INDUSTRY [1]

The main features of the industrial sector in 1981 were a continuous expansion of export oriented industries and poor performance of certain import substitution industries resulting mainly from temporary shut-down of factories due to reasons such as power cuts and routine maintenance. Export oriented industries, activated by a steady inflow of foreign investments coupled with participation of foreign collaborators, continued to expand. On the other hand, sharp competition arising from the exposure of import substitution industries to imports continued to result in the winding-up of some weak and high cost industrial establishments, particularly the inefficient small enterprises. Power cuts affected industrial output adversely. The shut-down of the oil refinery of the Ceylon Petroleum Corporation for repairs and maintenance coincided with this power cut thus intensifying the drop in output.

The overall industrial production, in real terms, is estimated to have increased by 2 per cent in 1981 as compared with 6 per cent in 1980. This was the lowest rate of industrial growth since 1977. This deceleration of the growth rate largely reflected a decline in the output of petroleum and chemical industries by 5 per cent, on account of the temporary close down of the oil refinery of the Ceylon Petroleum Corporation in February, 1981, and to that extent could be considered a temporary phenomenon. The overall production was further constrained due to power cuts on account of which certain public sector corporations were compelled to temporarily close down their factories. However, increased output was recorded in textile, garments, leather, paper products and cement industries.

According to a survey of unregistered small-scale industrial establishments* conducted by the Central Bank a considerable number of the enterprises active in 1976 were reported to be inactive in 1981 because of inefficiency caused by high costs leading to marketing difficulties. They were thus unable to face competition from imported substitutes. Their inability to obtain working capital heightened their problems. The most affected industries included those producing handloom textiles, sugarcane jaggery, soap, hand-made paper, fabricated metal products, pottery and cane products. Among the industries which continued to operate at a high level of output in 1981 were rice milling, blacksmithing, lorry body building and brick making. As stressed in the last Annual Report, considering the problems of the small entrepreneur and the advantages flowing from these enterprises through the use of indigenous raw materials and generation of employment, a re-examination of the present tariff structure so as to correctly ascertain the degree of protection afforded to them particularly in their infancy merits some consideration. However, the continuation of any industrial venture should be on economic and not on welfare grounds.

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1. As in the past, data relating to the performance of the industrial sector for 1981 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. (However, this does not include the export processing activities of the plantation sector, which are classified as manufacturing activity in the National Accounts.) 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.

* These are mostly unorganised, unregistered industrial entities consisting of small workshops, cottage and handicraft undertakings.

During the year under review, several measures were taken to provide incentives to local manufacturers. One such measure was the extension of the facility of refinance from the Central Bank's Medium and Long-term Credit Fund (MLCF) to include public corporations, to enable them to overcome their financial difficulties. Also in 1981, following the near total utilization of the first Small and Medium Scale Industries (SMI) loan, the National Development Bank negotiated the second loan of US Dollars 30 million from IDA to finance small and medium scale industries in the future years. Import duty on machinery and essential raw materials used in industry was also reduced from 12½% to 5% with effect from mid-November, 1981. Further, an additional protection to industrialists was accorded by the imposition of a turnover tax on most of the imports over and above the import duty payable and the grant of rebate on raw materials imported. In case an imported item is used in the manufacture of goods or commodities in Sri Lanka, the turnover tax paid on the imported item was allowed to be deducted from the turnover tax payable by the manufacturer. Similarly, where a locally manufactured component is used in the manufacture of another item, the turnover tax paid on the component also was allowed to be deducted from the tax payable by the final manufacturer. It is expected that these measures would help in reducing the domestic cost of production and therefore prices to a certain extent, thereby strengthening their competitiveness.

As regards concentration, output of petroleum and chemical products accounted for nearly one half of the overall industrial production and the share of garments was approximately 10 per cent, revealing a high rate of concentration of industry. The escalation of the crude oil prices in the past has contributed to this situation to a large extent. In view of this, 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. It should, however, be mentioned that though petroleum products have been recorded to be the first in its contribution to the total gross value of output, these products lagged far behind in their share of the manufacturing value added. As for garment products, though their share was 10 per cent they stood out more significantly in terms of employment.

