TABLE 1.16

Unemployment Classified by Age Category

Age Group (years)	Unemployment as % of Workforce	
	1973	1978
14 - 18	65.8	23.6
19 - 25	47.5	24.9
26 - 35	15.2	11.5
36 - 45	3.9	4.1
46 - 55	1.2	0.8

Source: Central Bank of Ceylon.

According to the Central Bank's annual survey of employment in the public sector, employment in government departments increased by 33,713 or by 5 per cent in 1979. Of this increase, 39 per cent was in subordinate grades, 29 per cent in teaching, and 24 per cent in minor employees grades. In semi-government institutions (Public Corporations and Statutory Boards) employment increased by 89,385 or by 14 per cent. Of this, 83 per cent was in minor employees grades and 14 per cent was in subordinate grades. There was a substantial increase in employment in public sector plantations of 61,000 or 13 per cent. More than two-thirds of the increase in employment in the semi-government sector occurred in the state plantations.

The number of active accounts with the Employees' Provident Fund, which has been used as a proxy to measure annual changes in employment in the institutionalized private sector, indicated that the number of active accounts in 1979 increased by 102,479 or by 10 per cent. When the increase in employment in semi-government institutions contributing to the fund is deducted, the net increase in employment in the private sector in 1979 could be estimated at 22,525.

The above data indicate that, increase in employment in government departments, semi-government institutions and the organised private sector in 1979 was around 136,000 as against 145,000 in 1978. This figure, however, does not include employment creation in non-institutional private sector and in the domestic agricultural sector, for which data are not avialable.

Available data indicated that there was an acceleration in the exodus of Sri Lankans seeking employment in Middle Eastern countries during 1979. As some of this migration would cause shortages of domestically available skills, the educational authorities will have to undertake a major training programme at the school level. Also, experience of other countries in similar circumstances have shown that the later return of this migratory labour creates considerable socio-economic problems. Resettlement of these workers in productive domestic employment in the near future should, therefore, deserve early attention.

FOREIGN TRADE

Sri Lanka's balance of trade (on the basis of Customs data) registered a deficit of Rs. 7,287 million (SDR 362 million) in 1979, following a deficit of Rs. 1,480 million (SDR 100 million) in 1978. When Customs data are adjusted for the imports and exports by certain government agencies which get recorded after a time lag, the trade deficit of 1979 remained the same. The adverse trade position which Sri Lanka experienced in 1979 was certainly a matter of concern, but this really reflected higher recourse to foreign resources as part of the country's medium-term economic stabilization programme. Import expenditure rose from Rs. 14,687 million (SDR 774 million) in 1978 to Rs. 22,560 million (SDR 1,121 million) or by 45 per cent. On the other hand, there was a relatively smaller increase in the export earnings from Rs. 13,206 million (SDR 674 million) to Rs. 15,273 million (SDR 759 million) by 13 per cent.

TABLE 1 . 17

Balance of Trade 1977—1979

Value in Rs. Million
(SDR Million in brackets)

Year	Imports		Exports		Balance of Trade	
	Customs	Adjusted	Customs	Adjusted	Customs	Adjusted
1977 ..	6,007 (630)(b)	6,298	6,638 (659)	6,570	+ 631 (+29)	+ 272
1978 (*a*) ..	14,687 (774)(b)	15,100	13,206 (674)	13,193	- 1,480 (- 100)	- 1,907
1979 ..	22,560 (1,121)	22,570	15,273 (759)	15,282	- 7,287 (- 362)	- 7,288

Sources: Customs, Sri Lanka;
Food Commissioner's Department;
Ceylon Fertilizer Corporation;
Petroleum Corporation;
State Gem Corporation.

(*a*) Revised

(*b*) Includes adjustments made for transactions after November 15th, 1977 at rates prevailing prior to that date.

The increase in imports was the result of the relaxation of import controls since 1977. The volume of imports, as measured by the Import Volume Index (1978 = 100) rose by 23 per cent. Import prices as measured by the Import Price Index (1978 = 100) indicated an increase of 52 per cent. On the other hand, the export performance was rather disappointing. Volume of exports, as measured by the Export Volume Index (1978 = 100) increased by less than one per cent. However, export prices, except that of tea , have shown improvement in 1979. The Export Price Index (1978 = 100) showed a rise of 9 per cent.

