44.7	1.1	11.1

Source: Central Bank of Sri Lanka

Table 7

Value of Merchandise Imports

Item	U. S. $. Millions															
	1970	1977	1978	1979	1980	1984	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
1 Consumer Goods	217	293	311	427	550	458	406	494	434	502	568	597	695	739	805	862
1.1 Food and Drinks	180	262	273	327	422	342	257	328	293	319	325	319	409	502	485	485
a. Rice	53	103	44	57	53	52	44	33	8	40	38	23	57	94	44	38
b. Flour	44	104	140	107	140	1	3	5	1	8	3	3	10	5	35	0
c. Wheat Grain	2	16	9	19	35	88	86	99	97	102	85	65	88	138	95	80
d. Sugar	29	22	10	60	123	117	47	84	53	73	63	81	92	120	129	124
e. Milk Products	9	11	25	31	32	25	25	12	29	28	33	43	61	64	59	68
f. Other Food	43	5	15	53	69	29	52	65	105	69	104	102	102	82	123	175
1.2 Other Consumer Goods	38	31	68	100	127	116	149	166	141	183	243	278	286	237	320	377
a. Motor Cars and Cycles	2	5	22	36	36	22	19	22	19	55	61	75	73	80	108	52
b. Electronics	0	2	3	9	9	14	35	29	16	19	20	17	26	21	11	15
c. Rubber Tyres & Tubes	2	1	3	3	6	7	9	7	8	9	8	8	8	8	11	10
d. Medical items	5	10	12	16	16	10	17	17	20	22	30	28	34	30	41	42
e. Garments	17	8	6	5	5	12	10	15	19	15	16	62	59	20	20	19
f Other	25	5	21	31	55	50	58	74	58	63	79	88	86	78	129	238
2 Intermediate Goods	76	291	377	661	1004	1022	1048	921	934	963	891	1048	1121	1098	1299	1474
a. Fertilizer	11	6	16	43	81	62	27	27	43	58	16	44	78	49	74	59
b Petroleum	10	162	154	251	489	517	590	469	420	404	225	296	246	232	359	311
b.1 Crude Oil	10	150	142	202	425	449	489	300	375	349	189	242	211	164	310	234
b.2 Other	10	12	11	50	64	68	101	168	45	55	36	54	35	69	49	78
c Textiles	10	13	72	144	135	152	149	152	154	182	242	287	297	335	336	498
d Chemicals & Compounds	9	14	29	32	33	31	35	35	40	33	57	53	59	59	81	0
e. Dyeing, Tanning & Color	2	5	8	10	12	12	12	9	11	11	15	18	17	16	23	22
f. Paper and Paper Boards	8	8	15	26	25	38	32	29	25	37	41	53	60	50	74	86
g. Other	21	54	84	156	225	206	203	203	240	237	264	298	363	357	352	496
3 Investment Goods	92	84	216	351	493	413	557	513	478	382	377	385	380	333	585	720
a. Building Materials	20	15	10	24	37	27	27	50	29	33	32	24	33	27	159	165
b. Transport Equipments	21	26	63	104	146	116	266	163	119	92	52	48	41	51	113	184
c. Machinery	46	32	118	186	255	201	190	224	210	176	208	226	222	174	247	287
d. Other	4	11	25	37	54	69	74	77	121	82	84	87	81	81	66	84
4 Unclassified	4	9	7	13	7	7	5	5	22	112	112	26	37	55	3	6
5 Total Imports	389	677	911	1451	2053	1901	2015	1936	1869	1990	1947	1056	2233	2226	2689	3061

