TRADE

The package of economic reforms introduced since late 1977 envisaged a sharp expansion of trade. In the year under review, imports and exports as a percentage of Gross National Product remained high, at 46 per cent and 27 per cent, respectively. These compared with 17 per cent and 19 per cent, respectively in 1977. The changes witnessed in the pattern of imports and exports in 1981 indicate a further consolidation of the initial success of the policies adopted for making trade an important agent of development. The policy reforms envisaged a rapid expansion of the export sector and a gradual deceleration in imports after the initial outburst in imports to support the accelerated development programme, partially financed from foreign sources. As anticipated, exports grew at a faster rate of 11 per cent in 1981 compared to 8 per cent in 1980 in more stable SDR terms, while on the other hand, the rate of growth of imports which recorded a 41 per cent increase in 1980, showed a marginally negative growth in 1981 in SDR terms.

TABLE 1 · 23

Balance of Trade 1979 - 1981

Value in Rupees Million
(SDR Million in brackets)

Year	Imports (*a*)		Exports (c)		Balance of Trade	
	Customs	Adjusted	Customs	Adjusted	Customs	Adjusted
1979	22,560 (1,121)	22,541 (1,120)	15,273 (759)	15,279 (759)	-7,287 (-362)	-7,262 (-361)
1980	33,637 (1,563)	33,942 (1,577)	17,273 (803)	17,595 (818)	-16,364 (-761)	-16,347 (-760)
1981	34,585 (1,526)	35,251(*b*) (1,555)	19,740 (871)	20,585 (908)	-14,845 (-655)	-14,666 (-647)

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

(*a*) Excluding Bullion & Specie.
(*b*) Includes Rs. 374·5 million (SDR 17 million approximately) being the value of import of an aircraft which has not been recorded in the Customs Return.
(c) Including re-exports.

However, as expected, the balance of trade registered a deficit in 1981 too. According to Customs data, in 1981, total expenditure on imports was Rs. 34,585 million (SDR 1,526 million) and the total earnings from exports Rs. 19,740 million (SDR 871 million). Consequently, the trade deficit registered was Rs. 14,845 million (SDR 655 million) which was 9 per cent lower than the previous year's trade deficit of Rs. 16,364 million (SDR 761 million). When Customs data are adjusted to present a more realistic picture, the total expenditure on imports amounted to Rs. 35,251 million (SDR 1,555 million) and total earnings from exports were Rs. 20,585 million (SDR 908 million), resulting in a trade deficit of Rs. 14,666 million (SDR 647 million) for the year. This compares somewhat favourably with the previous year's adjusted trade deficit of Rs. 16,347 million (SDR 760 million). The major factor responsible for the adverse balance in the trade account in 1981 was the inadequate growth of exports while import expenditure remained stable at the high level reached in the previous year.

The prices of imports in 1981 as measured by the Import Price Index increased substantially by 30 per cent, while the volume of imports measured by the Import Volume Index increased only marginally. In the case of exports both volume and prices recorded marginal increases. However, the net result of the relative price movements in imports and exports was a deterioration of 21 per cent in the country's terms of trade in the year under review. In the two preceding years, viz. 1980 and 1979 the terms of trade deteriorated by 19 per cent and 28 per cent, respectively.

TABLE 1 · 24

Foreign Trade 1972—1981

Year	Rupees Million			Index Numbers (1978=100)				
				Volume		Prices		
	Exports (a) (f.o.b.)	Imports (b) (c.i.f.)	Balance of Trade	All Exports	All Imports	All Exports	All Imports	Terms of Trade
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
1980	17,273	33,637	- 16,364	99	140	126	217	58
1981	19,740	34,585	- 14,845	102	145	129	282	46

(a) Including re-exports.
(b) Excluding Bullion & Specie

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

Exports

The earnings from exports (adjusted data) in 1981 at Rs. 20,585 million (SDR 908 million) registered an increase of Rs. 2,990 million or 17 per cent in rupee terms (SDR 90 million or 11 per cent) over the previous year. Earnings from agricultural and industrial exports recorded sharp increases both in rupee as well as in SDR terms, while those from mineral exports recorded a decline. Following the pattern in recent years, the share of agricultural exports in total earnings declined further to 59 per cent in 1981 from 62 per cent in the preceding year. On the other hand, the relative importance of industrial exports increased. The rates of growth of agricultural and industrial exports during the year were 11 per cent and 29 per cent, respectively as compared with 1 per cent and 52 per cent in 1980. Mineral exports, which accounted for 4 per cent of total earnings, registered a decline of 4 per cent, as against an increase of 27 per cent in the previous year. In the category of agricultural exports, earnings from tea, rubber, coconut kernel products and minor agricultural crops increased, while those from coconut by-products decreased. The value of tea exports however declined marginally in SDR terms. The relative significance of traditional plantation crop sector in total exports decreased from 57 per cent in 1980 to 52 per cent in 1981. Exports earnings from petroleum products and textiles and garments in 1981 were higher than those of rubber and coconut products, which traditionally figure as the country's second and third largest foreign exchange earners. Tea exports however continued to be the principal single item of export, accounting for 31 per cent of the total value of exports.