The trade liberalization of 1977 was expected to lead to a substantial immediate increse in imports, while the export response was expected to be slower due to supply rigidities, thereby worsening the trade deficit. This did not take place as anticipated, in 1978, probably on account of the slower reaction of importers, who had to re-establish their trade connections. Belatedly in 1979, the originally anticipated, reaction took place, and the trade deficit recorded a near four-fold increase. Despite higher prices, demand for capital and intermediate goods accelerated, as the general economic climate improved considerably. By contrast, the volume of all major exports tea, rubber and coconut as well as most of the minor agricultural crops declined during the year, due to an uneven production performance arising from adverse weather and problems in management and marketing. With the declining prices of tea, the incentives given by the exchange reform in 1977 was maintained by way of export duty reductions in July, 1979.

TABLE 1 . 18

Foreign Trade 1970—1979

Year	Rupees Million			Index Numbers (1978=100)				Terms of Trade
	Exports [1] (f.o.b.)	Imports (c.i.f.)	Balance of Trade	Volume		Prices		
				All Exports	All Imports	All Exports	All Imports	
1970 ..	2,033	2,313	– 280	107	77	17	16	106
1971 ..	1,947	1,986	– 39	104	68	17	17	98
1972 ..	2,009	2,064	– 55	102	67	17	18	94
1973 ..	2,617	2,715	– 98	103	60	20	24	82
1974 ..	3,471	4,554	–1,082	89	42	31	42	72
1975 ..	3,933	5,251	–1,318	107	52	29	49	58
1976 ..	4,815	4,645	+ 170	102	57	34	44	78
1977 ..	6,638	6,007	+ 631	94	73	55	54	102
1978 ..	13,206	14,687	–1,480	100	100	100	100	100
1979 ..	15,273	22,560	–7,287	101	123	109	152	72

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

1. Including re-exports.

Rubber benefited from buoyant prices and an era of stability in rubber trading was indicated with the signing of the International Buffer Stock Agreement in September. Coconut prices too were better in the year, but the country was unable to reap the full benefits due to a shortfall in the volume available for export, resulting from certain export restrictions.

Exports

In 1979, export earnings in rupee terms increased by 16 per cent, while in SDR terms the increase was 13 per cent, showing an improvement over 1978. Earnings from tea and gems declined, while earnings from rubber, coconut, minor agricultural exports, petroleum and industrial exports increased.

The value of tea exports in 1979 amounted to Rs. 5,722 million, indicating a decline of 11 per cent (13 per cent in SDR terms). This was due to a decline in the volume of exports by 3 per cent and a drop in prices by 8 per cent. The average f.o.b. price per kilo of tea exported in 1979 was Rs. 30.51 (SDR 1.52), as against Rs. 33.22 (SDR 1.70) in 1978. The average price of tea sold at the Colombo auctions declined by 14 per cent in 1979 and the average price of Sri Lanka tea at London auctions declined by 9 per cent. In July, duties levied on tea exports were reduced by nearly one-third, while the Tea Board cess increased marginally. As mentioned earlier, the tea industry suffered badly from a liquidity-cum-profit squeeze due to deteriorating prices and heavy taxation. This major industry deserves urgent corrective measures if it is to lead the much desired export growth in a liberalized trade regime.

The value of rubber exports (in rupee terms) rose remarkably by 23 per cent in 1979 over 1978. This increase was entirely due to a rise in prices by 33 per cent, because the quantity of rubber exports fell by 7 per cent. At the end of the year, rubber stocks awaiting shipment were fairly high. This could be due to the uncertainty in the market and inadequate shipping facilities.