Among the several noteworthy developments relating to industrial sector in 1981, was the establishmemt of the Korea-Ceylon Footware Manufacturing Company Limited as a joint venture between the Ceylon Leather Products Corporation and Doosan Industrial Company Limited and Tong Yang Rubber Enterprises Company Limited of the Republic of Korea. This was the first joint venture in which a public corporation has participated in the Katunayake Investment Promotion Zone (KIPZ). Another significant feature was the incorporation of the public limited liability company—Lanka Cement Limited to initiate and operate Stage III of the expansion project of the Sri Lanka Cement Corporation (SLCC). Of the total shares of the company, 60 per cent will be held by the SLCC and the balance will be issued to the public. This factory under Stage III is expected to go into commercial production in June, 1982 with a capacity of 528,000 tons of cement per annum.

A major public sector industrial unit, namely, the Nylon 6 Project commenced operations in 1981. This project involving capital expenditure of Rs. 750 million was established to provide the raw material requirement of the textile, tyre and fishing industries. The Urea Fertilizer Project, one of the highest capital intensive projects in the public sector (with a capital expenditure of Rs. 2,819 million) which commenced operations in December, 1980 was subject to frequent shut-downs during the year under review. In view of the somewhat changed circumstances since these two projects were originally conceived, the commercial viability of the projects became an important issue that remains to be resolved.

The Foreign Investment Advisory Committee (FIAC) has approved 63 industrial projects in 1981 with an investment potential of Rs. 1,161 million and an estimated employment level of 5,849.

The Local Investment Advisory Committees (LIAC) in the Ministries of Industries and Scientific Affairs, Textile Industries and Fisheries approved 458 industrial projects during the year. The potential investment of these projects was Rs. 254 million and they are expected to provide job opportunities for approximately 10,641 persons.

Further, the Greater Colombo Economic Commission (GCEC) has approved 18 projects during 1981. Accordingly, the total number of approved projects increased to 155 by the end of the year. Of these 68 firms have signed agreements with the GCEC to set up various industries. Among them, 41 projects were in commercial production and have provided employment for 19,921 persons.

During the year 1981, earnings from industrial exports increased by 28 per cent (21 per cent in SDR terms) from Rs. 5,619 million (SDR 261 million) in 1980 to Rs. 7,193 million (SDR 317 million) in 1981. This increase was largely due to the increase in the export of textiles and garments by 65 per cent.

Production

Total output in manufacturing industries, in real terms, is estimated to have increased by 2 per cent in 1981, as compared with an appreciable growth rate of 6 per cent in 1980. This was the lowest rate of growth since 1977. The decelerated rate of growth in the total industrial output in 1981 was mainly due to a 5 per cent decline in output of petroleum and chemical industries, which accounted for nearly one half of the total industrial production. It is pertinent to note, that the rate of growth of this category of industries in 1980 was about 22 per cent and was largely responsible for the higher rate of growth in that year. The overall output in the public sector corporations recorded a decrease of 1 per cent. On the other hand, inspite of the power cut, private sector industries registered a growth rate of 13 per cent in 1981, compared with the previous year's growth rate of 6 per cent.

Among the sectors that recorded increased production in real terms were the textile, wearing apparel and leather products (by 43 per cent), paper and paper products (by 23 per cent), non-metallic mineral products (by 9 per cent), fabricated metal products (by 6 per cent) and products not elsewhere specified (by 4 per cent). The production of other industrial sectors showed a decline. The output of basic metal products decreased by 15 per cent, wood and wood products by 13 per cent, petroleum and chemical products by 5 per cent and food, beverages and tobacco products by 4 per cent.

In current terms, total value of industrial production is estimated to have increased by 23 per cent in 1981. The value of the textile and wearing apparel sector recorded a sharp increase of 58 per cent in 1981 over 1980. This increase was mainly due to the higher output of the textile mills of the Textile Corporation managed by the foreign partners and increased output in the garment industries specially in the Investment Promotion Zone (IPZ). The value of petroleum and chemical products increased by 28 per cent, food and beverages by 15 per cent, fabricated metal products by 26 per cent, paper and paper products by 32 per cent and non-metallic mineral products by 5 per cent.

