

(h) Trends in Industrial Development

Even though it is not possible to give accurate information on the rate and pattern of industrial growth in Ceylon during 1961, as complete data on the basis of which this could be done is not yet available, certain significant trends in industrial development during this period can be detected. These trends indicate, not only that past investment is slowly beginning to mature in both the public and private sectors, leading to a gradual expansion and diversification of the industrial base, but also, that there is a certain strengthening of the infra structure, needed for industrial development and a new interest in the starting of industries by the private sector.

Public Sector:

In the public sector the working of existing corporations was reviewed by the Government during the course of the year and several steps were taken, following the review, to improve the efficiency of the corporations. Firstly, a number of corporations were re-grouped and the management was brought under a single administrative unit in order to overcome the problems of managerial shortages and to effect economies in overhead expenditures, e.g., the amalgamation of the Paranthan Chemicals and the Salt Corporations. Secondly, in certain instances, additional foreign and local expertise has been brought in to strengthen the existing management structure, e.g., the Eastern Paper Mills Corporation. Thirdly, almost all the existing corporations have been reorganised with a view to increasing production and in certain cases expansion programmes have been prepared or implemented. Fourthly, the Government itself has been exercising a closer inspection of activities of the corporations in order to ensure that production and other targets are being adhered to. As a result of these measures many of the older corporations have now expanded output and have begun to show operational profits.

Table II -53 gives figures of industrial production in the public sector

A significant development in cement production is the implementation of an expansion programme. This expansion programme has three stages: (1) establishment of a second kiln at the existing site in Kankasanturai; (2) a klinker grinding plant at Galle, and (3) establishment of another cement factory at a third site, near Puttalam where suitable raw materials are available. The cost of the first two stages would amount approximately to Rs. 40 million to be obtained through a credit from the West German Government. The average annual production of cement has been about 80,000 tons which could meet about one-third of the present domestic requirements. With the completion of the expansion programme of the existing plant, production will increase to 250,000 tons. Another 200,000 tons will be produced by the second plant when it is completed. The second plant will cost Rs. 50 million, for which the possibility of further credit from foreign sources is being explored.

TABLE II-53
Public Industrial Corporations

Name of Corporation	Established	Capital Rs. Mn.	Products	Production							Remarks
				Units	1956	1957	1958	1959	1960	1961	
1. Eastern Paper Mills ..	1955	22.0	Paper	Tons	736	1,379	1,235	4,187	4,563	2,545(1)	Factories under construction for the manufacture of bricks and tiles Construction work in progress Under construction -do-
2. Ceylon Oils & Fats ..	1955	19.8	Coconut oil ..	Tons	1,234	3,426	6,678	7,477	8,112	10,459	
3. Ceylon Ceramics ..	1955	3.0	Animal and poultry foods.	Tons	111	1,800	4,700	3,422	11,723	23,607	
			Ceramic ware.	Tons	201	338	368	425	466	480	
4. Ceylon Plywoods ..	1956	2.8	3 Ply plywood	Sq. ft.	5,578,621(2)	7,591,767	6,877,675	8,309,077	9,288,514	11,271,523	
5. D. I. Leather Products	1956	1.7	Footwear and Leather goods	Value of production at standard cost rupees	637,692(3)	1,012,212	1,278,256	367,488(4)	1,358,454(5)	1,523,035(6)	
6. Paranthan Chemicals	1956	15.7	Caustic Soda ..	Tons	—	—	—	—	78.4	666	
7. Ceylon Cement ..	1956	26.8	Cement ..	Tons	83,371	48,195	79,079	93,463	83,623	80,471	
8. Mineral Sands ..	1957	8.0	Ilmenite ..	Tons	—	—	—	—	6,264	3,832	
9. Kantalai Sugar ..	1957	28.0	Sugar ..	Tons	—	—	—	—	215	306	
			Molasses ..	Tons	—	—	—	—	319	155	
10. National Salt ..	1957	14.0	Salt ..	Tons	—	—	—	4,164	11,233	No production	
11. National Textiles ..	1958	41.1	Yarn ..	Lbs.	—	—	—	—	—	423,324	
12. National Small Industries ..	1959	5.6									
13. Hardboard ..	1959	3.0									
14. Industrial Estates ..	1960	2.5									
15. Iron and Steel ..	1961	80.0	Initial investment								
16. Tyre and Tube ..	1961	51.7									

(1) For nine months from January to September

(2) For nine months from April to December

(3) For nine months from April to December

(4) For three months from January to March

(5) For twelve months from April 1959 to March 1960.

(6) For 12 months from April 1960 to March 1961.