TABLE 1.19

Composition of Exports 1977 - 1979

Category	Value Rs. Million SDR Million in brackets			Percentage of Total Exports		
	1977	1978 (*b*)	1979	1977	1978 (*b*)	1979
1. Tea ..	3,503 (355)	6,401 (327)	5,722 (284)	53	48	37
2. Rubber ..	931 (93)	2,021 (103)	2,491 (124)	14	15	16
3. Coconut ..	496 (47)	1,271 (65)	1,699 (84)	7	10	11
3.1 Kernel products	335 (32)	972 (50)	1,298 (64)	5	7	8
3.2 Other ..	161 (15)	299 (15)	401 (20)	2	2	3
4. Minor Agricultural Crops (*a*) ..	340 (35)	738 (38)	851 (42)	6	6	6
5. Industrial Exports (*a*)	941 (88)	1,940 (99)	3,731 (185)	14	15	24
5.1 Textile & Garments	143 (13)	481 (25)	1,108 (55)	2	4	7
5.2 Petroleum Products ..	597 (56)	945 (48)	1,926 (96)	9	7	13
5.3 Other ..	200 (19)	514 (26)	697 (35)	3	4	5
6. Gems ..	298 (30)	531 (27)	490 (24)	4	4	3
7. Other ..	129 (11)	304 (16)	289 (15)	1	2	2
Total Exports ..	6,638 (659)	13,206 (674)	15,273 (759)	100	100	100

Source: Customs, Sri Lanka.

(*a*) Selected items (Revised)
(*b*) Revised

Earnings from coconut exports (in rupee terms) too increased sharply by 34 per cent. As in the case of rubber, this increase was entirely due to the world price increases of coconut products in 1979. The volume of coconut kernel products exports in 1979 dropped by 10 per cent. Of the total value of Rs. 1,699 million of coconut exports, Rs. 1,298 million was earned by coconut kernel products and Rs. 401 million by the other products.

Export earnings of selected minor agricultural crops at Rs. 851 million in 1979 showed an increase of 15 per cent. The volume of exports of cinnamon, cloves and cardamoms increased significantly, while that of pepper, cocoa, papain and sesame seeds declined. The petroleum exports (including bunkering) at Rs. 1,926 million indicated an appreciable two-fold increase, as a result of a marginal increase in volume and a substantial rise in prices. Gem exports declined by 8 per cent in value terms, despite tax reliefs. The gross value of exports from the Industrial Processing Zone at Katunayake in 1979 was Rs. 115 million of which, garments alone accounted for Rs. 107 million. The overall value of textile and garment exports by Sri Lanka increased, as expected, from Rs. 481 million in 1978 to Rs. 1,108 million in 1979, or by 130 per cent.

Imports

As mentioned earlier, import expenditure rose by 54 per cent in rupee terms or by 45 per cent in SDR terms in 1979. The volume of imports was higher by 23 per cent, and the import prices, by 52 per cent. The rate of flow of imports

TABLE 1.20

Expenditure on Imports 1977 - 1979

Category	Value						Percentage of Total Imports		
	Rs. Million			SDR Million					
	1977	1978*a*	1979	1977	1978(*a*)	1979	1977	1978	1979
1. Consumer goods	2,534	5,618	7,824	270	287	389	42	38	35
1.1. Food and drinks	2,181	4,127	4,807	224	211	239	36	28	21
1.1.1. Rice	917	689	884	94	35	44	15	5	4
1.1.2. Flour	925	2,192	1,691	96	112	84	15	15	8
1.1.3. Sugar	197	620	929	19	32	46	3	4	4
1.2. Textile & clothing	150	531	1,536	15	27	76	3	4	7
1.3. Other	203	959	1,481	31	49	74	3	7	7
2. Intermediate goods	2,648	5,591	9,143	262	286	454	44	38	41
2.1. Petroleum	1,441	2,403	3,912	141	123	194	24	16	17
2.2. Fertilizer	51	252	673	6	13	33	1	2	3
2.3. Chemicals	120	446	502	15	23	25	2	3	2
3. Investment goods	746	3,367	5,459	73	172	271	12	23	24
3.1. Machinery & equipment	286	1,846	2,900	33	94	144	5	13	13
3.2. Transport equipment	232	988	1,615	24	50	80	4	7	7
3.3. Building materials	129	150	368	9	8	18	2	1	2
4. Unclassified	79	110	134	25	30	7	1	1	1
Total	6,007	14,687	22,560	630	774	1,121	100	100	100

Source: Customs, Sri Lanka.