Source: Central Bank of Sri Lanka

Table 8
Merchandise Imports

Item	Ratio to GDP (%)															
	1970	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
1 Consumer Goods	9.5	7.1	12.5	12.7	13.7	10.4	8.5	9.6	7.2	8.1	8.9	8.9	10.0	10.6	10.0	9.5
1.1 Food and Drinks	7.8	6.4	10.0	9.7	10.5	7.7	5.4	6.3	4.9	5.3	5.1	4.8	5.9	7.2	6.0	5.3
a. Rice	2.3	2.5	1.6	1.7	1.3	1.2	0.9	0.6	0.1	0.7	0.6	0.3	0.8	1.3	0.5	0.4
b. Flour	1.9	2.5	5.1	3.2	2.7	0.0	0.1	0.1	0.0	0.1	0.1	0.0	0.1	0.1	0.1	0.0
c. Wheat Grain	0.1	0.4	0.3	0.6	0.5	2.0	1.8	1.9	1.6	1.7	1.3	1.0	1.3	2.0	1.2	0.9
d. Sugar	1.2	0.5	1.5	1.8	3.0	3.3	1.0	1.6	0.9	1.2	1.0	1.2	1.3	1.7	1.6	1.4
e. Milk products	0.4	0.4	0.9	0.9	0.8	0.6	0.5	0.8	0.5	0.5	0.5	0.6	0.9	0.9	0.7	0.7
f. Other Food	1.9	0.1	0.1	1.6	1.7	0.7	1.1	1.3	1.7	1.2	1.6	.5	1.5	1.2	1.5	1.9
1.2 Other Consumer Goods	1.6	0.8	2.5	3.0	3.2	2.6	3.1	3.2	2.3	3.1	3.8	4.2	4.1	3.4	4.0	4.2
a. Motor Cars and Cycles	0.1	0.1	0.8	1.1	0.9	0.5	0.4	0.1	0.3	0.9	0.9	1.1	1.0	1.1	1.3	0.6
b. Electronics	0.0	0.0	0.1	0.3	0.2	0.3	0.7	0.6	0.3	0.3	0.3	0.3	0.4	0.3	0.1	0.2
c. Rubber Tyres & Tubes	0.1	0.0	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
d. Medical items	0.2	0.2	0.4	0.5	0.1	0.2	0.4	0.3	0.3	0.1	0.5	0.4	0.5	0.4	0.5	0.5
e. Garments	0.7	0.2	0.2	0.1	0.1	0.3	0.2	0.3	0.3	0.2	0.7	0.9	0.8	0.3	0.3	0.2
f. Other	1.3	0.1	0.8	0.9	1.1	1.1	1.2	1.1	1.0	1.1	1.2	1.3	1.2	1.1	1.6	2.6
2 Intermediate Goods	3.3	7.1	13.8	19.7	24.9	23.2	22.0	17.9	15.5	16.1	13.9	15.7	16.1	15.7	16.2	16.2
a. Fertilizer	0.6	0.1	0.6	1.3	2.0	1.4	0.6	0.5	0.7	1.0	0.7	0.7	1.1	0.7	0.9	0.6
b. Petroleum	0.1	1.0	5.6	7.5	12.2	11.7	12.4	9.1	6.9	6.8	2.5	4.4	3.5	3.3	4.5	3.4
b.1 Crude Oil	0.0	3.7	5.2	6.0	10.6	10.2	10.3	5.8	6.2	5.8	3.0	3.6	3.0	2.3	3.9	2.6
b.2 Other	0.4	0.3	0.4	1.5	1.6	1.5	2.1	3.3	0.7	0.9	0.6	0.8	0.5	1.0	8.6	0.9
c. Textiles	0.1	1.1	2.6	1.3	3.4	3.4	3.1	2.9	2.5	3.0	3.8	4.3	4.3	4.8	4.2	5.5
d. Chemicals & Compounds	0.1	0.3	1.0	1.0	0.8	0.8	0.7	0.7	0.7	0.6	0.9	0.8	0.9	0.8	1.0	0.0
e. Dyeing, Tanning & Color.	0.1	0.1	0.3	0.3	0.5	0.5	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.3	0.2
f. Paper and Paper Boards	0.3	0.2	0.6	0.8	0.7	0.9	0.7	0.6	0.4	0.6	0.6	0.8	0.9	0.7	0.9	1.0
g. Other	1.0	1.3	3.1	4.6	5.6	4.7	4.3	3.9	1.0	4.0	4.1	4.5	5.2	5.1	4.4	5.5
3 Investment Goods	4.0	2.0	7.9	10.4	12.2	9.4	11.7	9.9	7.9	6.4	5.9	5.8	5.4	4.8	7.3	7.9
a. Building Materials	0.9	0.4	0.4	0.7	0.9	0.6	0.6	1.0	0.5	0.6	0.5	0.4	0.5	0.4	2.0	1.8
b. Transport Equipments	0.9	0.6	2.3	3.1	3.6	2.6	5.6	3.1	2.0	1.5	0.8	0.7	0.6	0.7	1.4	2.0
c. Machinery	2.0	0.8	1.3	5.5	6.3	4.6	4.0	4.3	3.5	2.9	3.2	3.1	3.2	2.5	3.1	3.2
d. Other	0.2	0.3	0.9	1.1	1.1	1.6	1.6	1.5	2.0	1.1	1.3	1.3	1.2	1.2	0.8	0.9
4 Unclassified	0.7	0.2	0.3	0.4	0.2	0.2	0.1	0.1	0.1	2.1	1.7	0.1	0.5	0.8	0.0	0.1
5 Total Imports	15.9	16.5	34.4	43.1	51.0	43.0	42.3	37.5	30.9	33.3	30.4	30.8	32.0	31.8	33.5	33.7

