INDUSTRY[1]

The predominant features of the manufacturing industry during 1980 were the expansion of export-led industries, greater participation of foreign collaborators in industry and exposure of the less efficient industries to competition from imports leading in certain instances to a winding-up of weak concerns.

Prior to the economic reforms of 1977, industries were heavily protected by rigid import controls, foreign exchange allocations and high tariffs. The availability of tied aid lines was also instrumental in providing an edge to some industries favouring sheltered development. The prolonged continuance of these restrictive measures induced by and large an inward looking industrial sector. These measures proliferated in many instances inefficient industries, discouraged the inflow of foreign capital and large-scale investment in industry. With the removal of barriers to trade while retaining protective tariffs, some entrepreneurs, the major ones in particular, took steps in the period following the reforms of 1977 to sustain their capacity utilization and to upgrade the products so as to improve their competitive strength against the challenge from imported products. The much improved investment climate also contributed to further rationalise investment activity. Several of these expansionary programmes were supported by foreign collaborators by way of providing capital, technology and management skills.

In real terms, the overall industrial production is estimated to have increased by 6 per cent in 1980. While 1979 was an year of consolidation following the liberalisation of the economy, the year 1980 could be characterised as a period of moving ahead. The single most important reason for the industrial growth during the year was a 31 per cent increase in the output of petroleum products. Enhanced production levels of garments, wood products, basic metals, cast iron and rubber products also contributed to the increase.

On the other hand, certain industries suffered from the freer flow of imports. A setback in production was evident in the textile industry. The output of yarn and cloth of government-owned textile mills as well as private mills was curtailed substantially during the year on account of marketing problems. A wide range of fashionable fabrics was imported from countries internationally reputed for high quality. The point is stressed that most of the imported textile fabrics are produced under highly efficient conditions employing automated machinery such as air-jet looms, water-jet looms and rapier looms. In comparison and in vivid contrast, outdated machines with poor layout and limited versatility are used in most textile mills in this country. Only limited varieties of fabrics and finished products are producible given the outdated and restricted character of the machinery with resultant higher costs of production for inferior products. Further, in spite of higher prices traders were able to sell imported textile materials because of customer preferences for quality. Besides, sales of imported textiles were kept buoyant through misuse of facilities such as the gift parcel scheme which was in operation and the free baggage allowance to incoming passengers. In view of these factors, the local producers

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1 As in the past, data relating to the performance of the industrial sector for 1980 are based on the returns to a questionnaire addressed by the Central Bank to all known and recorded manufacturing industries - large, medium and small - in the public and private sectors. Generally, replies are received from about a third of addressees, and these represent almost all of the major industries. In areas where data were not available, estimates based on the information available with various government agencies and institutions have been incorporated.

of textiles were unable to compete successfully with imported textiles in terms of both quality and price with the result that as the year progressed many of the textile concerns faced liquidity problems of appreciable magnitude. Eventually, the Government intervened in the matter and the management of the five textile mills of the National Textile Corporation was entrusted to foreign textile manufacturing firms for better management and a closer view of the technical and structural problems facing this industry. Likewise, some of the decentralised power loom workshops, five in number, were handed over to local private sector enterprises during the course of 1980 to permit measures of reform for revitalising this sector.

Several other industrial enterprises also experienced marketing difficulties as a result of the import of substitutes at competitive prices. A significant policy decision adopted during the year was the establishment of a Presidential Tariff Commission to rationalise the tariff structure to protect the local industries while safeguarding the interests of the consumer. Under the present tariff structure, in general, finished products are subject to a higher level of duties than the raw material inputs. This is a conscious policy to further value added activity locally. However, anomalies exist in the case of tariffs pertaining to certain products. For instance, certain pharmaceutical products are allowed to be imported at lower duty rates whereas the raw materials and packing materials required to produce the very same drugs are subject to higher import duties. Another example is the import of certain electrical accessories where the finished product has an edge over domestic production. Such anomalies would have to be corrected to permit an element of fair competition. The Commission is expected to work out a more meaningful tariff policy based on the framework of effective tariff protection.