TABLE 1 · 25

Composition of Exports 1979 — 1981

Category	Value in Rs. Million (SDR Million in brackets)			Percentage of Total Exports		
	1979	1980	1981	1979	1980	1981
1. Agricultural Exports ..	10,737 (534)	10,834 (503)	12,078 (533)	70·3	61·6	58·7
1·1 Tea ..	5,722 (284)	6,170 (287)	6,444 (284)	37·5	35·1	31·3
1·2 Rubber ..	2,491 (124)	2,590 (120)	2,895 (128)	16·3	14·7	14·1
1·3 Coconut Products ..	1,699 (84)	1,234 (57)	1,438 (64)	11·1	7·0	7·0
1·3·1 Kernel Products ..	1,298 (65)	754 (35)	1,011 (45)	8·5	4·3	4·9
1·3·2 Other ..	401 (20)	480 (22)	427 (19)	2·6	2·7	2·1
1·4 Minor Agricultural Crops (*a*) ..	825 (41)	840 (39)	1,301 (57)	5·4	4·8	6·3
2. Industrial Exports (*a*) ..	3,604 (179)	5,485 (255)	7,059 (311)	23·6	31·2	34·3
2·1 Textiles & Garments ..	1,108 (55)	1,814 (84)	3,000 (132)	7·3	10·3	14·6
2·2 Petroleum Products ..	1,928 (96)	3,122 (145)	3,375 (149)	12·6	17·7	16·4
2·3 Other ..	568 (28)	549 (26)	684 (30)	3·7	3·2	3·3
3. Mineral Exports ..	629 (31)	798 (37)	768 (34)	4·1	4·5	3·7
3·1 Gems ..	494 (25)	664 (31)	634 (28)	3·2	3·8	3·1
3·2 Other ..	135 (7)	134 (6)	134 (6)	0·9	0·7	0·6
4. Other Exports ..	309 (15)	478 (22)	680 (30)	2·0	2·7	3·3
Total Exports (*b*)	15,279 (759)	17,595 (818)	20,585 (908)	100·0	100·0	100·0

Sources : Customs, Sri Lanka, Ceylon Petroleum Corporation, State Gem Corporation.

(*a*) Selected items (revised).
(*b*) Adjusted.

The value of tea exports in 1981 amounted to Rs. 6,444 million (SDR 284 million) indicating a marginal increase of 4 per cent in rupee terms. However, despite an increase in production as well as in the quantities sold at the Colombo Auctions, the volume of tea exports declined marginally to 183 million Kgs. in 1981 from 185 million Kgs. in the previous year. Although the volume of tea exports has been declining in recent years, the quantity exported in 1981 was still higher than the lowest export volume of 175 million Kgs. recorded in 1974. The highest volume of tea exports viz. 213 million Kgs. was in 1975. The average f.o.b. price of tea exported from Sri Lanka in 1981 at Rs. 35.14 per Kg. (SDR 1.55) showed an increase of 5 per cent in rupee terms over that of 1980. The quantity of tea sold at the Colombo Auctions increased by 12 per cent, from 178 million Kgs. in 1980 to 199 million Kgs. in 1981. The quantity of Sri Lanka teas sold at the London Auctions comprised only 5 per cent of the teas exported from Sri Lanka in 1981. The average gross price of a kilogram of tea sold at the Colombo Auctions declined marginally from Rs. 18.33 in 1980 to Rs. 18.10 in 1981, while that of Sri Lanka teas sold at the London Auctions increased by 3 per cent in terms of sterling to 94 pence. Although, the export duties on bulk, packeted and green teas were reduced by Rs. 2.50, Rs. 4.00 and Rs. 2.50 per kilogram, respectively, during the year with a view to providing a reasonable margin to the producer over the increasing costs of input materials, it had no positive impact on the behaviour pattern of prices at the Colombo Auctions. Of the total tea exports during the year, 82 per cent was shipped in bulk form.

