An emerging problem that could assume fairly serious proportions in the future is the exodus of trained and skilled man-power for employment abroad. Unfortunately, detailed data on the volume and type of specialization of these categories are not available. While a migration of scientific, engineering and medical personnel has occurred in relatively small numbers over a long period, ever since boom conditions have emerged in the Middle Eastern countries following the rise in oil prices in the early seventies, there has been an accelerated outflow of trained and skilled middle level technicians and craftsmen such as electricians, mechanics, welders and so on. As in many other countries, such as India and the United Arab Republic, these personnel could be a source of inward remittances which could provide Sri Lanka with much needed balance of payments support. Also, the migrations could reduce the domestic pressure on employment. But to the extent that such skills are also required in Sri Lanka for its development effort and as far as the training of new persons in such skills would take much time and resources, it is important to ensure that no serious bottlenecks are created in the national development process by absence of necessary skills when required. A detailed quantification and study of this problem as a prelude to a comprehensive manpower planning and training exercise should deserve high priority of the government.

External Trade

According to Customs records, Sri Lanka experienced a surplus in the balance of trade for the second successive year in 1977. Export earnings increased from Rs. 4,815 million in 1976 to Rs. 6,638 million in 1977 and payments for imports, from Rs. 4,645 million[1] to Rs. 6,007 million. As a result, the surplus in the balance of trade increased from Rs. 170 million in 1976 to Rs. 631 million in 1977. While the surplus in 1977 registered an all time high, it accounted for nearly 10 per cent of the country's total export earnings.

As in the past, the Central Bank has adjusted Customs data in order to obtain a more accurate picture of the country's trading activity with the rest of the world, by taking into account the trade data of certain government institutions, whose transactions are recorded by Customs after a lag of sometime[2]. The following table gives the Customs and the adjusted data during the last four years.

TABLE 8

Balance of Trade 1974–77

Rs. Million.

Year	Imports		Exports		Balance of Trade	
	Customs	Adjusted	Customs	Adjusted	Customs	Adjusted
1974 ...	4,554	4,770	3,472	3,503	− 1,082	− 1,267
1975 ...	5,251	5,196	3,933	3,969	− 1,318	− 1,228
1976[1] ...	4,645	4,902	4,815	4,840	+ 170	− 62
1977 ...	6,007	6,061	6,638	6,570	+ 631	+ 509

Sources: Customs, Sri Lanka.
Central Bank of Ceylon.

1. Revised Customs figure.
2. Refers to imports of cereals, sugar, exports of petroleum products and gems

According to the adjusted data, the Customs trade surplus of Rs. 170 million in 1976 turns to a small deficit of Rs. 62 million. In 1977, a trade surplus is recorded of Rs. 509 million, which amounts to 8 per cent of export income.

The improved trade position in 1977 was largely due to the improvement of the terms of trade for the second successive year. Sri Lanka's terms of trade has continuously deteriorated since 1965 until it showed an improvement of 35 per cent in 1976, owing to increase in export prices by 20 per cent and fall in the import prices by 12 per cent. In 1977, the terms of trade improved further by 31 per cent, owing to the sharper increase in the overall price of exports of 60 per cent, which more than offset a 23 per cent rise in import prices. An unprecedented increase of the tea export price index by about 80 per cent contributed substantially to the improvement in the terms of trade. Table 9 below gives a summary of the overall position.

TABLE 9

Foreign Trade - 1968-77

Year	Rupees Million			Index Number (1967=100)				
	Exports[1] (f. o. b.)	Imports (c. i. f.)	Balance of Trade	Volume: All Exports	Volume: All Imports	Prices: All Exports	Prices: All Imports	Terms of Trade
1968	2,035	2,173	− 138	103	101	117	126	93
1969	1,916	2,543	− 627	98	108	117	134	88
1970	2,033	2,313	− 280	102	102	118	140	84
1971	1,947	1,986	− 39	99	90	117	150	78
1972	2,009	2,064	− 55	97	88	118	157	75
1973	2,617	2,715	− 98	98	79	137	209	65
1974	3,471	4,554	− 1082	85	56	217	370	58
1975	3,933	5,251	− 1318	102	69	199	433	46
1976[2]	4,815	4,645	+ 170	97	75	239	383	62
1977	6,638	6,007	+ 631	89	97	382	471	81

Sources: Customs, Sri Lanka, Central Bank of Ceylon.