Answers to the Central Bank questionnaire revealed that several small-scale industrial enterprises were closed during the year as a result of marketing difficulties, lack of capital, higher cost and shortage of raw materials. Such enterprises included those producing handloom textiles, hand-made paper, chemicals, soaps, paints and fabricated metal products. Considering the problems confronted by these industries on the one hand and advantages flowing from such enterprises through the use of indigenous raw materials and generation of employment on the other, a re-examination of the present tariff structure in terms of levels of effective tariff protection required for those industries appears to be a matter of some urgency. However, one fact needs to be stressed. Although much has been said about the plight of this sector in general and the adverse effect on employment and total supplies, if the non competitive industries are allowed to go out of production, their continuance should be on economic and not on welfare grounds. Neither the Government nor the consumer should be called upon to meet the cost of subsidising these non-competitive and inefficient industries. From a longer term perspective, the redeployment of the factors employed in these industries would be wholly beneficial.

Turning now to the subject of concentration of industry, the industrial sector appears to have depended largely on a few products in the recent past. The experience in 1980 is no different. In 1980, the output of refined petroleum products accounted for about 45 per cent of the overall industrial production and the share of garments was approximately 8 per cent. Thus, these two industries together contributed about one-half of the total industrial production. As a result, the tempo of overall industrial production is closely tied to the economic fortunes of these two industries and could remain so until such time as a more diversified and developed industrial structure is evolved. Special reference should be made to the garment industry. This industry is likely to reach saturation point in the near future reversing the buoyant performance of the recent past on account of quota restrictions

imposed by several importing countries, particularly the US and the European Economic Community (EEC). Quota restrictions against garment exports from Sri Lanka imposed by the EEC countries, Norway, Sweden and Canada have been in force since 1978. The United States, a major buyer of garment exports from Sri Lanka, imposed quota restrictions with effect from 1st May, 1980. The current US quota, valid for a period of seven years, sets out specific limits and sub-limits against the volume of exports for seven categories of garment products of Sri Lanka. All these considerations point to an urgent need to diversify the industrial base in the economy. This could be achieved largely by developing agro-based industries. The bulk of the rubber production at present is exported in a partially processed form and there is potential to expand the production of rubber goods such as rubberised coir products, rubber components for automobile industries and rubber floor tiles. The same applies to a wide range of agricultural raw materials currently exported from Sri Lanka. Industries based on coconut products can be developed to produce upgraded coir yarn, coir carpets, other manufactures using coir such as brooms, brushes, etc., glycerine, fatty acids, coco-chemicals and coconut cream. Minor agricultural products such as rice bran, gingelly, ground nut, nutmeg, cinnamon and citronella could be utilized to produce essential oils and drugs.

The Foreign Investment Advisory Committee (FIAC) approved 86 industrial projects in 1980 with an investment potential of Rs. 1,792 million and an estimated employment level of 5,313.

The Local Investment Advisory Committees (LIACs) in the Ministries of Industries and Scientific Affairs, Textile Industries and Fisheries approved 699 industrial projects during the year and these projects are expected to account for an investment of Rs. 337 million and to provide job opportunities for approximately 15,400. A survey carried out by the Ministry of Industries and Scientific Affairs revealed that out of 2,012 projects approved by the LIAC of the Ministry during the period from July 1977 to May 1980, 40 per cent was in production and another 28 per cent is expected to start production in the near future.

Another significant development was that two major enterprises started production in the latter part of 1980. They are the Prima Flour Milling Complex and the Urea Fertilizer Plant. The output of these enterprises is expected to increase considerably from 1981 onwards. The annual production capacity of the Prima Complex at China Bay, Trincomalee is 600 thousand metric tons sufficient to meet in full total domestic requirements with sufficient capacity for contingencies. The Urea Fertilizer Plant at Sapugaskanda managed by the State Fertilizer Manufacturing Corporation is expected to produce 217 thousand metric tons of urea in 1981 and 310 thousand metric tons of urea per year from 1982 onwards. The Petroleum Corporation would be providing the raw material for the fertilizer plant from its refinery at Sapugaskanda. It is expected that the excess urea production over domestic needs would be exported.