Source: Central Bank of Sri Lanka

Table 9

Domestic Requirement of Food (Rice, Flour, Wheat) and Imports

Year	Actual Imports			Import Requirements				Actual		Rice		Act. Pro. /Req. Ratio	Act. Imports /Req. Ratio
	Rice	Flour	Wheat	Vol. Rice	Vol. Flour	Cost Rice	Cost Flour	Import Cost	Cost Saving	Con. Req.	Dom. Pro		
1970	472	419	28	472	439	53	46	99	0	1602	1130	70.54	100. 0
1971	290	318	52	481	442	55	48	71	32	1611	976	60.50	59.98
1972	294	301	100	516	451	47	48	67	29	1646	917	55.75	57.03
1973	335	396	78	545	459	69	82	122	28	1675	917	54.77	61.47
1974	298	458	81	569	466	207	117	255	99	1699	1120	65.93	52.35
1975	465	439	89	597	474	195	151	314	35	1727	807	46.72	77.84
1976	378	330	90	626	481	118	118	170	67	1756	876	49.91	64.43
1977	538	546	120	651	489	126	93	224	-5	1784	1173	65.74	82.30
1978	187	632	81	686	498	162	111	193	79	1816	1322	72.83	27.27
1979	212	175	110	722	508	195	114	183	126	1852	1341	72.40	29.38
1980	189	370	197	757	517	214	151	199	170	1887	1492	79.03	24.96
1981	168	4	439	791	527	243	179	141	280	1921	1559	81.19	21.25
1982	174	10	495	81[illegible]	533	208	156	133	231	1944	1508	77.57	21.38
1983	147	16	579	715	506	158	147	137	168	1845	1737	94.14	20.56
1984	38	4	571	866	547	177	157	106	228	1996	1692	84.78	4.39
1985	211	29	665	897	556	170	141	149	165	2027	1861	91.81	23.53
1986	231	15	681	933	565	152	119	125	145	2063	1810	87.74	24.77
1987	113	17	578	963	574	199	110	92	117	2093	1488	71.08	11.73
1988	210	39	612	993	582	269	141	154	256	2123	1732	81.60	21.15
1989	316	[illegible]5	726	1021	590	304	189	237	257	2151	1443	67.07	30.95
1990	172	125	577	1044	596	267	165	173	259	2171	1775	81.62	16.47
1991	133	0	670	1044	603	298	122	118	302	2201	1775	80.64	12.73
70-77	307[illegible]	3157	637	4462	3701	870	738	1322	285	13502	7917	58.73	68.92
78-91	2501	1752	6981	12245	7701	3015	2008	2141	2881	28093	22534	80.25	20.75

Source: Original Data from Central Bank of Sri Lanka.
Note: Cost Figures Are in U. S. $. Mn.