TABLE 1 · 15

Value of Industrial Production 1977 - 1981

Rs. Million

Category	1977	1978	1979	1980	1981(*a*)
1. Food, beverages and tobacco ..	2,295	2,609	2,856	3,899	4,496
2. Textile, wearing apparel and leather products ..	698	1,008	1,128	1,923	3,040
3. Wood and wood products ..	127	124	166	289	315
4. Paper and paper products ..	270	376	445	476	626
5. Chemicals, petroleum, coal, rubber and plastic products ..	2,469	3,279	4,503	9,416	12·015
6. Non-metallic mineral products (except petroleum and coal) ..	411	592	710	1,006	1,060
7. Basic metal products ..	132	219	349	478	428
8. Fabricated metal products, machinery and transport equipment ..	571	590	569	620	782
9. Products not elsewhere specified (n.e.s.) ..	34	55	50	54	58
Total	7,007	8,852	10,781	18,161	22,820

(*a*) Provisional. *Source*: Central Bank of Ceylon.

Power and Fuel

The use of electricity in industry and the domestic sales of industrial fuel to industries (including export processing industries) increased by 6 per cent and 18 per cent, respectively, in 1981 as against a moderate growth rate of industrial output. This increase in the sale of industrial fuel appeared to have been partly due to increased consumption of fuel by the Ceylon Electricity Board for generating electricity and the use of stand-by generators by industrial consumers to meet the shortage of electricity during the period of the power cuts. When the electricity generated by the industries themselves is taken into account, the use of electricity in industries would have recorded a somewhat higher increase over the previous year.

TABLE 1 · 16

Power and Fuel Use in Industry 1979 —1981

Item	1979	1980	1981 *(a)*
1. Electricity (b) (Gwh) ..	633·4	625·6	664·8
1.1 Small industry ..	16·7	20·0	21·5
1.2 Medium industry ..	287·3	285·7	303·9
1.3 Large industry ..	329·4	319·9	339·4
2. Domestic sales of industrial fuel ('000 metric tons) ..	226·1	295·4	349·2
2.1 Heavy diesel ..	64·0	60·8	106·4
2.2 Furnace oil ..	162·1	234·6	242·8

Sources: Ceylon Electricity Board,
Ceylon Petroleum Corporation.

(a) Provisional.

(b) Includes manufacturing and export processing industries. Small industry is defined as those with having rated capacity below 50kva, medium industry as 50–500 kva and large industry as above 500 kva.

The electricity supply provided by the national grid was curtailed during specific hours from mid February to mid June, 1981 on account of a decline in the water levels of major reservoirs and was extended to all industrial undertakings other than the Ceylon Petroleum Corporation, Sri Lanka Cement Corporation, Flour Milling Corporation, Colombo Gas and Water Co. Ltd. and Ceylon Oxygen Ltd. Faced with this situation, some public corporations switched over to stand-by generators while some other corporations were compelled to temporarily close down factories. Nevertheless, with the restoration of normal power supply most of the corporations affected by the power cuts managed to recoup production losses during the latter part of the year. In the private sector too, firms adjusted themselves to the situation by switching over to stand-by generators and changing shifts to non-power cut hours. In terms of the size of enterprises, the use of electricity by small industries increased by 7 per cent, while medium and large scale recorded increases of 6 per cent each.

Public Sector Industry

In real terms, the overall industrial production of public sector enterprises declined by 1 per cent in 1981 in contrast to a 8 per cent increase in 1980. This overall decline was almost entirely due to the substantial decrease (7 per cent) in the output of the petroleum refinery which was closed for repairs in February, 1981. Total output of public sector industrial corporations excluding the Petroleum Corporation increased by 5 per cent in real terms in 1981.

Of the eight industrial categories, the output of textile, wearing apparel and leather products increased by 35 per cent, paper and paper products by 8 per cent and non-metallic mineral products by 8 per cent, while decreases in output were recorded under fabricated metal products (by 30 per cent), basic metal products (by 15 per cent), wood and wood products (by 14 per cent), food, beverages and tobacco products (by 8 per cent) and chemical and petroleum products (by 5 per cent).

Corporations that experienced low output levels in 1981 were the Steel, Oils and Fats, Ceramics, Hardware, Tyre and Leather Corporations and the Government Owned Business Undertaking (GOBU) of the British Ceylon Corporation. Among the corporations that improved on their 1980 production levels was the Textile Corporation which seems to have responded favourably to the change in its management. The output of the Cement Corporation and the National Milk Board has also increased appreciably in real terms.

