

INDUSTRY¹

The performance of the industrial sector in 1984, showed a substantial overall improvement as compared with the last five years. This was reflected in the high rate of growth, rapid expansion of exports, renewed emphasis on investment in the garments sector and the revival of investor confidence. In real terms, industrial output is estimated to have increased by 15 per cent, the highest rate of growth recorded during the past decade. This achievement was made possible by the better performance of the private sector industries during the year. A similar improvement was clearly evident in industrial exports, which recorded a growth of 43 per cent (38 per cent in SDR terms).

The rapid industrial growth in 1984 came from a 26 per cent growth in private sector industries and a 7 per cent growth in public sector industries. Public sector industries which recorded a decline in output in the previous year showed improved growth in 1984, particularly due to the un-interrupted operation of the oil refinery, which contributes 55 per cent of the public sector industrial output. Since a major share of total industrial output comes from oil refining and textile and garments, growth in the industrial sector is determined to a large extent on the performance of these two industries. Therefore, the diversification of industrial production requires attention as it is undesirable to leave the economic fortunes of the industrial sector to two industries whose contribution, in terms of domestic value added, is relatively low.

During the year under review, certain policy changes relating to the industrial sector were introduced with a view to consolidating the policies that were implemented since 1977. These changes were aimed at stimulating the export oriented industrial sector while affording sufficient protection to import substituting local industry. A 'half tax holiday' for certain selected non-traditional export industries for a further period of 10 years was granted in the 1985 Budget. This relief was designed to promote industries based principally on local raw materials and those with high domestic value added. Furthermore, with a view to developing the rural industrial sector and providing more employment opportunities in the rural sector, investment relief upto one-third of assessable income of the investor was granted for the purchase of shares in companies which establish new labour-intensive industries with an employment potential of at least 25 persons in districts other than the Colombo District.

Certain significant tariff changes were introduced during the year under review. The import duty structure was revised on the recommendations of the Presidential Tariff Commission. This Commission recommended tariff changes largely on the basis of effective levels of protection with a view to reducing disparities in the levels of

1. As in the past, the data relating to the performance of the industrial sector for 1984 are based on the returns to the questionnaires addressed by the bank to all known and registered manufacturing units - large, medium and small - in the public and private sectors. However, these do not include the export processing activities of the plantation sector which are classified as manufacturing activities 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 are not available, estimates based on the information available with various government agencies and institutions have been incorporated.

effective protection among local industries through a non-discriminatory tariff structure. These new tariff reforms were aimed at encouraging local production by removal of bias against production for export.

Investment

In the sphere of investment, the Local Investment Advisory Committees (LIACs) in the Ministries of Industries and Scientific Affairs, Textile Industries, and Fisheries approved 474 projects during the year as compared with 349 projects in the previous year. The projects approved in 1984 envisaged an investment of Rs. 567 million and were expected to provide employment opportunities to approximately 21,524 persons. The Rural Industry Advisory Committee (RIAC) in the Ministry of Rural Industrial Development approved 3 projects in 1984, with an investment potential of Rs. 10.5 million.

The Foreign Investment Advisory Committee (FIAC) approved 41 projects in 1984 with an envisaged total investment of Rs. 1,283 million, of which the foreign component amounted to Rs. 522 million. The total employment potential of these projects was estimated at 8,785. Of the total number of approved projects, 14 were in the textile and readymade garments sector. The Greater Colombo Economic Commission (GCEC) approved 15 projects in 1984, with a potential investment of Rs. 678 million, representing a two-fold increase as compared with the previous year. Accordingly, the GCEC had approved a total of 199 projects by the end of the year. Of these, 112 enterprises have signed agreements with the GCEC to set up various industries.

Production

Overall industrial output is estimated to have increased significantly by 15 per cent in 1984 as compared with the 2 per cent growth recorded in the previous year. This higher rate of growth was the result of a 26 per cent growth in the private sector industries and a 7 per cent growth in the public sector industries. Total industrial output in public and private sectors excluding the output of the Petroleum Corporation is estimated to have increased by 9 per cent.