Table 10

Imports, Exports, and Terms of Trade

Year	Real**		Values		Foreign Price*		Trms of Trd		Trade Balance U S $ Mn	
	IMP	EXP	IMP	EXP	IMP	EXP	Index	%Ch	TB	Ch
1970	389	342	389	342	1.00	1.00	1.00		-17	
1971	314	327	335	328	1.07	1.00	0.91	-6	-7	40
1972	308	338	346	337	1.12	1.00	0.89	-6	-9	-3
1973	304	374	424	409	1.39	1.09	0.78	-12	-15	-6
1974	291	323	685	527	2.35	1.63	0.69	-11	-158	-143
1975	288	391	749	566	2.60	1.15	0.56	-20	-183	-25
1976	284	407	552	575	1.95	1.42	0.73	31	23	206
1977	299	345	677	748	2.26	2.17	0.96	32	71	48
1978	395	377	941	845	2.38	2.21	0.91	-2	-96	-167
1979	400	287	1451	981	3.63	3.42	0.91	-0	-470	-374
1980	420	461	2053	1070	4.88	2.31	0.47	-50	-983	-513
1981	349	477	1901	1093	5.45	2.29	0.42	-11	-807	175
1982	384	496	2015	1031	5.24	2.08	0.40	-6	-985	-177
1983	398	455	1936	1067	4.86	2.34	0.48	22	-870	115
1984	398	529	1869	1468	4.70	2.77	0.59	22	-401	469
1985	419	578	1990	1333	4.75	2.31	0.49	18	-657	-256
1986	422	608	1917	1246	4.61	2.00	0.43	-11	-731	-74
1987	423	600	2056	1397	4.86	2.33	0.48	10	-659	73
1988	400	586	2233	1475	5.58	2.52	0.45	-6	-758	-99
1989	377	595	2226	1558	5.90	2.62	0.44	-2	-667	91
1990	398	692	2689	1984	6.75	2.87	0.42	-4	-705	-38
1991	451	723	3061	2039	6.78	2.82	0.42	-2	-1022	-316
Percentage Change:										
Avg.70-77	-3.7	0.1	8.3	11.9	12.4	11.7	-0.6			
Avg.77-84	4.2	6.3	15.6	10.1	11.0	3.6	-6.7			
Avg.77-91	3.0	5.4	11.4	7.4	8.2	1.9	-5.8			

Note **Imports and export values deflated by foreign prices.
* Prices are indexed in U.S $ terms, 1978=1.00
IMP = Imports EXP = Exports TB = Trade balance
Imports and export values are in USD Million.

Table 11

Regression Results

(Dependent Variable G = Real GDP growth Rate)

Eq.	Cons	Independent Variables: GX	GX(-1)	GIS	GIS(-1)	R^2	D-W	F	S.E.
1.	3.253+ (5.251)	0.078− (2.677)				0.359	1.920	7.168	1.284
2.	2.391+ (3.297)	0.085+ (3.203)	0.049 (1.850)			0.484	1.850	6.164	1.152
3.	2.783+ (4.937)			0.441+ (3.819)		0.553	1.181	14.585	1.073
4.	3.053+ (5.083)			0.540+ (3.806)	-0.165 (-1.163)	0.568	1.193	8.226	1.193
5.	2.049+ (3.677)	0.059* (2.698)	9.113 (0.520)	0.329− (2.830)		0.710	1.704	9.978	0.864
6.	2.166+ (4.440)	0.055 (2.792)		0.362+ (3.879)		0.734	1.700	16.143	0.827

Note: Figures in parantheses are t-statistics.

+ Significant at 1 per cent level.

− Significant at 2.5 per cent level.

* Significant at 5 per cent level.

GX = Growth rate of aggregate export volume

GIS = Growth rate of private consumption of import substituting products

Adjusted R-Squared, Durbin-Watson Statistic, F-statistic and the Standard Error of the regression are given in the last four columns, respectively.