The sales performance of public industrial corporations was moderate in 1981. Those corporations that still had a certain degree of their monopoly rights intact such as the Petroleum, Cement, Mineral Sands, Mining and Mineral Development and the GOBU of the Ceylon Oxygen Ltd. increased sales appreciably in 1981. On the other hand, corporations that had to contend with competition from imported products did not fair so well. The Paper, Steel, and Hardware Corporations in particular lost ground due to the aggressive pricing tactics of foreign competitors and as a result faced severe marketing and massive inventory accumulation problems.

Total export earnings of public industrial corporations increased from Rs. 3,340 million (SDR 155 million) in 1980 to Rs. 3,599 million (SDR 159 million) in 1981, reflecting an increase of 8 per cent. Petroleum exports earnings at Rs. 3,375 million accounted once again for the bulk of industrial exports. Nevertheless, due to high import content of petroleum exports the net earnings would be much smaller.

In keeping with government policy to create greater efficiency in the public sector, the major manufacturing industries owned by the public sector are required to operate on a commercially viable basis and with the exception of the State Hardware and Paper Corporations, all public industrial enterprises seem to have fared reasonably well in this respect. The Mineral Sands, Mining and Mineral Development, Ceramic and the Cement Corporations led the field in 1981.

A most noteworthy development in 1981 was the decline in total government transfer payments to public industrial corporations. Total transfers which rose from Rs. 248 million in 1979 to Rs. 727 million in 1980, dropped to Rs. 250 million in 1981. The considerable decline in current transfers reflected an improvement in the financial discipline and operations of several public sector industrial enterprises. Current transfer payments dropped from Rs. 182 million in 1980 to a mere Rs. 72 million in 1981. Since public enterprises are expected to mobilise the bulk of the resources themselves for new projects, capital transfers to manufacturing corporations also declined from Rs. 545 million in 1980 to Rs. 178 million in 1981. A few corporations such as Steel (Stage III), Sugar (Sevenagala Project), Fertilizer Manufacturing (Urea Project), Oils & Fats (Solvent extraction and other projects) and National Milk Board (Polythene Packing Project) were provided with substantial funds from the Consolidated Fund in respect of commitments made several years earlier. In view of the limited availability of internally generated funds as against continuous development programmes which involve heavy capital investment, corporations were compelled to resort to commercial bank borrowings at the prevailing interest rates. Many corporations experienced financial stress due to the heavy burden of capital investment and had to postpone or restrict their capital projects. Thus, according to provisional figures, the total capital expenditure in industrial corporations amounted to only Rs. 545 million, as against the budgeted figure of Rs. 1,925 million.

TABLE 1 · 17

Public Sector Major Industry Output Index (*a*)
(1977 = 100)

Category	1979	1980	1981 (b)
1 Food, beverages and tobacco ..	123·5	88·7	82·2
2. Textile, wearing apparel and leather products ..	110·9	83·8	113·4
3. Wood and wood products ..	96·0	158·1	136·4
4. Paper and paper products ..	130·3	130·4	141·1
5. Chemicals, petroleum, coal, rubber and plastic products ..	97·3	125·0	118·8
6. Non - metallic mineral products ..	156·9	149·8	161·8
7. Basic metal products ..	175·9	197·7	169·0
8. Fabricated metal products ..	109·0	115·4	81·4
All categories	111·1	119·7	118·2