Earnings from the export of rubber amounting to Rs. 2,895 million (SDR 128 million) showed an increase of 12 per cent. The increase in value was due partly to an increase in the volume of exports, the effect of which was strengthened by a marginal increase in the f.o.b. price from Rs. 21.42 per Kg. in 1980 to Rs. 21.84 per Kg. in 1981. The volume of rubber exports increased by 12 million Kgs. to 133 million Kgs. in 1981. However, during the year rubber exporters were faced with the problem of accumulating large stocks of rubber due to sharp declines in prices in international markets, which resulted from a lack of demand following the recession in Western industrialized countries and the United States. The International Natural Rubber Agreement (INRA) which became effective in 1981 appears to have had no significant impact on the stabilization of natural rubber prices. Rubber prices in the Colombo market, particularly the prices of RSS grades, declined causing serious marketing problems to rubber smallholders. Natural rubber purchases by the People's Republic of China under the Sri Lanka-China Rubber Agreement have declined over the years and the Protocol for 1981 provided for the purchase of only 20,000 metric tons as against 30,000 metric tons in the preceding year.

The value of coconut products exported increased by Rs. 204 million (SDR 7 million) from Rs. 1,234 million (SDR 57 million) in 1980 to Rs. 1,438 million (SDR 64 million) in 1981. This was entirely the result of an increase of Rs. 257 million in the export earnings from coconut kernel products, the effect of which was to some extent offset by a decrease of Rs. 53 million in the earnings from coconut by-products. The unsatisfactory export performance of the coconut sector in 1980 was reversed and coconut exports have shown significant increases since the removal of restrictions in August, 1981. Following the liberalization of coconut exports, the export volumes of the major coconut products viz. desiccated coconut, coconut oil and copra, increased markedly. In terms of nut equivalent, the volume of exports of coconut kernel products increased substantially from 239 million nuts in 1980 to 401 million nuts in 1981 or by 67 per cent. Earnings from the export of coconut oil and desiccated coconut recorded increases, in 1981, despite decreases in their average f.o.b. prices. Even though the prices of coconut by-products moved favourably during the year, the benefits of higher export prices could not be realised owing to reductions in the export volumes that were caused mostly by bottlenecks in supply.

Earnings from minor agricultural crops accounted for Rs. 1,301 million (SDR 57 million), showing a remarkable increase of Rs. 461 million or 55 per cent during the year. The export volumes of coffee, pepper, cinnamon, cloves, nutmeg, cardamoms, sesame seed, other oil seeds, betel leaves, unmanufactured tobacco and cashewnuts increased, while those of arecanut, cocoa products and papain-brown decreased. Export prices of these products, however, were relatively favourable.

The value of industrial exports increased very significantly from Rs. 5,485 million (SDR 255 million) to Rs. 7,059 million (SDR 311 million) in 1981, recording an increase of 29 per cent in rupee terms. Despite the quota restriction imposed by the developed countries, the value of textile and garments exports registered an increase of Rs. 1,186 million (SDR 48 million) and accounted for 15 per cent of the total export earnings. Textile exports by enterprises coming within the purview of the Greater Colombo Economic Commission have been estimated to be around Rs. 775 million.

During the year, the foreign exchange realised from the export of petroleum products, mainly marine bunkers, aviation fuel, naptha and fuel oil, increased by Rs. 253 million. Although earnings from the export of textiles and garments have been increasing in recent years, the present rate of growth may not continue in the future due to quota restrictions on garments by importing countries. Although export earnings from these two items (garments and petroleum products) have increased considerably, accounting for a major share of total export earnings, the import content of garments and petroleum exports is fairly high. Thus, the net foreign exchange earnings from these exports are much lower than those of other exports (i.e. agricultural and mineral exports). Increases in both prices and quantities accounted for the higher export earnings from garments and petroleum products. Apart from these two items, the value of other industrial exports, which contained a higher net foreign exchange content amounted to Rs. 684 million (SDR 30 million) and accounted for 3 per cent of the total export earnings.

The earnings from mineral exports declined by Rs. 30 million or 4 per cent during the year. In contrast to a sharp increase of Rs. 169 million recorded in the previous year, the value of exports of gems as recorded by the State Gem Corporation decreased by Rs. 30 million and this accounted for the decline in earnings from mineral exports. The earnings from other mineral exports in 1981 remained unchanged at Rs. 134 million (SDR 6 million).

The overall performance of the export sector in 1981 was somewhat encouraging. The export volumes of the major export commodities with the exception of tea showed some growth. Increased export earnings from textiles and garments, minor agricultural exports and other industrial exports were largely responsible for the favourable rate of growth in exports during 1981. During the year, industrial exports grew at an appreciable rate of 29 per cent. On the other hand, increased earnings in rupee terms from exports during the year were partly due to the depreciation of the Sri Lanka Rupee against some major currencies. Although export prices of most products moved favourably in the international markets, they were not in keeping with the global rate of inflation. It is observed that over the years, import prices have been rising faster than export prices, resulting in a marked deterioration in the country's terms of trade. Moreover, if the growing demand for imports is to be maintained there is a pressing need to increase the rate of growth of exports which could be achieved through diversification and development of non-traditional exports, while improving the viability of traditional exports.