The Ceramic Corporation has now overcome the initial difficulties and an increase of production from 466 tons to 480 tons has occurred between 1960 and 1961. The expansion programme of the Corporation consists in the setting up of (1) a second plant which will cost Rs. 2 million, and (2) a Kaolin refinery which will cost Rs. 9 million. It is estimated that with the completion of this programme Ceylon could attain self-sufficiency in a number of ceramic products.

The Leather Products Corporation also has shown an increase in production during 1960/1961 compared to the corresponding period in 1959/1960. The value of production has been Rs. 1,358,454, and Rs. 1,523,035, for the periods April 1959 to March 1960 and April 1960 to March 1961 respectively. The Corporation has plans for expansion and will import the necessary machinery and equipment from Czechoslovakia.

Production at the Plywoods Corporation increased from 9,288,514 sq. ft. to 11,271,523 sq. ft. of 3 ply plywood. Another Corporation, which has shown a measure of success recently after losses in previous years, is the Eastern Paper Mills Corporation. Production of paper is now over 4,000 tons as against the original estimate of 3,750 tons. A Rs. 7 million expansion programme has been budgeted for. The Paranthan Chemicals Corporation and the Ceylon Mineral Sands Corporation both commenced manufacture in the latter part of 1960. In 1961, the former has produced 666 tons of caustic soda and the latter 3,832 tons of ilmenite.

During the year under consideration, of the newer industrial undertakings of government some came into production, others were brought into the construction stage, while in some cases the plans were finalised. The most important of the former category are the National Textile Corporation and the Kantalai Sugar Corporation. Both these factories began operations in 1961. The National Textile Corporation will have two factories which cost Rs. 41 million, one financed from domestic sources and the other by foreign aid from the People's Republic of China. The first factory has already begun operations and has produced 423,324 pounds of yarn, which will be used in the handloom and hosiery industries. The weaving operations in this factory will start later with imported yarn. It is expected that the second factory will come into operation by the end of 1963.

The Kantalai Sugar Corporation completed its construction phase in 1960 but is facing a problem due to the shortage of sugar cane. By the end of 1961 about 520 tons of sugar had been produced. A distillery attached to the sugar factory is under construction and is expected to come into production by 1962. In order to overcome some of the difficulties on the agricultural side both the production of cane and the manufacturing process, which were hitherto under different Ministries have been amalgamated. In 1960, the sugar factory under the Gal Oya Board at Amparai also commenced production and as at end of 1961, 2472 tons of sugar have been produced.

Construction work is in progress in two other corporations, which expect to commence operations in 1962 i. e. the Industrial Estates Corporation and the National Small Industries Corporation.

In the third category there are two large projects, i. e. the Ceylon Steel Corporation and the Tyre and Tube Corporation. Finances for both these projects will be met from the credit extended from the U. S. S. R. The initial investment in the former will be Rs. 80 million and in the latter will be Rs. 51.7 million. The Steel Corporation is currently undertaking the first stage of the project which consists of a rolling mill and the production of wire rods. The project will be on the basis of imported raw material in the initial stage. It is expected that the Tyre and Tube project will mature in 1964. The Government is also currently conducting discussions with foreign governments and with private investors for the establishment of an oil refinery and a fertiliser plant in the public sector in Ceylon.

Private Sector-Policy

The Government re-stated its policy ⁽¹⁾ towards the private sector, and improved the administrative machinery for approving and giving assistance to private industrialists. Currently, encouragement to the private sector to participate in industrial development takes the form of (a) exemption of profits from tax, either partially or wholly, (b) development rebates by which investments are exempted from income tax up to a percentage of the expenditure incurred, (c) depreciation allowances, (d) concessionary rates of duties on equipment and raw materials, (e) Government's participation along with private capital in the establishment of small scale consumer industries (f) loans to industrial ventures, (g) technical assistance through the Ceylon Institute of Scientific and Industrial Research and the Department of Small Scale and Cottage Industries, (h) protection of domestic manufacture through import control, tariff adjustment, Industrial Products (Regulations) Act, (i) Government purchases. The Government has also expanded its investment in improving the basic facilities for further industrial growth such as power, transport and technical education.

The Government, in recognition of the importance of attracting private foreign capital and technical know-how to supplement available local resources for industrial development made a declaration of its policy towards private foreign capital in the Budget Speech of the Minister of Finance for 1960/61, setting out the conditions under which foreign capital would be admitted to Ceylon. In this statement the Government has agreed to extend all tax, tariff and other benefits, enjoyed by local capital to foreign capital too. In addition the following assurances were also given:

1. The repatriation of dividends and the eventual repatriation of assets will be freely permitted;

(1) Investors' Guide, Bulletin One Series 1—Issued by the Development Division of the Ministry of Industries.

2. The bringing in of necessary technical and managerial personnel will be freely permitted;
3. Such personnel will be permitted to transmit a part of their earnings abroad;
4. The Government agrees in principle to make provision for the avoidance of double taxation by means of Government to Government agreements.

