

V. Production and International Trade

52. Although the record during the year may not be so satisfactory as far as domestic price stability is concerned, it is more gratifying from the point of view of production, and international trade. When measured by these standards, the progress of the Ceylon economy during the past year has exceeded expectations, as will be evident from the following table :—

Year	<i>Indexes of International Trade</i>									
	<i>Value</i>		<i>Volume</i>				<i>Price</i>		<i>Terms of Trade</i>	
	<i>Imports</i>	<i>Exports</i>	<i>Imports</i>	<i>Exports</i>	<i>Imports</i>	<i>Exports</i>	<i>Imports</i>	<i>Exports</i>		
1934-38 = 100		1934-38 = 100				1934-38 = 100		1934-38 = 100		
<i>Annual average—</i>										
1938 ..	104 ..	102 ..	98 ..	103 ..	102 ..	99 ..	97			
1946 ..	307 ..	273 ..	87 ..	127 ..	358 ..	226 ..	63			
1947 ..	424 ..	317 ..	108 ..	118 ..	413 ..	300 ..	73			
1948 ..	438 ..	361 ..	110 ..	129 ..	443 ..	305 ..	69			
1949 ..	453 ..	380 ..	119 ..	128 ..	423 ..	324 ..	77			
1950 ..	514 ..	558 ..	133 ..	142 ..	434 ..	439 ..	101			
<i>Quarterly average—</i>										
1949 :										
1st Qr. ...	503 ..	345 ..	132 ..	125 ..	438 ..	316 ..	72			
2nd Qr. ...	494 ..	359 ..	138 ..	129 ..	412 ..	309 ..	75			
3rd Qr. ...	389 ..	380 ..	98 ..	130 ..	416 ..	314 ..	75			
4th Qr. ...	426 ..	434 ..	111 ..	130 ..	419 ..	356 ..	85			
1950 :										
1st Qr. ..	416 ..	425 ..	106 ..	120 ..	439 ..	409 ..	93			
2nd Qr. ..	581 ..	491 ..	164 ..	142 ..	434 ..	393 ..	91			
3rd Qr. ..	543 ..	595 ..	142 ..	154 ..	434 ..	436 ..	100			
4th Qr. * ..	514 ..	718 ..	124 ..	153 ..	455 ..	525 ..	115			

* Provisional.

Statements 17 and 18 and charts 6 and 7 describe more fully the course of international trade for a series of years. Ceylon's exports in 1950, increased by nearly 50 per cent. as compared with 1949, to a record level of Rs. 1,563 million. Not only was there an increase in value during this period but also an increase in the physical quantity of goods exported ; the export volume index which averaged 128 in 1949, rose to 142 in 1950. There has almost certainly been a simultaneous increase in production for domestic consumption but the statistics which might show the increase are not available.

53. The stimulus to the increase in the physical quantity of Ceylon's exports and in their value has come from three principal factors ; first, devaluation which tended to increase the rupee price of exports, particularly rubber ; second, the increase in the level of activity in the hard currency world in spite of the adverse effects upon it which had been expected to result from devaluation ; and third, the entirely new and added stimulus provided by the Korean war and the subsequent rearmament programme of the western democracies.

54. As might be expected, the remarkable increase in the value of Ceylon's exports has been accompanied by a rise in imports. In the year 1950, imports were valued at Rs. 1,167 million as compared with Rs. 1,029 million in 1949, an increase of 14 per cent. Prices of imports rose by only about 2½ per cent., so that this increase was mainly due to a rise of about 11½ per cent. in the volume of imports.

55. A comparison of values alone, therefore, is by no means enough ; for while the prices of imports have risen only very slightly, the prices of exports have risen rather spectacularly. This means that for a given physical quantity of exports Ceylon can now buy a considerably larger volume of imports. This may be measured by an index called the terms of trade, which is simply the export price index expressed as a percentage of the import price index. On the pre-war base of 100, the terms of trade have improved from an average of 69 in 1948, to 77 in August, 1949, just prior to devaluation and to 113 in

December, 1950. This is an extremely favourable development for an economy to which international trade is so important as it is to Ceylon, and one which most observers have been inclined to overlook. It means that Ceylon in December, 1950, could buy 64 per cent. more in imports with the same physical quantity of exports than it could buy in 1948. In this respect the boom in exports has paid remarkable dividends. Nevertheless, it should be noted that the improvement recently recorded in export prices in relation to import prices does little more than restore the terms of trade to their pre-war level.

56. The effect of the rise in export prices and in production, particularly of goods for export, has been to increase the national income for 1950, estimated provisionally at Rs. 3,200 million as against Rs. 2,569 million for 1949.