Earnings from industrial exports increased by 47 per cent (37 per cent in SDR terms) from Rs. 3,737 million (SDR 186 million) in 1979 to Rs. 5,496 million (SDR 255 million) in 1980. The increase was in earnings that arose from export of garment and petroleum products.

Production

The growth of total output in manufacturing industry, in real terms, is estimated at 6 per cent for 1980. Again, this was mainly a reflection of the rapid rise in the output of petroleum products. The real value of wood products

increased by 56 per cent, petroleum and chemical products by 22 per cent, basic metal products by 12 per cent, textiles and wearing apparel by 5 per cent and non-metallic mineral products by 2 per cent. The production of paper and paper products declined by 17 per cent, fabricated metal products by 16 per cent and food and beverages by 6 per cent.

TABLE 1.14

Value of Industrial Production 1976 - 1980

Rs. Million
(number of reporting firms in brackets) (*a*)

Category	1976	1977	1978	1979	1980(*b*)
1. Food, Beverages and Tobacco	1,715 (158)	2,295 (162)	2,609 (136)	2,856 (158)	3,899 (165)
2. Textile, Wearing Apparel and Leather Products	680 (602)	698 (665)	1,008 (654)	1,128 (589)	1,879 (529)
3. Wood and Wood Products (including Furniture)	129 (17)	127 (15)	124 (23)	166 (28)	247 (31)
4. Paper and Paper Products	203 (58)	270 (64)	376 (65)	445 (65)	476 (63)
5. Chemicals, Petroleum, Coal, Rubber and Plastic Products	2,336 (220)	2,469 (233)	3,279 (215)	4,508 (193)	8,603 (216)
6. Non-Metallic Mineral Products (except Petroleum and Coal)	360 (72)	411 (58)	592 (57)	710 (67)	914 (65)
7. Basic Metal Products	138 (1)	132 (1)	219 (1)	349 (1)	478 (1)
8. Fabricated Metal Products Machinery and Transport Equipment	474 (358)	571 (285)	590 (296)	569 (301)	620 (268)
9. Products not elsewhere specified (n.e.s.)	26 (22)	34 (27)	55 (26)	50 (33)	54 (28)
Total	6,061 (1,508)	7,007 (1,510)	8,852 (1,473)	10,781 (1,435)	17,170 (1,366)

Source: Central Bank of Ceylon.

(*a*) Number of firms that responded to the Central Bank questionnaire.
(*b*) Provisional

In terms of current values, overall industrial production increased by 59 per cent in 1980 as shown in Table 1.14. This was largely due to a two-fold increase in the ex-factory value of petroleum products. Leaving aside petroleum products, the current value of the rest of industrial products increased only by about 33 per cent during the year. In 1980, the value of chemicals and petroleum products increased by 91 per cent, wood and wood products by 49 per cent, textiles, wearing apparel and leather products by 67 per cent, basic metal products by 37 per cent, food, beverages and tobacco by 37 per cent, non-metallic mineral products by 29 per cent, fabricated metal products by 9 per cent and paper products by 7 per cent.

The significant increase in the output of chemicals and petroleum products was largely due to an increase in the production of the oil refinery. The petroleum production remained at a low level in 1979 on account of prolonged shut-downs of the refinery for several months and crude oil procurement problems. An increased intake of crude oil was made possible in 1980 through technical modifications in the processing system of the refinery. Improvements to the crude oil distilling unit of the refinery increased the primary distilling capacity by 33 per cent in 1980.

Power and Fuel

The growth of industrial production during the year was borne out by a 31 per cent increase in the domestic sales of industrial fuels to industries including export processing industries.