1. Including re-exports.
2. Revised figures.

Exports

Total export earnings rose by Rs. 1,823 million or 38 per cent. This was largely due to a 67 per cent increase in tea export earnings which rose from Rs. 2,100 million in 1976 to Rs. 3,503 million in 1977. The quantity of tea exports declined by 14 million kilograms, but the average export price rose sharply from Rs. 10.50 to Rs. 18.86 per kilo in 1977. This price improvement was the combined result of firming of international tea prices in 1977 and the depreciation of the Rupee during the latter part of 1977. Rubber export earnings rose by Rs. 41 million or by 5 per cent, when a drop in export quantity was again compensated by a rise in prices. In the case of coconut, earnings fell by 12 per cent, (largely) on account of a sharp drop in exports. Earnings from minor agricultural exports rose by Rs. 106 million or by 46 per cent. Customs data reveal an increase in Gem exports of 14 per cent, but according to the State Gem Corporation, exports actually declined in 1977 by 11 per cent, largely due to uncertainties in the market. Industrial exports showed an increase in earnings of 13 per cent, which was largely accounted for by an increase in exports of surplus petroleum products of the refinery.

The overall position and the relative shares of exports is shown in Table 10 below.

TABLE 10

Composition of Exports — 1975-1977

	Value Rs. Mn.			Percentage of Total Exports		
	1975	1976	1977	1975	1976	1977
1. Tea ...	1,932	2,100	3,503	49	44	53
2. Rubber ...	654	890	931	17	18	14
3. Coconut ...	397	382	335	10	8	5
4. Minor Agricultural Crops* ...	171	231	338	4	5	5
5. Gems ...	180	261	298	5	5	4
6. Industrial exports*†	542	782	866	14	16	13
7. Other exports ...	48	156	345	1	3	5
8. Total domestic exports	3,923	4,801	6,615	100	100	100
9. Re-exports ...	10	14	23	...	...	...
Total Exports ...	3,933	4,815	6,638	100	100	100

*Selected items. † adjusted data *Source:* Customs, Sri Lanka.

The traditional exports of Sri Lanka – tea, rubber and coconut – increased its share of total export earnings marginally from 70 per cent in 1976 to 72 per cent in 1977, stalling a declining trend that has been observed in recent years. However, this does not indicate a reversal in the pace of export diversification, but reflects more the remarkable improvement in the export prices of the majors in 1977.

Imports

The expenditure on imports during the last 3 years are classified in Table 11 that follows. This data, which are based on customs records, need to be interpreted cautiously because of certain lags in the recording of government imports of rice, flour, sugar and fertilizer. Consumer goods imports at Rs. 2,534 million showed a sharp increase in 1977 and accounted for a share of 42 per cent. Of this, the sub-category of food and drink continued to be the major component reflecting the considerable dependence of the country on imports for consumption. Rice (Rs. 917 million), flour (Rs. 925 million), and sugar (Rs. 197 million), taken together, had a share of 34 per cent of total imports. Trade indices indicate a 45 per cent rise in volume of imports of consumer goods on account of near doubling of food and drink imports. Prices showed a rise of 16 per cent. The share of intermediate goods fell from 49 to 44 per cent, despite an increase of petroleum imports. According to trade indices, the import volume declined by 6 per cent and prices increased by 40 per cent. The share of investment goods dropped from 14 to 12 per cent in 1977.

The volume index showed an increase in imports of 16 per cent, while the price index indicated a marginal rise of about 1 per cent. Generally, the import value of all three categories showed an increase, consumer goods accounting for the major share.

TABLE 11

Expenditure on Imports — 1975-1977

	Value Rs. Million			Percentage of Imports		
	1975	1976	1977	1975	1976	1977
1. Consumer goods ...	**2,651**	**1,689**	**2,534**	**51**	**36**	**42**
1.1 Food & drinks ...	2,520	1,491	2,181	48	32	36
1.2 Textiles and clothing ...	20	49	150	...	1	3
1.3 Other ...	111	149	203	2	3	3
2. Intermediate goods	**1,888**	**2,259**	**2,648**	**36**	**49**	**44**
2.1 Petroleum ...	872	1,164	1,441	17	25	24
2.2 Fertilizer ...	208	99	51	4	2	1
2.3 Chemicals ...	115	90	120	2	2	2
2.4 Other ...	693	906	1,036	13	20	17
3. Investment goods ...	**653**	**641**	**746**	**12**	**14**	**12**
3.1 Machinery and equipment ...	322	364	286	6	8	5
3.2 Transport equipment ...	116	175	232	2	4	4
3.3 Building materials ...	169	104	129	3	2	2
4. Unclassified ...	59	54	79	1	1	1
5. Total ...	5,251	4,645	6,007	100	100	100

Sources: Customs, Sri Lanka.
Central Bank of Ceylon.