(*a*) Revised

accelerated 1979. In contrast to the pre-liberalization period, capital and intermediate goods imports were prominent. Out of total imports, capital goods imports rose from 23 per cent in 1978 to 24 per cent in 1979. The intermediate goods too increased from 38 per cent in 1978 to 41 per cent of the total in 1979. The increasing levels of capital and intermediate goods imports indicated an improving investment climate. Of the total value of investment goods imports, 53 per cent consisted of machinery and equipment, 30 per cent transport equipment, and 7 per cent building materials. Latter imports rose nearly one and a half times.

Of the total value of imports, the expenditure on intermediate goods constituted little over 40 per cent, at Rs. 9,143 million, indicating an increase of 64 per cent over 1978. Nearly two-third of this increase was the result of higher prices of petroleum (43 per cent) and fertilizer (7 per cent).

The share of consumer goods, declined from 38 to 35 per cent. These imports increased by Rs. 2,206 million or by 39 per cent in 1979. Foods and drinks represented 61 per cent of such imports, while textile imports accounted for 20 per cent. The other consumer goods imports increased by 54 per cent.

Of the total value of imports, rice, flour and sugar constituted 16 per cent in 1979, compared to 24 per cent in 1978. But the total expenditure on these three commodities taken together increased marginally. The value of sugar imports went up by 50 per cent, while that of flour imports declined by 23 per cent. The value of rice imports increased by Rs. 195 million or by 28 per cent, with a 13 per cent increase in quantity. There has been a 40 per cent increase in the volume of sugar imports in 1979.

Foreign Trade Policy

Export promotion and further dismantling of trade controls and the continuous review of the tariffs were the main features of the trade policy in 1979. The policies designed to promote exports included institutional support, fiscal incentives and development of export processing zones, as a special case.

The Sri Lanka Export Development Board was established in June, comprising of representatives of the government and the private sector. The Board acting under the overall guidance, and directon of an Export Development Council of Ministers, where the President of Sri Lanka was the Chairman, was responsible for the formulation, monitoring and implementation of national export development policies and plans. Further, the Board will function as a focal point within the government where the exporters can deal with all export problems in cloes cooperation with the various agencies of the government and of trade and industry. An Export Development Fund was established for export product development with financial assistance. The other institution aimed at export promotion has been the Sri Lanka Export Credit Insurance Corporation established in February, 1979 to assist exporters to obtain pre and post shipment finance, and guarantees on credit for execution of export orders. With the assistance of commercial banks, the Corporation provided insurance cover against non-receipt or delayed receipt of payments from abroad due to commercial and non-commercial risks.

Within the framework of overall fiscal policy, there have been many incentives granted to exporters in 1979. Under the Inland Revenue Act, tax holidays investment relief was granted in respect of companies which undertake exports or provide services for payment in foreign currency. The full cost of plant, machinery and fixtures and a half the cost of building construction were allowed to be deducted from the taxable income of manufactures. Tax holidays and exemptions were also provided for companiesengaged in export and other productive activities. The cost of advertising and travelling outside Sri Lanka in connection with export promotion were made deductible from taxable income. The export of any manufactured or processed articles was exempt from Business Turnover Tax. In addition, a duty drawback scheme was in operation, whereby the exporters could obtain a rebate on the customs duty paid on imported raw materials and components at the point of export of processed goods.

Import duties underwent several modifications during the year. Duties on some capital goods such as mammoties, floats for fishing nets and liquid transporters were removed while the duty on lorries and vans were reduced to 5 per cent. Import duties on many intermediate goods were also reduced, as in the case of articles of iron and steel, batteries, cement, sanitary ware, aluminium ware, radio parts, fluorescent lamps and television equipment. However, the duties on certain intermediate goods such as machine glazed kraft paper and semi chemical fluting paper were increased. The duty on motor cycles and other cycles was removed and the duty on television sets was reduced from 5o to 12½ per cent and gas cookers from 50 to 25 per cent. The duty on domestic refrigerators and deep freezers was increased from 50 to 75 per cent while the duty on refrigerating equipment was reduced from 50 to 25 per cent.