TABLE 1 . 15

Power and Fuel Use in Industry 1978 - 1980

Item	1978	1979	1980 (*a*)
1. Electricity (*b*) (GWh)	**587.9**	**633.4**	**618.1**
1.1 Small industry	10.6	16.7	24.0
1.2 Medium industry	278.2	287.3	285.5
1.3 Large industry	299.1	329.4	308.6
2. Domestic sales of industrial fuels ('000 metric tons)	**220.4**	**226.1**	**295.4**
2.1 Heavy diesel	60.8	64.0	60.8
2.2 Furnace oil	159.6	162.1	234.6

Sources: Ceylon Electricity Board,
Ceylon Petroleum Corporation.

(*a*) Provisional.
(*b*) Includes manufacturing and export processing industries. Small industry is defined as those units having rated capacity, below 50 kWA, medium industry as 50–500 kWA and large industry as above 500 kWA.

Use of electricity in industry, declined by 2 per cent as a result of power cuts. The electricity supply was curtailed in specific hours during the second quarter of the year on account of a decline in the water levels of the major reservoirs. However, the impact of the power cut on industry appeared to be marginal since major industries adjusted themselves to the situation by switching to stand-by generators and changing shifts to non-power cut hours. Several public sector enterprises including the Petroleum Corporation were not affected by the power cut as they used their own generators. In the case of the private sector, some industries used stand-by generators and were better prepared to meet the crisis since while some enterprises overcame the obstacle by changing shift hours.

Public Sector Industry

The overall industrial production of public sector enterprises increased by 6 per cent, in real terms, in 1980 as seen in Table 1.16. The output of wood and wood products rose by 64 per cent, chemicals and petroleum products by 29 per cent, basic metal

products by 8 per cent and fabricated metal products by 7 per cent. In contrast, the production of textiles fell by 24 per cent, food and beverages by 8 per cent, non-metallic mineral products by 5 per cent and paper and paper products by 1 per cent.

TABLE 1 . 16

Public Sector Major Industry Output Index (*a*)

(1977 = 100)

Category	1978	1979	1980(*b*)
1. Food, Beverages and Tobacco	104	95	87
2. Textiles, Wearing Apparel and Leather Products	114	111	84
3. Wood and Wood Products	78	96	158
4. Paper and Paper Products	90	131	130
5. Chemicals, Petroleum, Coal, Rubber and Plastic Products ..	103	97	125
6. Non-Metallic Mineral Products (except Petroleum and Coal) ..	144	157	150
7. Basic Metal Products	145	176	190
8. Fabricated Metal Products, Machinery and Transport Equipment	119	107	115
All Categories	108	111	118

Source: Central Bank of Ceylon.

(*a*) This index has been revised to take account of a larger number of public sector industries.

(*b*) Provisional.