The direction of Sri Lanka's trade has undergone a fundamental change in recent years. In 1977, Pakistan emerged as the major trading partner in the export field, by accounting for Rs. 534 million of exports or 8 per cent. United Kingdom accounted for Rs. 533 million, the U.S.A. for Rs. 501 million, and the People's Republic of China for Rs. 433 million. Sri Lanka's imports came mainly from Saudi Arabia (Rs. 742 million or 12 per cent), Iran (Rs. 586 million or 10 per cent), U.S.A. (Rs. 537 million or 9 per cent), Japan (Rs. 398 million or 7 per cent), India (Rs. 358 million or 6 per cent) and the United Kingdom (Rs. 327 million or 6 per cent).

A salient feature in Sri Lanka's recent trade policy has been a gradual change over from bilateral payments agreements to trade agreements with payments in convertible currency. For quite a long time, Sri Lanka had a favourable balance with countries with which she had payments agreements; and there were difficulties in utilizing these balances for augmenting the import capacity. Payment agreements with U.A.R., U.S.S.R., Bulgaria, Czechoslovakia, G.D.R., Rumania and Yugoslavia have been replaced by trade agreements. At present, Sri Lanka has bilateral payments agreements only with People's Republic of China and Syria and a largely non-active account with the Democratic People's Republic of Korea. As a result, Sri Lanka has achieved greater flexibility in the trade with these countries.

The budget speech for 1978 paved the way for the operation of a new trade and payments policy for Sri Lanka. The liberalization of imports consequent upon the floating of the Rupee would result in increased imports of industrial and agricultural inputs required for the country's economic growth. With effect from November, 1977 the Government drastically reduced the numbei of items import of which required prior licensing. The Special Import Licence Order No. 1 of 1977 specified less than 150 items that required licensing and permitted the liberal import of machinery, equipment and spares upto the value of Rs. 700,000. The selection of the license-requiring items was determined on the basis of security requirements, the need for protection of certain local enterprises, and the need to continue certain government subsidies. At the sametime, a new tariff structure was announced in the Revenue Protection Order No. 77/2. The new structure introduced 5 basic slabs of import duties, ranging from 5 to 100 per cent. Lowest rates or duty free imports were applied for imports of raw materials that were not produced locally, and higher duties were specified for those that were. Also, the import of goods that were made locally, especially where the quality of the local product was inferior, was allowed at the highest rates of duty. When account is taken of the depreciation of the Rupee and the high freight cost, these measures were considered adequate for the protection of domestic industry. In fact, the influx of imports (at very high prices) was expected to have an incentive effect on local producers to improve their quality; and the relaxation of import controls was expected to induce them to expand production. In other words, there was a fundamental shift away from cumbersome quantitative controls of imports, towards a more simple control by the tariff structure.

A Tariff Review Committee was appointed to keep the new tariff structure under continuous review, and the appointment of a permanent Tariff Commission is expected. The Committee has made certain marginal adjustments in the tariff since then. Of special importance has been the introduction of a new slab of duty of 500 per cent on a few "luxury" goods.

On the export side, the unification of the Rupee exchange rate in November would have given windfall profits to local producers of traditional exports – tea, rubber and coconut – but the Government siphoned these out by raising the export duties on tea and rubber and by introducing a new export duty on coconut. The question of incentives for these major industries is of considerable importance. Hence, it would be necessary to keep these duties under constant review, in order to ensure the viability of these major sectors of the economy.

With a view to promotion of exports, the Central Bank introduced an Export Packing Credit Guarantee Scheme in January, 1977. This scheme provided for guaranteeing by the Central Bank of pre-shipment (packing credit) advances granted by banks, in respect of non-traditional exports, so as to induce banks to be more liberal in the granting of such credits. The scheme indemnifies banks against two-thirds of any loss suffered by the insolvency or default by the exporter. A more comprehensive export credit insurance scheme covering all aspects of trade finance will be put into operation soon.