Re-organisation of the administrative machinery. For the implementation of its policy both in the private and public sectors the Government has established a new Development Division in the Ministry of Industries. In addition three other measures have been approved by Government for strengthening the machinery for promoting small scale and cottage industries which now form an integral part of the overall national industrial plans. A Small Scale and Cottage Industries Development Board, a Small Industry Service Institute and a scheme for providing credit and supervision to cottage industries are to be established.

In addition to these inducements and institutional changes, the import restrictions introduced from 1960 consequent on the deteriorating balance of payments position contributed significantly to changing the climate for domestic manufacture in 1961. In 1960 the restriction of imports took the form of bringing under individual licence and quotas a range of goods which were under open general licence. In 1961 the import of a number of these items was suspended temporarily or severely curtailed. The effect of the restriction of imports coupled with the Government's policy for encouraging local industries has been an increased interest in the establishment of local industries to manufacture import substitutes.

Private domestic investment. During the period May 1960 to November 1961, a number of enterprises in various fields of industry have been approved by the Development Division.* In addition there are projects which have been approved only in principle e. g. motor car assembly, and others which are still under consideration. The total equity investment envisaged in the above enterprises is approximately Rs. 57 million. Total capital employed in these investments would, of course, be a larger amount. The most striking feature of the above list is the high proportion of consumer goods industries involving an addition of value locally which results in the saving of foreign exchange. A number of enterprises of recent origin such as garment manufacture and biscuit making do not appear in the list as approval for these was given prior to the period under consideration.

*These enterprises include such projects as rayon weaving and finishing manufacture of razor blades, refrigerators, boot & floor polish, shoe cream, assembly and manufacture of clocks and watches, sewing machines, manufacture of fountain pens, carbon paper polyester buttons, sealing wax, plastic goods, pyrotechnics, artificial jewellery, electric fans, beer, plain and lithographed metal containers, sewing thread, joss sticks, camphor, printing ink, footwear, galvanised products, parcelling twine, fibre suitcases, zinc cans, kerosene cookers, and stoves, spectacle frames, jams, sauces, fruit juices, rotogravure printing, manufacture of umbrellas, asbestos cement products, pins, and clips, floor coverings and table top materials, chocolate, woodscrews, wire nails, and panel pins, bolts and nuts, pharmaceuticals, soap, toy tricycles motor sed delivery tricycles, pane and sheet glass, cigars, tyre retreading manufacture of brassiers, garments, floor tiles, paints, accumulators, confectionery, toilet requisites and beauty preparations building materials and wires and cables.

Private foreign investment. Some of the above projects include private foreign participation. The Committee established by Government for screening new foreign investment applications have approved foreign investments in the following fields of industry: semi-manufacture and assembly of radios, air conditioners, refrigerators, cycles and kerosene cookers, manufacture of enamel ware, galvanised products, motor spares and accessories, car batteries, paints and varnishes, tooth powder and toilet preparations and the weaving and finishing of rayon cloth. The total inflow of foreign capital in these enterprises will be of the order of Rs. 7 million. The main sources are the U. K., U. S. A. and Japan. Certain other investments are still under consideration. The list above does not give a complete picture of foreign investment in Ceylon during this period as it does not include reinvestment of profits by existing foreign concerns.

Participation by the Development Finance Corporation. Another indicator of the rising activity in the private industrial sector is the operations of the Development Finance Corporation of Ceylon. The Corporation began its activities in 1956 and as of the end of December 1961, the total amount of participations in a variety of forms by the Corporation in development projects was Rs. 24.7 million. Practically, the whole of the investment has been in industry. As the Corporation generally participates to an extent equal to that of the private investors, it could be estimated that the total investment associated with the D.F.C.C. was of the order of approximately Rs. 49.4 million.

Despite this evidence of a strengthening and an expansion of the industrial base in Ceylon, it would appear that the general rate of industrial growth needs to be stepped up through a careful and systematic harnessing of all available resources. This is particularly so in view of such problems as low incomes growing unemployment and continued pressure on external payments.

Closer Regional Co-operation. A step which could hasten the pace of industrial development and which Ceylon along with other Asian countries is attempting to take is the furthering of closer economic co-operation among the countries of the region. The Government of Ceylon has agreed in principle to the establishment of an organisation for Asian Economic Co-operation to promote regional co-operation in various fields including trade, industry, agriculture, transport and communications.

International Development Association. Industrial development in Ceylon could also be furthered as a result of Ceylon's membership in the International Development Association, in June 1961. The International Development Association was established as an affiliate of the I.B.R.D. to assist in channelling additional external finance and technical assistance to meet important development projects in under-developed countries, on terms which are more flexible and bear less heavily on the balance of payments than those of conventional forms of assistance. The initial subscription allocated to Ceylon is \$ 3.03 million.