57. Although production showed a significant increase in 1950, much of the increase was due to over-cropping of produce for export, notably rubber. Over the long run, however, aggregate production has tended to increase more slowly than population. The following table, which relates population to the volume of exports, roughly indicates the trend :—

Year	Population Thousands Mid Year Estimates	Index 1938=100	Natural increase of population Thousands	Volume of exports 1934-38=100
1938	5,810	100	86	103
1939	5,897	102	84	103
1940	5,951	102	90	113
1941	6,020	104	107	111
1942	6,021	104	109	127
1943	6,134	106	118	124
1944	6,276	108	99	124
1945	6,496	112	96	111
1946	6,895	115	121	127
1947	6,879	118	173	118
1948	7,086	122	194	129
1949	7,297	126	199	128
1950	7,547	130	209*	142

* Provisional

The volume of exports has shown hardly any increase since 1942 if the sharp rise in 1950 mainly due to the abnormal increase in export prices is ignored. On the other hand, population has increased steadily and the rate of increase has been particularly pronounced since 1946. There has, of course, been some expansion in food production but the available evidence does not suggest that it is adequate to meet the rising demand. Unless production outstrips the rapid increase of population, the real income per head must inevitably fall in the long run. This is a prospect less remote than it appears at first sight.

58. The achievement of a rapid increase in production in Ceylon is, of course, the core of the economic problem. It is most disconcerting, for example, to find that even on the crest of the present boom there is still some unemployment and a very considerable amount of underemployment. Such a situation should not be, for economic conditions could scarcely be more favourable for using labour to expand production than they are today. Purchasing power is more than adequate ; demand is brisk. Money capital, labour, and land are available. The answer lies partly at least in inadequacy of enterprise. Or, if the enterprise is present, the ways and means of linking it with money capital are absent. It is common knowledge that many of those with money are using their resources to increase their holdings of existing estates or, what is worse, to speculate, rather than to replant, to open up new land, or to start new enterprises. Such activity contributes little to the country's development.

59. Without doubt a discouragement to production in the past has been the inadequacy or high cost of credit. The long-term task is to make credit available on reasonable terms to Ceylonese enterprise.

60. Government has completed or brought near completion a number of projects. The first stage of the Laxapana Hydro-Electric Scheme, with an initial capacity of 25,000 kilowatts developing later to 75,000 kilowatts, was completed during the year; the Government Cement Factory with a rated capacity of 100,000 tons, sufficient to supply most of the local demand, commenced production; work on the Gal-Oya multiple-purpose development project, designed to bring under food production an area of 100,000 acres, progressed rapidly during the year.

61. A notable event in the field of Government planning was the issue of the Colombo Plan for Co-operative Economic Development of South and South-East Asia. This plan provides for a six year development programme for Ceylon from mid-1951 involving a capital outlay of Rs. 1,359 million of which Rs. 550 million is the external finance needed to carry out the programme. The execution of the plan is expected to involve a balance of payments deficit of Rs. 800 million out of which Rs. 250 million will be financed by drawing down sterling balances. As explained in a later section, the Sterling Assets Agreement concluded with the U.K. Government secured release of this amount from blocked balances.

VI. Wages and Real Incomes

62. The improvement which has occurred in Ceylon's overall economic position during the last year has, of course, resulted in an increase in real incomes. The difficulty is that some sections of the population have benefited while others have actually lost. Statistics available in Ceylon are not adequate for a complete analysis, but such data as do exist reveal the general trends.

63. Information is available on wages of tea and rubber estate workers to construct series of wage indexes from pre-war years. The following table and chart 9 show the course of money wages of these workers, the cost of living index applicable to them (which differs in some respects from the cost of living index referred to earlier) and the real wages.

Course of wages of Tea and Rubber Estate Workers

			<i>Minimum money wages</i>		<i>Cost of living</i>		<i>Real wages</i>
				(1939=100)			
Annual—							
1939	..	..	100	..	100	..	100
1946	..	..	279	..	228	..	122
1947	..	..	293	..	239	..	123
1948	..	..	313	..	259	..	121
1949	..	..	320	..	264	..	121
1950	..	..	372	..	274	..	137
End of Quarter—							
1st Quarter 1949	..	..	324	..	272	..	119
2nd Quarter ..	..	..	320	..	261	..	123
3rd Quarter ..	..	..	305	..	261	..	117
4th Quarter ..	..	..	349	..	266	..	131
1st Quarter 1950	..	..	366	..	275	..	133
2nd Quarter ..	..	..	366	..	271	..	135
3rd Quarter ..	..	..	375	..	278	..	135
4th Quarter ..	..	..	439	..	268	..	164

This table illustrates the extent to which real wages of tea and rubber estate workers have increased since pre-war. At the end of 1950 their real wages were 64 per cent. higher than at the end of 1939. In the last quarter of 1950 alone they rose by 21½ per cent. Although no reliable data are available on wages of non-estate agricultural workers, there is reason to believe that their real wages too have moved in sympathy with those of estate workers. Urban workers, on the other hand, have fared less well. The figures for such trades as printing, motor transport, match-manufacturing, engineering and cinema reveal a fall of 3 to 5 per cent. in real wages between 1949 and 1950. The real wages of Government workers also suffered a decline until the increase in the cost of living allowance with retrospective effect from October, 1950, restored the real wages of those in clerical grades and below.