

## INDUSTRY

The value of industrial production (excluding export processing industries in the plantation sector) has been estimated to have increased from Rs. 8,852 million in 1978 to Rs. 10,781 million in 1979, reflecting an expansion of 22 per cent. After making adjustments for price changes,<sup>2</sup> the real rate of industrial growth in 1979 could be provisionally estimated at about 4 per cent, as compared with 11 per cent in 1978.

The overall performance of the manufacturing sector in 1979, was appreciably below the high levels reached during the previous year. The current year may be considered as a period of consolidation following the liberalization of the economy since 1977. Evidently, problems of adjustment persisted during the year, while import competition increased. Nevertheless, import liberalization has made raw materials and spares easily available and has led to greater rationalization within industry, resulting from better utilization of production capacities as in the previous year. The pioneer import substitution industries, most of which are more than 15 years old now, faced the problem of modernizing their obsolete machinery and equipment under conditions of rising costs of imported machinery.

**TABLE 1. 12**  
**Value of Industrial Production 1977-1979**

Industrial Group	Value of Production		
	1977	1978	1979*
1. Food, Beverages and Tobacco .. .. .	2,294	2,609	2,856
2. Textiles, Wearing Apparel and Leather Products ..	698	1,008	1,128
3. Wood and Wood Products, including Furniture ..	127	124	166
4. Paper and Paper products .. .. .	270	376	445
5. Chemicals, Petroleum, Coal, Rubber and Plastic Products	2,469	3,279	4,508
6. Non-metallic Mineral Products, except Petroleum and Coal	411	592	710
7. Basic Metal Products .. .. .	132	219	349
8. Fabricated Metal Products, Machinery and Transport Equipment .. .. .	571	590	569
9. Products n.e.s. .. .. .	34	55	50
Total .. .. .	7,006	8,852	10,781

Source: Central Bank of Ceylon.

\* Provisional

1. As in the past, this data is based on a Central Bank survey of nearly 1500 industrial establishments, which constitute the major part of domestic industry. Details will be published in the forthcoming Review of the Economy.
2. In the absence of a reliable index of private industry prices, the relevant components of the Wholesale Price Index has been used to deflate the private sector value of production.

Judging from the response to the Central Bank's questionnaire, small scale and cottage-type industries such as those producing handloom textiles, hand made paper, chemical products such as soap and paint, hardware and metal products suffered from strong import competition. The inability to adjust themselves to the changing circumstances, even after two years of liberalization and high protection, may be indicative of the high degree of inefficiency inherent in this sector. On the other hand, some small industries, such as those making bricks, tiles and wood products, vehicle body construction and repairs, and rural handicrafts expanded rapidly. Much has been said about the plight of this sector in general and the adverse effects on employment if the non-competitive ones are permitted to go out of production, but there was no evidence coming from the government or from the consumers of small industry products that they were inclined to meet the cost of subsidizing these, non-competitive and inefficient industries. As a result, there were signs of some small scale industrialists switching over to other areas such as trade and construction.

In terms of current values, the major expanding sectors in 1979 were chemicals, food and beverages, basic metal products, textiles and garments and non-metallic mineral products. When price changes are discounted, the main growth sectors appeared to be food and beverages, basic metal products, textiles and garments, non-metallic mineral products and wood products. There was widespread a growth in the food, beverages and tobacco sector. In the case of textiles and garments, an increase in output of private factories more than compensated a decline in public sector textile mills. The sole steel mill, which is in the public sector, accounted for the entire growth of the basic metal products sector. Expansion in output of cement, bricks and tiles - all related to the construction industry - accounted for the growth in the non-metallic mineral products sector. However, a decline in production in major sectors such as chemicals and petroleum, fabricated metal products and paper, reduced the overall industrial growth to a modest 4 per cent. In the chemicals sector, a 6 per cent decrease in the oil refinery output was largely responsible for the decline.