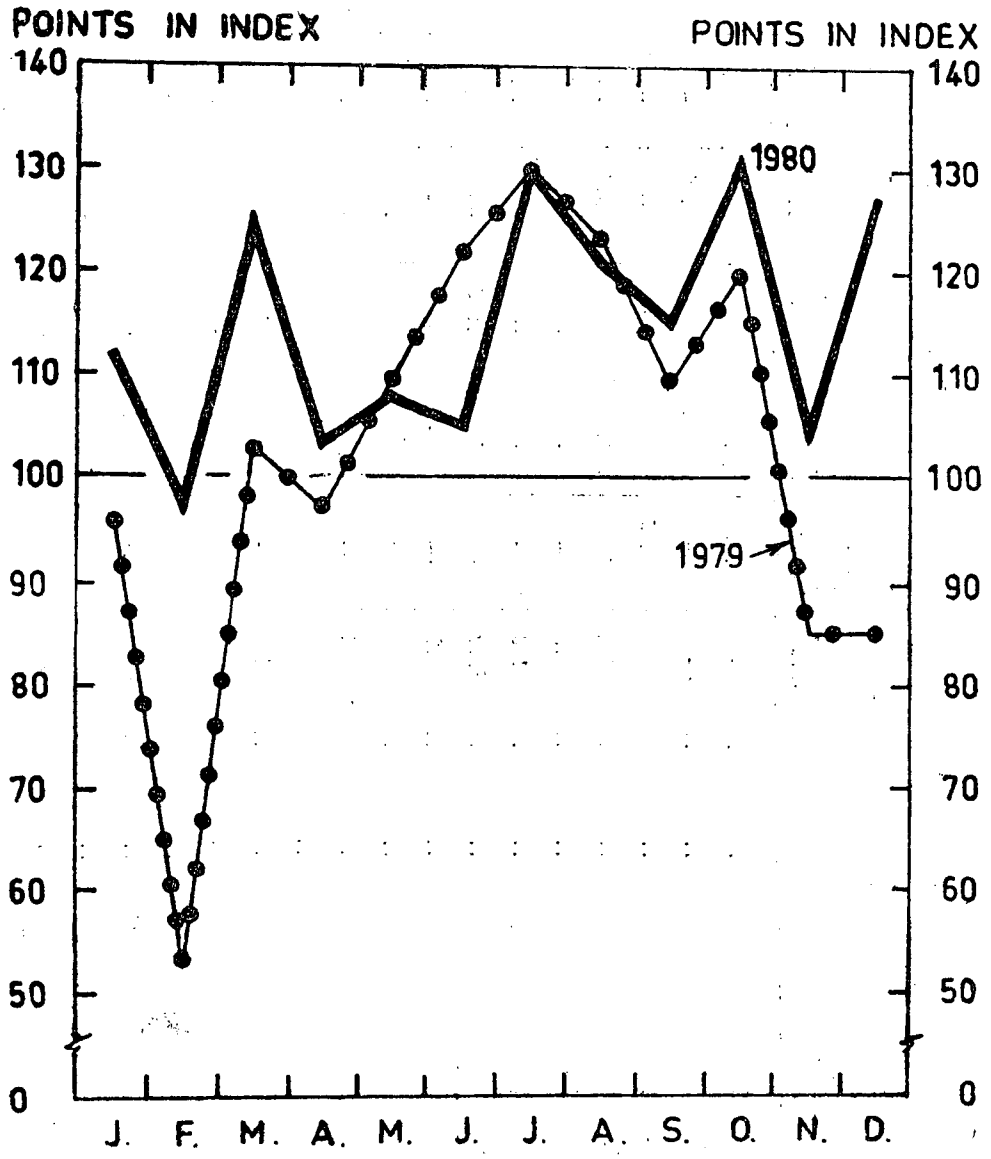
Total export earnings of public sector industrial corporations increased from Rs. 2,012 million (SDR 100 million) in 1979 to Rs. 3,239 million (SDR 154 million) in 1980 reflecting an increase of 54 per cent in SDR terms. This was largely due to a 56 per cent increase in earnings from petroleum exports. A rise in the export volume coupled with an increase in prices contributed to the growth of earnings of the Petroleum Corporation.

The considerable decline of current transfer payments from the Government to industrial enterprises during the year was a noteworthy development. In line with the Government decision to turn public sector enterprises into commercially viable ventures, these organizations endeavoured to operate within budgetary allocations. The financial discipline and improved position of several of the enter, prises resulted in a decrease in the transfers required from the Government for current expenditure purposes from Rs. 210 million in 1979 to Rs. 82 million in 1980. However, total transfers rose from Rs. 249 million in 1979 to Rs 968 million in 1980 as a result of a considerable increase in capital transfers. The total amount of capital transfers increased from Rs. 39 million in 1979 to Rs. 886 million in 1980. Substantial capital transfers were granted to State Fertilizer Manufacturing (Urea Plant), National Paper (Embilipitiya Paper Factory) and Sugar (Sevanagala Sugar Project) Corporations. These figures are summarised in Table 1.17. Capital transfers required by public sector enterprises are likely to decline in the future since they are expected to mobilize their own capital resources for new projects.

INDEX OF INDUSTRIAL PRODUCTION OF THE PUBLIC SECTOR

1977=100

MONTHLY



Central Bank of Ceylon.