Table 12

Fiscal Indicators and External Sector, 1978-91 (Ratios to GDP)

	Expenditure		Budget Deficit		Exports	Imports	Trade Balance	BOP Current Account
	Current	Capital	A	B				
1978	23.5	12.4	-13.8	-12.2	25.2	30.6	-5.4	-4.51
1979	20.9	14.1	-13.8	-11.1	29.1	43.1	-13.9	-11.06
1980	19.1	19.3	-23.1	-19.2	26.5	51.0	-24.5	-19.83
1981	17.9	13.8	-15.5	-12.3	24.1	42.6	-18.5	-13.80
1982	18.5	15.6	-17.4	-14.0	21.3	41.9	-20.6	-15.35
1983	18.1	13.0	-13.4	-10.5	20.5	37.1	-16.6	-12.43
1984	16.0	13.0	-9.0	-6.9	24.2	31.9	-7.7	-4.22
1985	20.1	13.3	-11.7	-9.7	20.4	31.6	-11.2	-9.17
1986	18.9	13.0	-12.2	-10.1	18.8	30.7	-11.9	-9.45
1987	20.1	11.6	-11.1	-8.7	20.9	31.0	-10.2	-7.82
1988	20.8	10.3	-15.7	-12.7	21.2	32.1	-10.9	-8.55
1989	22.6	8.2	-11.2	-8.6	22.1	31.9	-9.7	-7.24
1990	22.4	6.0	-9.9	-7.8	24.6	33.4	-8.8	-5.45
1991	22.3	7.7	-11.6	-9.5	22.5	33.4	-10.9	-7.77
1978-83 Avg.	19.7	14.7	-16.2	-13.2	14.5	41.0	-16.6	-12.8
1984-88 Avg.	20.0	12.1	-12.7	-10.3	24.4	31.4	-11.0	-8.7
1989-91 Avg.	22.4	7.3	-10.9	-8.6	20.3	32.9	-9.8	-6.8

Note: A - Before Grants B - After Grants

Table 13

Prices and Effective Exchange Rates (% Changes)

YEAR	CPISL	CPITP	CIPCOM	CPIW	RSUSD	NEERTP	NEERCOM	NEERALL	REERTP	REERCOM	REERALL
1980	26.2	12.5	14.5	13.3	-5.6	-6.8	-3.9	-5.7	4.4	5.8	4.9
1981	17.9	9.7	12.0	10.5	-14.0	-5.6	-8.1	-6.5	1.6	-3.2	-0.3
1982	10.8	6.3	6.1	6.2	-7.8	1.8	-1.3	0.7	6.3	3.2	5.1
1983	14.0	4.6	5.0	4.8	-11.4	-6.7	-3.9	5.7	1.5	4.2	2.5
1984	16.7	1.6	6.4	5.3	-7.3	0.2	0.3	0.2	11.9	10.0	11.2
1985	1.5	4.3	4.3	4.3	-6.7	-1.7	0.8	-0.8	-4.3	-1.9	-3.4
1986	8.0	2.6	2.4	2.5	-3.0	-14.8	0.1	-9.2	-10.4	5.5	-4.4
1987	7.7	3.1	3.9	3.4	-4.8	-12.5	-5.2	-9.5	-8.7	-1.7	-5.8
1988	14.0	4.6	6.9	5.5	-7.4	-10.8	-9.3	-10.2	-2.8	-3.3	-3.0
1989	11.6	5.3	6.8	5.9	-11.4	-6.9	-11.4	-8.8	-1.5	-7.6	-4.1
1990	21.5	6.3	7.6	6.8	-10.5	-12.4	-6.5	-9.9	0.3	5.8	2.6
1991*	11.0	5.2	7.0	5.9	-26.8	-0.4	1.8	0.6	-5.2	5.5	5.3
Average											
1980-90	13.6	5.8	6.9	6.2	-8.2	-6.9	-4.4	-5.9	-0.1	1.5	0.5

*Upto first three quarters

CPISL - Sri Lanka's Consumer Price Index
CPITP - Trading Partners' Consumer Price Index
CPIOCM - Sri Lanka's Export Competitors' Consumer Price Index
CPIW - Average of CPITP and CPICOM
RSUSD - Nominal Exchange Rate Index with U.S. dollar
NEERTP - Nominal Effective Exchange Rate with trading partners
NEERCOM Nominal Effective Exchange Rate with export competitors
NEERALL -- Average of NERTP and NERCOM
REERT - Real Effective Exchange Rate with trading partners
REERCOM -- Real Effective Exchange Rate with export competitors
REERALL -- Average of REERTP and REERCOM

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Table 14

Real Effective Exchange Rates for Export Profitability*
(Rupees per U.S.D.)