According to Customs data, the value of industrial exports at current prices had almost doubled, to Rs. 3,731 million in 1979. When adjusted for changes in the exchange rate, the increase was about 87 per cent. Major increases were evident in the export of textiles and petroleum products, where a major part of raw materials was imported. The share of exports in industrial production increased from 22 percent in 1978 to 35 per cent in 1979.

Prospects for future industrial development may be seen from data of new industry approvals during the year. The Greater Colombo Economic Commission (GCEC) continued to entertain new investment proposals from export-oriented industries. A total of 37 projects, involving an investment of Rs. 1,041 million, with an employment potential of about 13,000 have been approved by the GCEC during 1979. Of these, about 12 firms have firmly committed to set up industries in garments, glass, electrical and mineral products. Of the 52 industries approved by the GCEC in the previous year, 13 industrial units were in operation as at the end of 1979. The total investment in these industries amounted to Rs. 196 million, with about 40 per cent foreign collaboration. The exports of these firms during 1979 have been Rs. 111 million, but in view of their heavy import dependence, value added would have been very low. Majority of these firms were engaged in the manufacture of ready-made garments. As further expansion of such industries could create export problems, the GCEC discouraged such industries in 1979.

The foreign investment outside the (GCEC) is being supervised by the Foreign Investment Advisory Committee (FIAC), which approved 113 new projects, of which about 61 were in the field of manufacturing, as against 21 approvals in the previous year. The total investment of the industrial projects was estimated at Rs. 971 million. The majority of the projects approved in 1979 were in the fields of textiles, garments, coir, rubber and metal products. In several projects, the export potential was reported to be as high as 100 per cent. But, only about one fourth of these projects have made definite investment commitments by entering into collaboration agreements.

Local investment approvals have been decentralized among relevant Ministries. Accordingly, separate Local Investment Advisory Committees (LIAC) have been set up in the Ministries of Industries and Scientific Affairs, Textile Industries, Fisheries and Rural Industry Development. A total of 1803 new investments have been approved by them during 1979, as compared with 2385 approvals in the previous year. The total investment has been estimated to be around Rs. 875 million, while additional employment potential amounted to about 33,000. Again, a majority of these approvals were in the field of textiles and garments.

## PRICES

The average of the Colombo Consumer's Price Index<sup>1</sup> registered an increase of 11 per cent in 1979, as against an increase of 12 per cent in 1978 and 1 per cent in both 1977 and 1976. On a point-to-point basis, the index showed an increase of 15 per cent in December, 1979 over the same month of previous year, compared to an increase of 17 per cent during the same period in 1978.

The commodity wise classification of the index indicated that 30 per cent of the increase in 1979 was due to higher prices of domestic commodities, while 55 per cent and 7 per cent were due to the increase in prices of imports and exports, respectively. A further analysis of the index disclosed that the withdrawal of price subsidies for rice, sugar, milk powder and kerosene in September, along with the introduction of the Food Stamp Scheme and the upward revision of the price of wheat flour and bread in August and October, accounted for 64 per cent of the increase in the index. The rest of the increase reflected the impact of price rises in non-subsidized items.

The 12 months' average of the Central Bank's Wholesale Price Index rose by 9 per cent in 1979, compared with an increase of 16 per cent in the previous year. It showed an increase of 16 per cent in December, 1979 over the same month of last year, compared with an increase of 9 per cent during the corresponding period in 1978. A large part of the decline of the Wholesale Price Index in 1979 was due to a drop in the price of tea, which has a 11 per cent weight in the index.

The Implicit Price Index (GNP deflator), which is the ratio of the GNP at current prices to GNP at constant (1970) prices, increased by 15 per cent, which was the same rate as in the previous year.

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<sup>1</sup> The Colombo Consumers' Price Index compiled by the Department of Census and Statistics and the Central Bank's Wholesale Price Index are the only published indicators available to measure changes in the price level. The Colombo Consumers' Price Index is designed to measure movements in retail prices while the Wholesale Price Index measures prices to the primary market level. The shortcomings of the Colombo Consumers' Price Index, which were spotlighted in the previous Annual Reports, are yet to be corrected, and hence, it still does not explain the movement of retail prices in the economy satisfactorily.