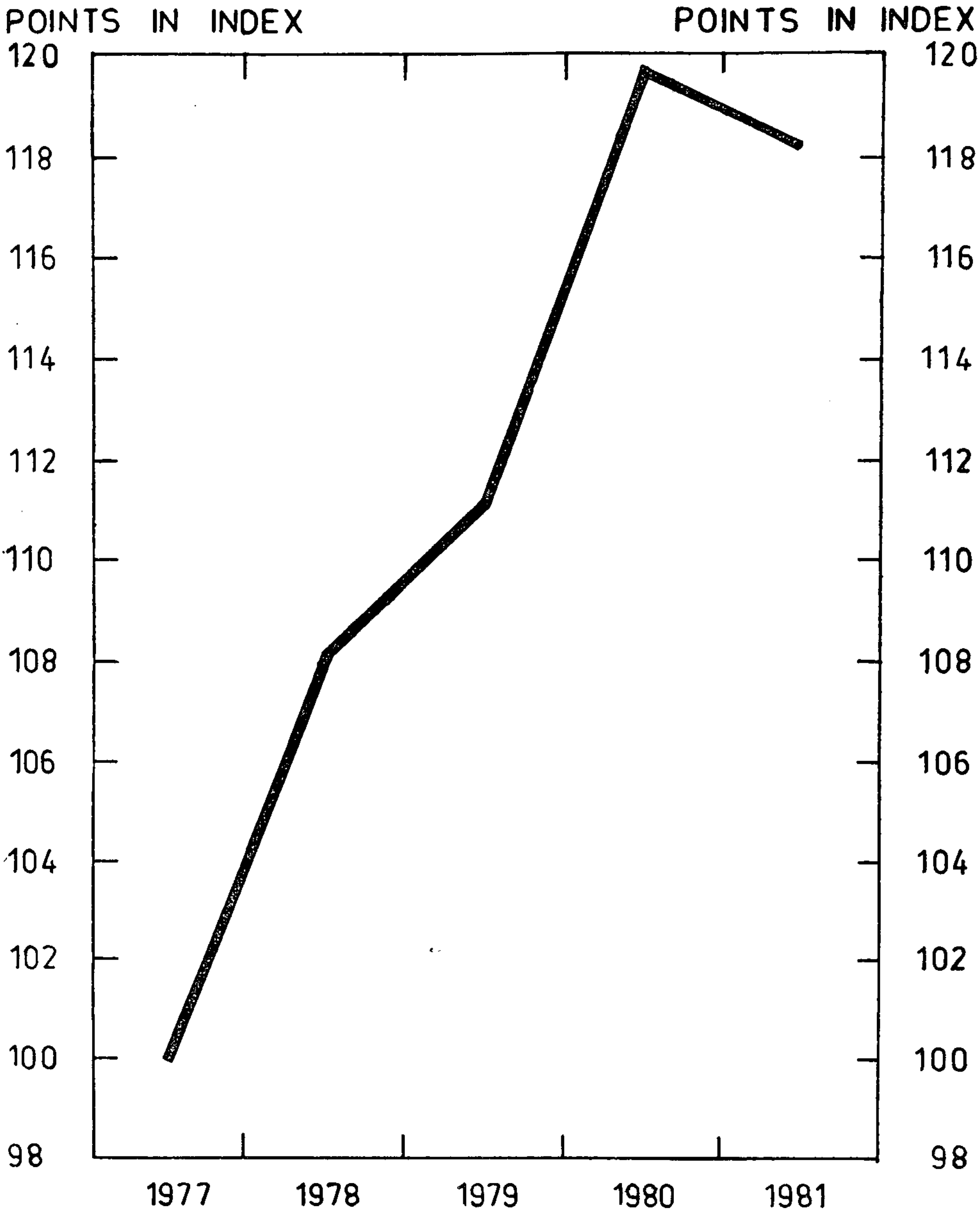
Source : Central Bank of Ceylon.

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

(b) Provisional.

INDEX OF INDUSTRIAL PRODUCTION OF THE PUBLIC SECTOR*

1977 = 100



Central Bank of Ceylon.

* Represents the output of 26 major enterprises.

TABLE 1 . 18

Transfers of Government Funds to Industrial Enterprises 1979 - 1981

Rs. Million

Corporation/Enterprise	Capital			Current			Total		
	1979	1980	1931(a)	1979	1980	1931(a)	1979	1980	1981(a)
National Milk Board	12.8	15.5	50.4	54.0	53.0	44.4	66.8	68.5	94.8
Ceylon Oils and Fats	—	25.1	34.7	27.0	41.9	—	27.0	67.0	34.7
Sri Lanka Sugar	4.5	8.0	46.8	—	—	—	4.5	8.0	46.8
State Flour Milling	—	—	—	—	21.5	—	—	21.5	—
National Textile	10.3	—	—	13.4	26.6	—	23.7	26.6	—
State Timber	—	0.1	—	—	—	—	—	0.1	—
National Paper	—	40.4	—	—	28.7	21.2	—	69.1	21.2
State Rubber Manufacturing	—	—	—	0.2	—	—	0 2	—	—
British Ceylon Corporation	—	10.5	—	—	8.2	—	—	18.7	—
Sri Lanka Ayurvedic Drugs	10.6	—	0 3	—	—	—	10.6	—	0.3
Ceylon Petroleum	—	10.7	—	87.0	—	—	87.0	10.7	—
State Fertilizer Manufacturing	—	397.5	28.3	—	—	—	—	397.5	28.3
State Mining and Mineral Development	—	—	—	—	1.9	—	—	1.9	—
Ceylon Steel	—	10.7	7.9	—	—	—	—	10.7	7.9
State Hardware	—	2.0	—	28.6	—	—	28.6	2.0	—
National Packaging Materials	—	0.3	—	—	—	6.0	—	0.3	6.0
Ceylon Oxygen Ltd.	—	24.0	10.0	—	—	—	—	24.0	10.0
Total	38.2	544.8	178.4	210.2	181.8	71.6	248.4	726.6	250.0