	Tea	Rubber	Coconut	Average Plantation	Other Exports	Total Exports
1978	7.6	7.9	10.1	7.9	15.6	9.4
1979	7.0	5.6	10.1	7.0	14.1	8.8
1980	7.6	4.6	9.8	7.0	11.9	8.4
1981	7.6	5.3	8.8	7.1	11.9	8.8
1982	7.1	7.2	9.9	7.6	11.7	9.2
1983	6.9	8.2	10.8	7.7	12.0	9.1
1984	5.4	7.2	10.9	6.1	10.8	7.5
1985	6.7	8.8	12.1	7.8	11.3	9.1
1986	7.0	8.8	12.0	7.9	10.8	9.3
1987	6.8	8.4	12.0	7.6	10.5	9.0
1988	7.1	8.9	12.1	7.8	9.9	8.8
1989	7.3	8.8	13.1	8.1	10.1	9.2
1990	6.8	8.0	11.0	7.3	9.1	8.4

Derived by using the following formula to export profitabilty:

$$REERP = \frac{(PXi - TXi + SXi)}{PXi} \times \frac{E}{CXi}$$

Where REERP - Real Effective Exchange Rate for export profitability

PXi - Export unit price of ith product

TXi - Per unit export tax (= total export duty collection/export volume)

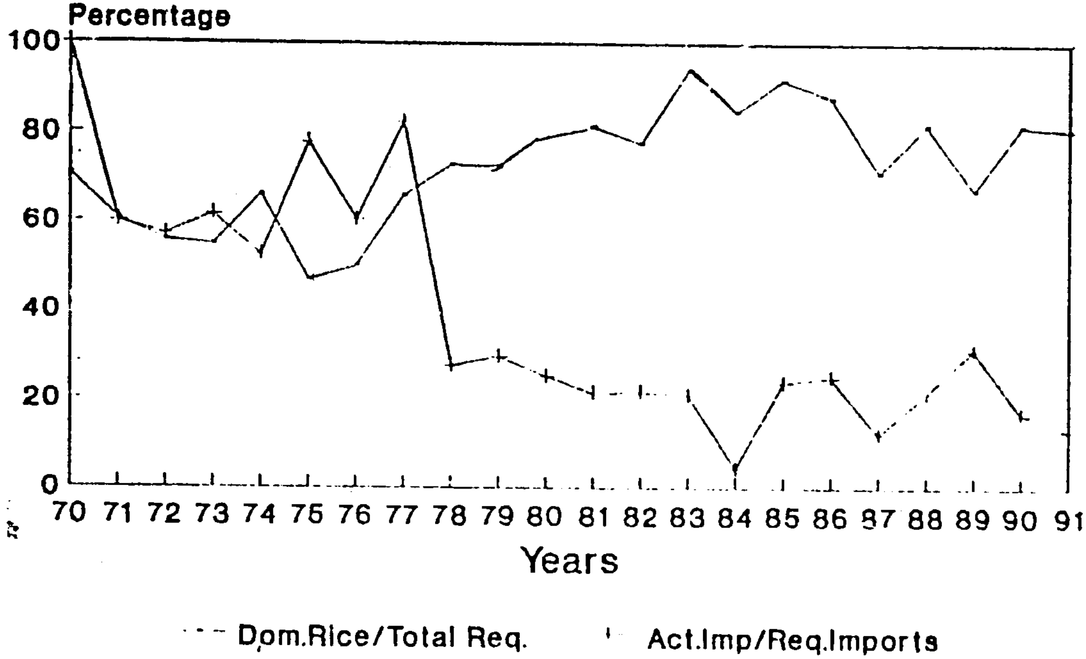
SXi - Per unit export subsidy on ith product

E - Nominal exchange rate (Rupees per U.S.$)

CXi - Per unit cost of production of ith product

Effective exchange rates used in this table are not the same as those used in Table 9. These rates were prepared for the purpose of comparing export profitability between products.