Industrial sub-sectors that recorded increases in production were textile, wearing apparel and leather products (44 per cent), fabricated metal products (24 per cent) chemicals, petroleum and plastic products (18 per cent), paper and paper products (12 per cent) and food, beverages and tobacco products (3 per cent). On the other hand, the output of basic metal products decreased by 31 per cent, non-metallic mineral products by 9 per cent and wood and wood products by 8 per cent.

The total value of industrial production in current terms, in 1984, is estimated to have increased by 25 per cent as compared with an increase of 10 per cent in 1983. When the value of petroleum products is excluded, industrial production is estimated to have grown by 21 per cent. This increase came mainly from the textile and wearing apparel sector where production in the export-oriented garment industry, specially in the Investment Promotion Zone (IPZ) and in the textile mills of the National Textile Corporation recorded a very large increase of 47 per cent.

Large increases were also recorded in fabricated metal products (29 per cent), food, beverages and tobacco products (23 per cent), wood and wood products (23 per cent), non-metallic mineral products (25 per cent) and chemicals, petroleum and rubber products (21 per cent). Production of basic metal products declined by 34 per cent.

TABLE 1.16
Value of Industrial Production 1980 - 1984

Category	Rs. Million				
	1980	1981	1982	1983	1984 (a)
1. Food, beverages and tobacco	3,899	4,496	5,246	6,998	8,623
2. Textile, wearing apparel and leather products	1,923	3,040	3,863	5,136	7,565
3. Wood and wood products (including furniture)	289	315	361	522	640
4. Paper and paper products	476	626	725	901	907
5. Chemicals, petroleum, coal, rubber and plastic products	9,416	12,015	13,099	11,888	14,328
6. Non-metallic mineral products (except petroleum and coal)	1,156	1,250	1,370	1,468	1,829
7. Basic metal products	478	428	262	302	199
8. Fabricated metal products, machinery and transport equipment	620	782	904	1,129	1,456
9. Manufactured products not elsewhere specified (n.e.s.)	54	58	74	90	106
Total	18,311	23,010	25,904	28,434	35,653

(a) Provisional

Source: Central Bank of Ceylon.

Power and Fuel

The most significant feature of power and fuel use in industry in 1984 was the substantial decline of 46 per cent in the use of industrial fuel. This, however, was solely due to the reduced consumption of heavy diesel and furnace oil by the Ceylon Electricity Board (CEB) resulting from the reduction in its thermal power generation.

TABLE 1.17
Power and fuel use in Industry 1982 - 1984

Item	1982	1983	1984(a)
1. Electricity(b) (Gwh)	739.1	752.0	788.3
1.1 Small Industry	26.0	29.0	31.5
1.2 Medium Industry	338.7	339.7	370.5
1.3 Large Industry	374.3	383.3	386.3
2. Domestic Sales of Industrial Fuel ('000 metric tons)	412.2	538.6	293.5
2.1 Heavy Diesel	169.3	285.5	78.6
2.2 Furnace Oil	242.9	253.1	214.9

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 50 Kva, medium industry as 50 - 500 Kva and large industry as above 500 Kva.

The sale of heavy diesel in 1984 excluding sales to the CEB, registered an increase of 12 per cent, while that of furnace oil recorded a marginal increase of one per cent over that of 1983. Electricity continued to be the most widely used source of energy in industry with consumption increasing by 5 per cent in the year under review.

Public Sector Industry

Several noteworthy developments can be highlighted in the performance of public sector industry. A new mammoth manufacturing plant of the Ceylon State Hardware Corporation was commissioned in January, 1984. The Ceylon Petroleum Corporation (CPC) entered into an agreement with Petro-Canada International Assistance Corporation in March, 1984 for financial and technical assistance to carry out geo-physical surveys for off-shore oil exploration. The CPC also entered into a joint venture agreement with a three-nation consortium in April 1984, to rehabilitate the Trincomalee Tank Farm, which comprises 99 oil tanks with a total capacity of a million metric tons of oil and upgrade it to an international oil storage complex.