(a) Provisional

Source: General Treasury.

Investment Promotion Zone

The Greater Colombo Economic Commission (GCEC) one of the lead projects of the government, approved 18 projects in 1981 bringing the total number of projects approved to 155 by the end of 1981. Of these, 68 firms have signed agreements with the GCEC to set up industries. A total of 41 firms (37 of them in the Katunayake Investment Promotion Zone) were in commercial production. The capital investment of the enterprises in production amounted to Rs. 761 million. Of the projects in commercial production 24 were engaged in the production of ready made garments. The total number of employees in GCEC enterprises reached 19,921 in December, 1981. Gross earnings from GCEC exports during 1981 was Rs. 882 million (SDR 39 million) and garment exports accounted for 88 per cent of these earnings. Other items exported during this period were tyres, fishing gear, polished gems, tea bags, jewellery, hair dryers, cashew kernals, wooden toys and rubber thread, bands and sheets.

Projects approved during the year included new types of industries such as those producing PVC containers and figurines, activated carbon, aluminium structures, control and relay panels, integrated circuits and oil palm. Investment seminars, media publicity and interviews were widely used at international level to attract foreign investors. The total area of the Katunayake zone has been leased out to investors and a decision regarding the development of Biyagama as the second IPZ is to be taken in 1982.

Comparative data on employment and gross export earnings classified by type of industries are given in Table 1.19.

TABLE 1 · 19

Investment Promotion Zone - Employment & Exports

Industry		1980		1981(a)	
		Employment (End Dec.) No.	Gross export earnings Rs. Mn.	Employment (End Dec.) No.	Gross export earnings Rs. Mn.
1. Garments	..	9,147	470·1	17,386	775·2
2. Fishing gear and accessories	..	245	10·6	199	8·5
3. Rubber products	..	82	12·1	830	45·6
4. Lapidary and jewellery	..	285	3·2	140	3·1
5. Tea packeting	..	12	3·8	23	9·3
6. Cashew products	..	483	4·8	265	14·8
7. Electrical appliances	..	—	—	286	20·2
8. Other	..	327	0·7	792	5·0
Total	..	10,581	505·3	19,921	881·7

(a) Provisional

Sources: Greater Colombo Economic Commission, Central Bank of Ceylon.

ECONOMIC AND SOCIAL OVERHEADS

Energy

Sri Lanka has been one of the hardest hit developing nations by the energy crunch resulting from a series of oil price hikes effected by the OPEC since the early nineteen seventies. Another dimension to the country's energy problem was added with the dawn of the eighties, when the demand for electricity grew, outstripping its supply. Meanwhile, the generation of hydro-power was constrained by drought conditions and the country had to resort to more and more thermal power generation involving high cost. The lesson of the past decade in regard to energy therefore, was the need to recognize that both petroleum and electricity as sources of energy, would no longer be cheaply or plentifully available. Hence, it was felt that the rational approach in facing an aggravating energy crisis, should consist of a sound demand management policy in the short-run, coupled with a planned supply expansion strategy including the search for alternative sources of energy in the long-run. The developments in the energy front in 1981, appeared to have broadly conformed to such an approach.

The high degree of dependence of Sri Lanka on petroleum imports and its implications on the balance of payments were manifested in the oil import bill of 1981 which rose by 7 per cent in rupee terms and absorbed 42 per cent of the total export earnings of the country. In U. S. Dollar terms, however, the import value of petroleum products decreased by 8 per cent, mainly reflecting the reduced volume of