Chart 1
Degree of Self Sufficiency in Rice



END - NOTES

(1) Under dual exchange rate system which prevailed during May 6, 1968 and November 15, 1977, external transactions had been divided into two categories namely, category 'A' and Category 'B'. Category 'A' in both exports and imports included items for which the official exchange rate was applicable. A much depreciated exchange rate was applicable to external transactions with respect to items in category B. On the exports side, items included in category A were tea, rubber and the three major coconut products. The category 'B' exporters received FEECs. An important feature of this scheme was that the value of the premium over official exchange rate for FEECs was expected to be determined in the market through the interplay of demand and supply conditions. However, this feature was abandoned within a month and the rate was artificially fixed. On the import side, category A included government imports of rice, flour, sugar, fertilizer, drugs and small amount of other imports, mainly of public corporations and departments and some service items. From may 6, 1968 to July 17, 1969 the FEECs rate was 45 per cent above the official exchange rate. Between July 18, 1969 and November 10, 1972 the FEECs rate was 55 per cent over the official rate. It was raised to 65 per cent on November 11, 1972 and remained at that level until the entire FEECs system was abandoned with the policy reforms in November, 1977.

(2) "... the Five Year Plan attempts to formulate programmes and policies designed to achieve

the maximum development of national resources. . . within a social framework consistent with the country's commitment to a rapid advance towards a socialist society. The objectives of the Plan derive directly from the socialist aspirations of the masses which elected the present Government into power in May 1970", Page 1, Introductory Chapter, **FIVE YEAR PLAN 1972 - 76,** Ministry of Planning and Employment, Government of Sri Lanka, November 1971.

(3) The structure of the external sector and its significance in the economy on the eve of economic policy reforms in 1977 can be obtained from the Central Bank, annual reports.

(4) However, there are a number of major items which are restricted to the public sector. These include, wheat grain, wheat flour, petroleum, drugs, dates, chilies, onions, potatoes, film, consumer textiles, caustic soda, tea chests, jute hessian, mamoties and matches. Import of gold is controlled by the Central Bank. Commercial imports of jewellery and other articles of gold are restricted.

(5) Still there is a long list of items which require prior licencing due to security reasons or other reasons which need to be reviewed whether such licencing requirement should be continued.

(6) The initial policy reforms led to a six-band tariff structure that ranged from zero per cent to 500 per cent. The tariff structure was reviewed and rationalized. The duty rates have now been

scaled down to a four-band system ranging from zero to 50 per cent.

(7) See **Annual Reports on Exchange Restrictions,** IMF.

(8) See **Sri Lanka Economic Journal** Vol. 6, No. 2, Sept. 1991, P. 68

(9) A recent survey on this is presented in the **World Development Report - 1987** of the World Bank which examined the experience of 50 developing countries and came to a similar conclusion.

(10) While the plantation sector, mainly tea and rubber are largely controlled by the government owned corporations, coconut oil and most other agricultural export products (spices) enter into smuggling trade between India and Sri Lanka.

(11) The diversification Index is:

$$D = 1 - GHC$$

Where GHC is Gini-Hirschman concentration Co-efficient,

$$GHC = \sqrt{\sum_{i=1}^{n} (Xi / X)^2}$$

and Xi = Share of export earning from the ith product.

X = Total exports.

(12) Michaely, M, "Exports and Growth", **Journal of Development Economics,** Vol 6, 1977. See References.

(13) "The Export-led Growth Hypothesis" by Kwang, Choi in **Theories of Comparative Economic Growth**, The Iowa State University Press, 1983.

(14) Darrat (1986) has applied this test in his study on Hong Kong, Korea, Singapore and Taiwan.

(15) As at end June 1992, the identification of the estates to be handed over to the private management had been completed. The contracts with 22 selected private companies had been signed and the take - over operations, had been commenced.

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