Imports

Total expenditure on imports (adjusted data) for the year 1981 amounted to Rs. 35,251 (SDR 1,555 million). Total imports in 1980 were Rs. 33,942 million (SDR 1,577 million) and hence showed an increase of 4 per cent in rupee terms (a decrease of 1 per cent in SDR terms). This was in marked contrast to an increase of 51 per cent (41 per cent in SDR terms) in 1980. The increase in the value of imports was the result of a significant increase in import prices as measured by the Import Price Index while there was only a marginal increase in the volume of imports (as measured by the Import Volume Index). The structural change in the composition of imports observed in the recent past continued in the year under review, greater share being absorbed by the import of raw materials. Following previous year's trends, the share of consumer goods in total imports decreased further from 30 per cent to 26 per cent. While the share of investment goods declined marginally to 23 per cent from 24 per cent an year earlier, that of intermediate goods increased from 46 per cent to 51 per cent. The increase in expenditure on intermediate goods could be attributed partly to the shift in imports from wheat flour (classified as a consumer good) to wheat grain (classified as an intermediate good) with the commencement of the Prima Mills, and partly to the rapid increase in expenditure on petroleum imports resulting from upward revisions in the price of crude oil.

The value of imports of investment goods in 1981 at Rs. 7,956 million (SDR 351 million) decreased by 2 per cent from Rs. 8,144 million (SDR 379 million) in the preceding year. Expenditure on the imports of machinery and equipment accounted for nearly half the total expenditure on investment goods, while transport equipment and building materials accounted for a significant share. In the investment goods category, imports of machinery and equipment and transport equipment decreased by 8 per cent each and building materials by 14 per cent. However, there was a significant increase in the import of other investment goods.

There was a substantial increase in the imports of intermediate goods which rose from Rs. 15,522 million (SDR 721 million) in 1980 to Rs. 17,944 million (SDR 792 million) in 1981, an increase of 16 per cent. The share of intermediate goods in total imports increased from 46 per cent in 1980 to 51 per cent in 1981. As explained previously, this was partly the outcome of an increase in the import of wheat grain for local milling. However, intermediate goods other than wheat grain increased their share in 1981. Expenditure on petroleum imports increased by 7 per cent from Rs. 8,090 million (SDR 376 million) to Rs. 8,627 million (SDR 381 million), while outlays on fertilizer declined by 10 per cent from Rs. 1,339 million (SDR 62 million) to Rs. 1,202 million (SDR 53 million).

Import outlays on consumer goods which showed an increase in absolute terms in the preceding year, recorded a decline of 9 per cent from Rs. 10,158 million (SDR 472 million) in 1980 to Rs. 9,219 million (SDR 407 million) in 1981. The relative share of this category in total imports too, decreased from 30 per cent to 26 per cent, mainly due to a decrease in imports of wheat flour, milk products, food items and medical and pharmaceutical products, while imports of rice, sugar and textile and clothing recorded considerable increases. However, the import of consumer goods other than flour, maintained their relative share in total imports in 1981.

TABLE 1 · 26

End — Use classification of Imports 1979 — 1981

Category	Value in Rs. Million			SDR Million			Percentage of total imports		
	1979	1980	1981	1979	1980	1981	1979	1980	1981
1· Consumer goods	7,814	10,158	9,219	388·4	472·1	406·7	34·7	29·9	26·2
1·1 Food and drink	4,797	6,408	4,888	238·4	297·8	215·6	21·3	18·9	13·9
1·1·1 Rice	891	882	992	44·3	41·0	43·8	3·9	2·6	2·8
1·1·2 Flour	1,667	1,825	28	82·8	84·8	1·2	7·5	5·4	0·1
1·1·3 Sugar	936	2,026	2,826	46·5	94·2	124·7	4·1	6·0	8·0
1·2 Textile & clothing	1,536	1,721	2,334	76·3	80·0	103·0	6·8	5·1	6·6
1·3 Other	1,481	2,029	1,997	73·6	94·3	88·1	6·6	6·0	5·7
2· Intermediate goods	9,134	15,522	17,944	454·0	721·4	791·6	40·5	45·7	50·9
2·1 Petroleum	3,912	8,090	8,627	194·4	376·0	380·6	17·3	23·8	24·5
2·2 Fertilizer	664	1,339	1,202	33·0	62·3	53·0	3·0	3·9	3·4
2·3 Chemicals	502	544	663	25·0	25·3	29·2	2·2	1·6	1·9
3· Investment goods	5,459	8,144	7,956	271·3	378·5	351·0	24·2	24·0	22·6
3·1 Machinery and equipment	2,900	4,212	3,876	144·1	195·8	171·0	12·9	12·4	11·0
3·2 Transport equipment	1,615	2,421	2,229 *(b)*	80·3	112·5	98·3	7·1	7·1	6·3
3·3 Building materials	368	610	525	18·3	28·4	23·2	1·6	1·8	1·5
4· Unclassified	134	118	132	6·7	5·5	5·8	0·6	0·3	0·4
Total imports *(a)*	22,541	33,942	35,251	1,120·3	1,577·5	1,555·1	100·0	100·0	100·0