TABLE 1 . 17

Transfers of Government Funds to Industrial Enterprises 1978 - 1980

Rs. Million

Corporation/Enterprise	Capital			Current			Total		
	1978	1979	1980(*a*)	1978	1979	1980(*a*)	1978	1979	1980(*a*)
National Milk Board	—	12.8	16.2	82.7	54.0	53.0	82.7	66.8	69.2
Ceylon Oils and Fats	—	—	25.3	16.4	27.0	—	16.4	27.0	25.3
Sri Lanka Sugar	—	4.5	81.8	—	—	—	—	4.5	81.8
National Textile	4.2	10.9	13.6	—	13.4	—	4.2	24.3	13.6
Ceylon Plywoods	0.3	—	—	—	—	—	0.3	—	—
State Timber	1.8	—	—	—	—	—	1.8	—	—
National Paper	33.7	—	78.0	10.5	—	28.7	44.2	—	106.7
Paranthan Chemicals	0.7	—	—	—	—	—	0.7	—	—
Sri Lanka Ayurvedic Drugs	0.5	10.6	1.2	—	—	—	0.5	10.6	1.2
State Fertilizer Manufacturing	1,061.4	—	624.1	—	—	—	1,061.4	—	624.1
Ceylon Petroleum	8.2	—	10.7	528.0	87.0	—	536.2	87.0	10.7
State Rubber Manufacturing	4.6	—	—	0.6	0.2	—	5.2	0.2	—
Ceylon Cement	28.1	—	16.0	—	—	—	28.1	—	16.0
Ceylon Mineral Sands	23.7	—	4.5	—	—	—	23.7	—	4.5
State Mining and Mineral Developmect	—	—	1.9	—	—	—	—	—	1.9
Ceylon Steel	67.5	—	10.7	—	—	—	67.5	—	10.7
State Hardware	—	—	2.0	—	28.6	—	—	28.6	2.0
Total	1,234.7	38.8	886.0	638.2	210.2	81.7	1,872.9	249.0	967.7

(*a*) Revised estimates.

Source: General Treasury.

Investment Promotion Zone

The Greater Colombo Economic Commission (GCEC), one of the lead projects of the present government, has approved 137 projects by the end of the year. Of these, 64 firms have signed agreements with the GCEC to set up various industries. Among them, 23 firms, majority in garment manufacturing, were in commercial production in the Investment Promotion Zone (IPZ) at Katunayake by the end of the year. In addition, 5 firms were in trial production. The factories in the IPZ provided employment for 10,581 persons. Gross earnings from the IPZ exports amounted to Rs. 505 million (SDR 22 million) during 1980 and garment exports accounted for 93 per cent of these earnings. Comparative data on employment and gross earnings classified by type of industries are given in Table below. The projects approved by the Commission during the year included new types of industries such as those producing electronic devices, electrical parts, cargo containers, machinery equipment and irrigation pumps. Investment seminars, media publicity and media interviews were widely used at international levels to attract foreign investors.

TABLE 1.18

Investment Promotion Zone - Employment and Exports

Industry	1979		1980 (*a*)	
	Employment (End Dec.) No.	Gross Export Earnings Rs. Mn.	Employment (End Dec.) No.	Gross Export Earnings Rs. Mn.
1. Garments ..	5,675	145.1	9,147	470.1
2. Fishing Gear and Accessories ..	73	5.1	245	10.6
3. Rubber Threads ..	26	1.2	82	12.1
4. Lapidary and Jewellery ..	110	0.7	285	3.2
5. Tea Packeting ..	—	—	12	3.8
6. Cashew Products ..	—	—	483	4.8
7. Other ..	—	—	327	0.7
Total ..	5,884	152.1	10,581	505.3

Source: Greater Colombo Economic Commission.

(*a*) Provisional.

ECONOMIC AND SOCIAL OVERHEADS

The trends observed in 1980 with respect to economic and social overheads and infrastructure facilities can be summarised as a continuous struggle to cope with widening and deepening requirements stemming from a range of economic activities in both public and private sectors. The revitalization of the economy initiated in 1977 necessitated economic overheads such as transport, communications and energy to grow at a rate commensurate with the expansion of dynamic productive sectors. As the lead time required for the planning and implementation of large