TABLE 1.18
Public Sector Major Industry Output Index
(1977 = 100)

Category	1982	1983	1984(a)
1. Food, beverages and tobacco ..	83.6	73.6	56.7
2. Textile, wearing apparel and leather products ..	135.7	127.0	141.2
3. Wood and wood products ..	151.0	163.1	149.1
4. Paper and paper products ..	133.3	135.7	117.2
5. Chemicals, petroleum, coal, rubber and plastic products ..	133.1	105.2	125.2
6. Non-metallic mineral products ..	131.5	125.1	109.6
7. Basic metal products ..	106.3	109.7	75.5
8. Fabricated metal products ..	96.3	76.8	86.2
All categories ..	124.6	106.7	113.8

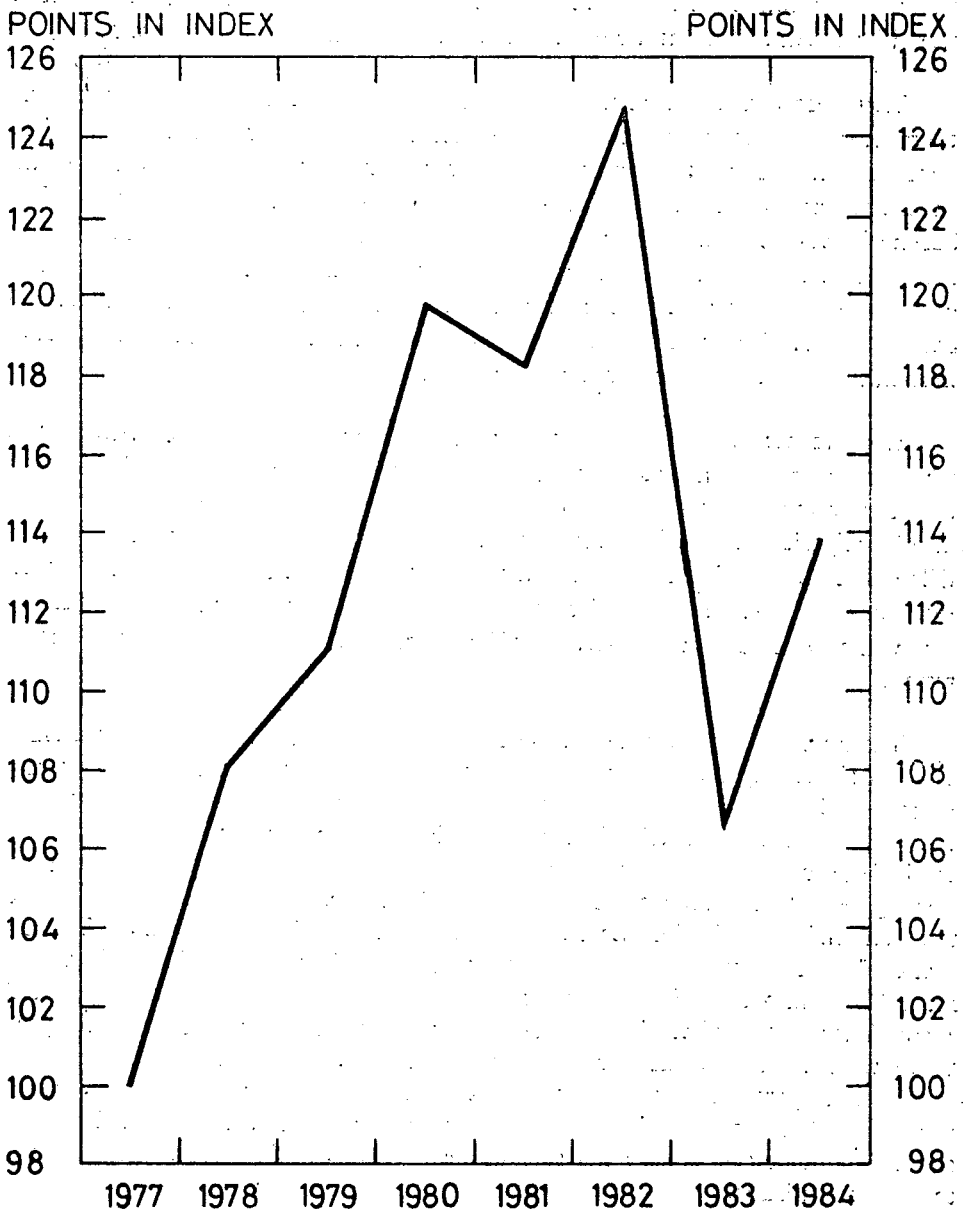
(a) Provisional.