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

(a) Adjusted

(b) Includes Rs. 374·5 million (SDR 17 million approximately) being value of import of an air-craft which has not been recorded in the Customs return.

No separate record of aid imports is available as imports are not categorised by mode of payment by the Customs at the time of clearance. However, on the basis of available data on disbursements of foreign aid, aid imports which account for a substantial part of total imports could be roughly estimated.[1] On this basis, aid imports for the year 1981 are estimated at Rs. 5,934 million (SDR 261 million) in comparison to Rs. 4,702 million (SDR 219 million) in 1980. The share of aid imports as a percentage of total imports has thus increased from 14 per cent in 1980 to 17 per cent in 1981.

A salient feature of imports in 1981 was a gradual levelling off of the growth in imports as reflected in the import volume which recorded only a marginal increase, after the rapid increases recorded in the past few years. The increase in the relative shares of intermediate goods with consumer goods, other than flour being stagnant, and investment goods showing a decline, would seem to suggest a favourable development in that more funds were being channelled for raw material imports to support domestic economic activity. The withdrawal of the lump sum depreciation has obviously reduced the volume of machinery imports.

TABLE 1 · 27

Volume of Major Imports in 1981

(Metric Tons)

Month	Rice	Wheat	Sugar	Petroleum	Fertilizer
January ..	20,625	75,575	4,276	170,656	26,584
February ..	1,150	—	24,511	—	10,605
March ..	33,708	1,292	11,001	161,746	74,385
April ..	27,467	37,004	10,618	—	5,203
May ..	—	36,729	34,401	60,275	25,874
June ..	7,919	37,820	60,718	159,958	18,575
July ..	10,906	33,500	17,990	96,012	8,035
August ..	10,395	74,200	13,153	197,683	20,009
September ..	23,874	60,424	14,981	188,672	36,595
October ..	7,916	77,658	19,145	213,998	32,049
November ..	—	18,000	21,815	29,413	5,670
December ..	5,000	57,747	5,100	—	18,613*(a)*
Total*(b)*	148,960	509,949	237,711	1,521,507	282,198

Source: Customs, Sri Lanka.

(a) Adjusted.

(b) Monthly data do not add up to the annual total due to subsequent adjustments made by the Customs.

Foreign Trade Policy

The fourth year of the liberalised trade regime viz. 1981 showed signs of the country moving to a more sustainable foreign trade situation. The continuation of the policies of trade liberalisation introduced in 1977 was a prime necessity for maintaining the growth momentum in the economy. While using the foreign resources to fill the gap between imports and exports in the short-run, the develop-

1. The value of aid imports has been arrived at by taking 75 per cent of project aid plus the entirety of commodity aid, food aid and IMF Trust Fund loans.

ment strategy involved promoting exports in order to finance the imports needed for sustained economic growth in the medium to long run. In this connection, major macro policy instruments such as monetary policy, fiscal policy and exchange rate policy were all directed at creating incentives for the promotion of exports, on the one hand, and maintaining a sustainable level of imports on the other.

The recognition of credit availability as one of the key determinants of the level of trade activities in the country was an important feature of economic policy in 1981. The Central Bank acted effectively in channelling available credit to priority sectors. Commercial banks were requested to exercise restraint in granting credit except to five priority sectors, export financing receiving the first priority. The Central Bank provided 100 per cent refinance to the commercial banks and other credit institutions at 10 per cent and 11½ per cent interest in respect of loans granted for projects related to the promotion and development of exports. Further, a sum of Rs. 530 million was also made available to be lent for pre-shipment refinance at a rate of interest of 12 per cent to the commercial banks to enable them to maintain a reasonably low on-lending rate of 16 per cent, in the context of somewhat sharp increases in commercial bank lending rates. Of the total credit availability from the banking system, the highest percentage share, viz. 17 per cent, was for export trading in 1981. As far as imports were concerned, banks were requested to give priority for financing capital goods, raw materials and essential consumer goods.