Some consumer items such as soap, matches, paper, books, certain textiles and glass chimneys were allowed to be imported at reduced rates. On the other hand, duties on certain kinds of fabrics, alcoholic beverages, sweetened condensed milk, rectified and other spirits were raised.

Export duties too were modified during 1979. The export duty on tea was reduced, but the Tea Board cess was increased. In regard to rubber, the Rubber Research cess was doubled. Export duties on agricultural export crops, except for cinnamon were abolished.

Internal Trade Policy

Under the liberal trade policy, price mechanism was expected to provide the necessary incentives to producers, while free competition was expected to ensure fair prices to the consumers. Although there was no conscious effort to negate these principles, certain state activities tended to limit the full benefits of a liberal trade policy.

Legal provisions for price controls that prevailed earlier continued to remain in the statute book, and were used only in respect of a few essential commodities such as sugar, flour, bread, dhall and infant milk foods. The Consumer Protection Law enacted during the year, while providing for some welcome measures such as promotion of associations of consumers and establishment of fair trade practices, also provided for prescribing of any articles and services for regulation by the National Price Commission. At a time when encouragement of higher levels of investment and greater competition was the declared policy of the Government, such price regulatory measures appeared unwarranted.

The main state trading organizations continued to operate in competition with the private sector. Yet, in the trading of certain items like textiles and dried fish which were subject to licensing, these organizations remained a favoured sector. It appeared that the principal role of these organizations was, to assist the government in its attempts to reduce the cost of living, particularly, of the low income groups, and also to stabilize prices of essential commodities.

Government's intentions of further liberalization of trade became apparent when the import of sugar was liberalized. However, no private commercial import of sugar could be expected, as the government declared its intention of stabilizing sugar prices during the year. Also, despite liberalization, sugar continued to remain a commodity subject to price control, which probably deterred prospective private importers from entering the trade. Once the import of a commodity is liberalized, the need for price control of that commodity should not arise.

The Governments' concern for the consumer interests sometimes resulted in certain ad hoc decisions and short term measures being taken which would have discouraged domestic production in the long run. For instance. the import of chicken and its sale at very low prices by the state at one time disrupted market incentives and created much uncertainty in the local poultry industry. Such decisions could adversely affect long term investment.

As a means of stabilizing prices and ensuring regular supplies, "buffer stock schemes" were in operation for a number of commodities such as dried chillies, safety matches, milk foods, dried yeast, corriander, fish etc. Some of these schemes did not appear to have been well worked out. Stocking of dried yeast, for instance, resulted in unsold stocks being piled up in warehouses. In the case of dried chillies, there was no proper co-ordination between the two main organizations, the C.W.E. and the Marketing Department.

There is an urgent need for greater rationality to be brought into state trading policies. In keeping with the overall liberal policy framework, they ought to bring in greater competition and efficiency in the public sector trade, if that sector is to engage in trade in a big way at all. Adequate protection and incentives to local producers should be ensured through an appropriate long-term tariff policy. Frequent revisions of tariffs create uncertainties, and thereby act as constraints to long-term business decision making. Pricing of commodities by the state trading organizations should give more consideration to producer incentives. Buffer stock management would need to be more carefully worked out, both to avoid over stocking, and also not to over-supply the market, especially in the case of locally produced minor foods stuff like chillies; onions and potatoes.

BALANCE OF PAYMENTS [1]

The balance of payments developments in 1979 were largely the outcome of the economic reforms since 1977. Imports were liberalized with a view to raising domestic productivity, and to achieve an export-led economic growth in the long-term. As a result of the immediate increase in demand for imports, arising from increased domestic economic activity, along with a sharp rise in import prices, the

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1 The trade data used in the balance of payments are actual receipts and payments during the year. They differ from the external trade data given earlier, which reflect the physical movement of exports and imports. The difference is due to the time lag between receipts and payments on one side and the physical movement of goods, on the other.