Source : Central Bank of Ceylon.

In real terms, the overall output of public sector industrial enterprises increased by 7 per cent in 1984 as against a 15 per cent decline recorded in 1983. This increase came mainly from the 22 per cent rise in the output of the petroleum refinery which operated without any shutdown in 1984. The output of the public sector enterprises (excluding the CPC) recorded a decline of 8 per cent in the year under review.

As in previous years the performance of public corporations was uneven. The corporations that showed increases in output were the State Distilleries (32 per cent), National Textile (19 per cent), State Fertilizer Manufacturing (12 per cent), Ceylon Plywoods (10 per cent) and State Mining and Mineral Development (2 per cent). Decreases in output levels were experienced by the Ceylon Leather Products (39 per

INDEX OF INDUSTRIAL PRODUCTION OF THE PUBLIC SECTOR *



* Represents the output of 24 major enterprises.

cent), Ceylon Steel (31 per cent), State Timber (27 per cent), National Salt (23 per cent), Sri Lanka Tyre (19 per cent), Sri Lanka Sugar (18 per cent), Sri Lanka Cement (15 per cent), National Paper (13 per cent), Ceylon Oils and Fats (12 per cent), Paranthan Chemicals and Ceylon Ceramics (11 per cent each), State Hardware (7 per cent) Corporations and the National Milk Board (11 per cent).

There were varied reasons for these declines. The Steel and Paper Corporations experienced production problems due to short supply of raw materials. The National Salt Corporation's production dropped as a result of the delay in the commencement of the second harvest due to adverse weather conditions. The decline in output of the Ceylon Ceramics Corporation could be attributed to the temporary shutdown of the sanitaryware factory and the curtailment of production of items such as mosaic tiles and insulators due to marketing problems. The Paranthan Chemicals Corporation was compelled to curtail its production due to slow movement of stocks and operational problems.

With respect to sales, the majority of corporations performed well in 1984 when compared with their sales performance in 1983. According to available data, the corporations that experienced improvements in their sales performance were the State Distilleries, State Mining and Mineral Development, State Hardware, Ceylon Oils & Fats, Ceylon Mineral Sands, Ceylon Leather Products, State Timber, Ceylon Plywoods and National Paper Corporations. Marketing problems on account of competition from imports adversely affected sales of the Ceylon Steel Corporation.

The emphasis at present on management of public enterprises on a commercially viable basis was responsible for most corporations recording profits in 1984. Among them, the Ceylon Petroleum Corporation recorded an unprecedented profit of Rs. 1,717 million. The decline in crude oil prices and domestic price increases effected in 1983, contributed to the favourable operational results of this Corporation. Among the other public sector enterprises that recorded profits in 1984 were the National Salt, Ceylon Leather Products, State Distilleries, State Timber, National Paper, Ceylon Mineral Sands and State Mining and Mineral Development Corporations. The Ceylon Steel, State Hardware, Sri Lanka Sugar and State Fertilizer Manufacturing Corporations continued to incur losses in the year under review. In addition, the Ceylon Ceramics Corporation which recorded a profit in the previous year, incurred a loss in 1984. In general, problems arising from breakdown of machinery, shortage of raw materials, lack of skilled personnel and financial constraints such as insufficient working capital contributed to the unsatisfactory operational results of these corporations.

In 1984, Government transfer payments to public sector industrial enterprises amounted to Rs. 1,036 million consisting of Rs. 460 million of capital transfers and Rs. 576 million in the form of current transfers. The Sri Lanka Sugar, National Textile, Ceylon Oils and Fats, State Fertilizer Manufacturing Corporations and the National Milk Board were the major recipients of these transfers.