The Sri Lanka Export Development Board (SLEDB) continued its activities as a leading institution for export promotion. Its main activities involved identifying the constraints in the supply of exports, strengthening export services and providing incentives and assistance for the development of exports. The Export Development Council of Ministers decided to allow the private sector to engage in mining, processing and export of the mineral resources, ending the state sector monopoly in this activity. An Advisory Committee was appointed, with public and private sector representatives to prepare a National Export Development Plan as required by the Sri Lanka Export Development Act No. 40 of 1979. Using the resources of the Export Development Fund, the Board decided to participate in the equity of eight export oriented projects, with a view to help mobilising resources for such projects. With effect from 1st March, 1981 the system of export documentation was simplified to facilitate the entire export trade. A number of procedural improvements were made in the new Customs Duty Rebate Scheme, to make it more effective. A total of Rs. 27 million worth of Export Expansion Grants were paid in respect of 463 returns finalised. A scheme of Presidential Export Awards and Certificates of Merit to exporters for outstanding performances was also launched. With the assistance of UNCTAD and GATT, 7 specific product areas were identified and given assistance for export development and promotion. These include jewellery, white and brown coir fibre, handloom products, rubber products, tea bags and packets, marine products and horticultural products. As an institutional support for export promotion, a Trade and Shipping Information Service was established under the Ministry of Trade and Shipping. The concept of production for export at the village level was introduced and demonstrated at the model export village in the Dambadeniya electorate. This village has exported in 1981 approximately Rs. 145,000 worth of betel leaves and tea packs made of reed.

In 1981, the Sri Lanka Export Credit Insurance Corporation (SLECIC) continued its active participation in the export promotion drive by guaranteeing and insuring export credit. During the year under review, 65 Insurance policies were issued to the value of Rs. 104 million and 109 guarantees were given to the value of Rs. 255 million. This has enabled the exporters to effect shipments to new markets and new buyers as well as to increase exports to existing clients on credit terms. The incentive granted to exporters under the Inland Revenue Act continued during the year 1981. These included tax holidays and exemptions from income tax on profits and incomes of certain export activities as well as concessions to investors in shares in export ventures. The exports of manufactured items remained free from Business Turnover Tax.

There has been no significant change in the export control policy during 1981 except for coconut; all the major exports remained free of controls, while only the export of cashew with shell was brought under licence in addition to the 18 items which were subject to licencing at the beginning of the year. However, certain exports were subjected to pre-export quality inspections. The year also saw the active participation of the private sector in the rubber export trade. The export duty on tea was further reduced in November, 1981 from Rs. 10.50 to Rs. 8.00 per Kg. for bulk tea and from Rs. 8.50 to Rs. 6.50 per Kg. for packeted tea with a view to assisting the producers to obtain a better profit margin. In addition, with a view to providing relief to tea producers in the context of rising cost of production, the taxable point of the Ad valorem Sales Tax was revised twice from the monthly average price of Rs. 16.00 per Kg. in March, 1981 to Rs. 22.00 per Kg. in November, 1981 and the rate of taxation was increased from 20 per cent to 35 per cent. Export duties on rubber too were revised downwards twice during the year, partly in lieu of the increase in the cess of 25 cents per Kg. and to promote the exports by moving the accumulated stocks which were at a very high level at the beginning of the year. During the year, the duty on desiccated coconut exports was reduced from Rs. 6,450 to Rs. 3,500 per ton and the export duties on coconut oil and mattress fibre were completely removed, while a sliding scale of duties on the export of all coconut products was introduced in November in order to make them respond automatically to the changes in the international market prices. Further, the administrative levy on coconut products was also removed.

These reductions became necessary to assist the producers in the context of declining prices and rising production costs. However, it is important that in view of rising costs of production, productivity in export ventures have to be given closer attention rather than depend on benefits arising from duty reductions. Action also needs to be pursued to arrest sharp declines in the prices of our export commodities involving vigorous international co-operation, specially among the producers.

Import duties ranging from 5 to 500 per cent were in force during 1981 aimed at achieving two major objectives, namely raising revenue and providing protection to local industries. However, during the year, import duties on tobacco, liquor and electric kettles which are of a non-essential nature and some building materials such as asbestos, emulsion paints, galvanised articles and roofing tiles were revised upward. On the other hand, certain items such as electric generators and television sets in completely knocked down condition were allowed to be imported free of duty in order to relieve the problems in power generation and to popularise the use of television as an important channel of mass media. The Presidential Tariff Commission continued as an advisory body making recommendations on an appropriate tariff structure.

The present import tariff structure is basically the result of an ad - hoc exercise carried out in 1977 prior to the liberalisation measures launched late that year. Since then, no rational attempt seems to have been made to assess the need for, and the consequences of protection for industry implied in the present tariff structure, with the result that investment in non-priority areas may continue to be favoured leading to a mis-allocation of resources. In view of this, the task of evolving a rational tariff structure based on levels of effective protection requires urgent consideration.

In addition to the existing import duty structure, a turnover tax was imposed in 1981 on all imports other than infant milkfood, fertilizer, crude oil and goods and materials imported for manufacture and export. The aim of introducing this tax was to ensure that the revenue component of import duty at the point of import would be identical to that of the turnover tax on a locally manufactured article when sold. The Customs duty payable at the point of import will thus represent essentially the level of protection afforded to the locally produced article. The three basic rates of new turnover tax applicable are 2 per cent, 5 per cent and 10 per cent. Agricultural imports, building materials, food items, fishing boats, cotton textiles, petroleum products, pharmaceuticals and other manufactured items (which are now subject to one per cent Business Turnover Tax) were taxed at the lowest level rate, viz. 2 per cent. With the introduction of the new turnover tax on imports, Customs duty on machinery and raw materials were revised downward from 12½ per cent to 5 per cent. The Export Development Cess continued to be levied on imports and selected exports.

The import of tea for blending, packeting and making of tea bags exclusively for export was liberalized during the year subject to certain administrative regulations of the Sri Lanka Tea Board. Since then a total of 44,000 Kgs. of teas were imported to the value of Rs. 1.3 million (unit value Rs. 30.24 per Kg.). The import of rice and sugar which were state monopolies for several decades, was opened to the private sector in 1981. The Government also announced its intention of removing with effect from 1983 the exemption of government imports from the payment of import duties. A duty free shopping complex was opened in Colombo for the benefit of tourists, diplomatic personnel, foreign personnel employed in development projects and incoming residents of Sri Lanka.

During the year 1981, 2,358 metric tons of import cargoes and 1,342 metric tons of export cargoes were handled at the three ports. Approximately, 18 per cent of the total cargo handled was containerised. Improved facilities were made available at the Port of Colombo to handle containarised cargo.

In the international arena, Sri Lanka contributed to the initial buffer stock fund of the International Natural Rubber Agreement of which she is a member. In terms of the agreement, the buffer stock manager intervened in the market towards the end of the year and provided some price support. Tea exporting countries including Sri Lanka met several times during the year under the auspices of the UNCTAD to consider the possibilities of further agreement in the stabilization of tea prices. Sri Lanka was admitted to membership of the International Coffee Agreement in 1981. The Sri Lanka-China Trade and Payments Agreement was in operation in 1981 too. Under the provisions of this agreement payments relating to imports and exports were channelled through the respective Clearing Accounts. The total value of transactions routed through the Asian Clearing Union facility at Rs. 4,356 million showed an increase of Rs. 1,168 million over the previous year.

Internal Trade

The gradual shift towards a "free market" economy was the objective of internal trade policy in 1981 as was the general policy since the introduction of liberalization measures in 1977. Market forces were allowed to guide trade, while free competition was expected to safeguard the consumer. However, in maintaining a sensitive balance of interests between the buyer and the seller or the consumer and the producer, a constant and close watch on the open market activities of the economy was maintained; especially through the Department of Internal Trade and the National Prices Commission. Minimum market interferences were exercised by the authorities in order to safeguard different interests in a nationally acceptable manner, without rigid controls, but through the free market instruments such as buffer stock operations, improving consumer awareness and resistance, moral persuasion, etc. Prices tended to move more realistically in line with the international prices and demand and supply conditions. However, the movements in prices affected different income groups differently. The policy of gradual withdrawal of monopolies in trade as well as in production was continued and a more competitive environment was created within and among both state and private sector organisations. This policy as far as the state sector enterprises are concerned has proved that more dynamic and flexible policies are necessary to survive in a changing environment and that inefficiency cannot continue unless backed by controls.

When free market forces are allowed to guide the trading activities of an economy, some form of institutional regulatory mechanism becomes necessary to promote fair competition and to prevent any attempts to distort the market forces by different groups or interests. Traders who were able to distort free competition for temporary windfall gains under a system of rigid controls, needed to be kept under surveillance for sometime. Besides, legal provisions should be there to eradicate unacceptable trade practices as and when they arise. With the objective of eradicating unacceptable trade practices and maintaining a fair and equitable distribution of supplies, the Department of Internal Trade administered the Consumer Protection Act, the Control of Prices Act and the Weights and Measures Ordinance. The number of articles to which the provisions of the Consumer Protection Act was applied increased to 325, while a number of directives were also issued including the banning of advertising of infant milk food. Over 1,250 consumer societies were established by the end of the year to promote consumer awareness and restrict malpractices in trade. However, over 2,000 cases had to be filed in courts against violations of the Act. Meanwhile, 9 essential consumer items such as wheat flour, bread, sugar, dhal, milk foods and infant cereal foods continued to be under price control. During the year, a sum of Rs. 140,000 was credited to the Consumer Protection Fund which was to be used for financing consumer education programmes. As in the previous years, consumer education stalls were organised at the Mahapola Trade Fairs which were organised to link trade between villages and towns.