TABLE 1.19

Transfers of Government Funds to Industrial Enterprises 1982 - 1984

Rs. Million

Corporation/Enterprise	Capital			Current			Total		
	1982	1983	1984*	1982	1983	1984*	1982	1983	(a) 1984
1. National Milk Board	10.7	9.0	7.5	45.9	21.3	25.1	56.6	30.3	32.6
2. Ceylon Oils and Fats	10.9	25.3	99.1	—	—	—	10.9	25.3	99.1
3. Sri Lanka Sugar	75.4	122.5	168.8	—	—	7.1	75.4	122.5	175.9
4. National Textile	—	31.5	127.2	—	32.7	—	—	64.2	127.2
5. National Paper	—	—	5.6	10.0	—	—	10.0	—	5.6
6. State Rubber Manufacturing	—	—	—	0.7	—	—	0.7	—	—
7. State Fertilizer Manufacturing	300.0	—	—	543.0	494.7	537.3	843.0	494.7	537.3
8. Ceylon Steel	—	39.1	—	—	—	—	—	39.1	—
9. State Hardware	—	—	—	—	0.4	—	—	0.4	—
10. National Packaging Materials	—	—	—	2.5	7.7	1.0	2.5	7.7	1.0
11. State Printing	—	—	51.6	—	—	—	—	—	51.6
12. Ceylon Oxygen Ltd.	—	—	—	2.6	8.7	6.1	2.6	8.7	6.1
Total	397.0	227.4	459.8	604.7	565.5	576.6	1,001.7	792.9	1,036.4

(a) Provisional.

Source: General Treasury.

Investment Promotion Zone

In 1984, fifteen projects were approved by the Greater Colombo Economic Commission (GCEC) bringing the total number of projects approved to 199 by the end of 1984. Of these, 112 enterprises have signed agreements with the GCEC to set up industries. Out of a total of 74 enterprises (62 of them in Katunayake Investment Promotion Zone) that were in commercial production, 32 were engaged in the production of readymade garments. The total number employed in GCEC enterprises amounted to 29,251* in December, 1984 as compared with 26,053* in December, 1983. Although a large number of projects are in the garments sector, project approvals in the last few years have shown a welcome trend towards greater diversification of industrial activity in the IPZ.

Of the fifteen projects approved in 1984, four each were in textiles and manufactured products, three in fabricated metal products, two in services and one each in chemical products and wood and wood products. A wide variety of

* This excludes employment with Air Lanka Ltd.,

products such as clothing, sports goods, rubber based products, cosmetic accessories, light engineering products, electronic components and electrical appliances are manufactured for export.

Gross earnings from GCEC exports increased by 46 per cent amounting to Rs. 1,119 million (SDR 49 million) in 1984. The garments and footwear sector accounted for the highest amount of export earnings (50 per cent) in 1984 as in the previous year. In this sector export earnings per employee, in SDR terms, increased by 30 per cent. The other sectors of the GCEC that recorded increases in export earnings were beverages and tobacco products, steel fabricated metal products and plastic products.

The GCEC's Second Investment Promotion Zone at Biyagama which covers an area of 450 acres is presently under construction. This zone which is scheduled to be in operation in 1985, will have infrastructural facilities similar to that of the Katunayake Investment Promotion Zone.

TABLE 1.20
Investment Promotion Zone — Employment and Export Earnings 1983 - 1984

Category	1983		1984(a)	
	Employment (End Dec.)	Gross Export Earnings (f.o.b.)	Employment (End Dec.)	Gross Export Earnings (f.o.b.)
	No.	Rs. Mn.	No.	Rs. Mn.
1. Food, beverages and tobacco ..	30	41.7	30	116.0
2. Textile, wearing apparel and leather products ..	22,389	1,917.4	25,041	2,889.1
3. Wood and wood products ..	64	1.6	—	0.1
4. Paper and paper products ..	—	—	—	—
5. Chemicals, petroleum, coal, rubber and plastic products ..	760	108.6	1,652	136.3
6. Non-metallic mineral products ..	85	5.6	—	2.7
7. Basic metal products ..	—	—	—	—
8. Fabricated metal products, machinery and transport equipment ..	606	92.6	234	85.8
9. Manufactured products (n.e.s) ..	1,762	81.4	1,934	108.0
10. Services(b) ..	357	170.0	360	199.4
Total	26,053	2,418.9	29,251	3,537.4

Source: Greater Colombo Economic Commission.

(a) Provisional

(b) Excluding Air Lanka.

ECONOMIC AND SOCIAL OVERHEADS

Energy

In 1984, Sri Lanka experienced an improved energy situation. This development was the result of lower international prices for petroleum products as well as the higher domestic generation of hydro electricity consequent on improved weather conditions. Sri Lanka was able to benefit from declining world oil prices by purchasing over