In order to safeguard the interests of the consumer, certain essential consumer items such as chillies, onions and potatoes were permitted to be imported by the state organisations in restricted quantities to overcome temporary shortages in these commodities, especially during off-seasons. Weekly market surveys continued to be conducted by the Central Bank and the Department of Internal Trade to ascertain the availability of essential consumer goods and their prices.

Under the liberalised system of trade, state trading corporations were expected to adopt commercially viable policies and compete with the private sector, thus turning away from the practice of operating under monopoly conditions. Even though the corporations were originally established to engage themselves in more specific activities, in recent years some have been virtually forced to diversify their activities resulting in certain cases of unco-ordinated and unplanned development and uneconomic returns. More specific decisions need to be taken on the future role of these institutions, if they are to continue to function viably under the new economic environment. The overall performance of many of the trading corporations at the end of 1981 was not satisfactory. Almost all corporations had recorded reduced turnover mainly due to competition from the private sector. However, the restrictions on the volume of credit availability from the banks in 1981, compared to previous years would also have affected the turnover. Meanwhile, many corporations have realised the importance of shifting towards export-oriented activities rather than concentrating on import trade alone e.g. C.W.E. Greater emphasis was also being placed on the purchase of locally manufactured goods.

Even though the corporations have attempted to adopt more realistic pricing policies in 1981, in the face of the pricing policies of the private sector, the state sector was less attractive. According to provisional estimates, the eleven trading corporations had a total turnover of approximately Rs. 4,640 million and provided employment to nearly 15,000.

The important role of the co-operative societies in the internal trade mechanism of Sri Lanka was a prominent feature since the Second World War. Although the activities and the functions of these societies have changed during the recent past, still the majority of the consumers in the low and middle income groups use them as a major source of supply for their day-to-day needs. It was estimated that the turnover of the co-operative societies in trading activities alone in 1981 increased to Rs. 9,870 million, as compared with Rs. 2,808 million in 1978. This was in spite of a marked increase in the private sector participation in the distribution of essential food items. At the same time, the co-operative sector handled the bulk of the items distributed under the Food Stamp Scheme which amounted to Rs. 1,510 million in 1981. However, during this period the number of employees in the co-operative sector showed a marginal decline and stood at around 41,000. There were nearly 700 wholesale outlets and over 9,000 retail outlets of co-operative societies spread over the country. According to estimates based on a Central Bank Survey, the co-operative sector as a whole has made a 4 per cent margin over the costs of its purchases in 1981.

In recent years, attempts were made to induce greater participation by the private sector in the distribution of essential food items including rice, flour and sugar. By the end of 1981, the private sector was able to handle most of the locally produced rice and entered the rice import trade as well. However, the distribution of flour remained a monopoly of the Food Commissioner's Department (FCD). With the commissioning of the Prima Mills, the FCD imported wheat grain instead of flour to be milled locally for distribution. Meanwhile, the sugar trade underwent a significant change. After several decades of monopoly by the FCD, in 1981 the private sector was permitted to participate in a big way in the import and distribution of sugar, creating in the process certain problems to the FCD. The Colombo North Co-operative Society played an important role in this and was able to increase its turnover to Rs. 426 million in 1981.

During the year under review, the necessity for a Market Information Service was felt in all the sectors of internal trade. Such a service to guide the policy makers of the institutions in respect of imports, stock management, international prices and their trends, the size of the market etc. could be useful in improving the efficiency of operations of trading corporations, co-operative societies, the Food Commissioner's Department as well as the private sector.

TOURISM

Following the trend observed during the past decade, tourism continued to be an important source of foreign exchange earnings and employment creation, during the year 1981.

International tourist arrivals during 1981, totalled 370,742 representing an increase of 15 per cent over the figure recorded in 1980. However, there was a noticeable reduction in the rate of growth of tourist traffic observed in 1981, when compared with the performance during the past five years. Arrivals of excursionists (i.e. the temporary visitors staying in the country for less than 24 hours including travellers on cruises but excluding travellers in transit) in 1981, amounted to 7,737, indicating a decrease of 10 per cent over the previous year's level.