

## TRADE AND TOURISM

### Overall Trade Balance

The performance of the external trade sector continued to be unfavourable in 1986. The value of exports decreased by 21 per cent during the year. However, the outlay on imports too decreased by 15 per cent, resulting in a contraction in the trade deficit by 3 per cent as compared with the deficit in 1985.

The disappointing performance of the export sector was attributed to a sharp decrease in the value of all agricultural exports, namely tea, rubber, coconut and minor agricultural crops. This weak export performance was further compounded by a sharp fall in earnings from petroleum exports. Although the earnings from a wide range of industrial exports (excluding petroleum products) increased considerably, the sharply reduced receipts from agricultural exports more than offset this increase.

According to provisional customs data for 1986, the expenditure on imports at Rs. 51,332 million (SDR 1,560 million) and earnings from exports at Rs. 34,092 million (SDR 1,036 million), resulted in a trade deficit of Rs. 17,239 million (SDR 524 million). This was 3 per cent higher in SDR terms compared with the deficit of Rs. 14,034 million (SDR 508 million) recorded in 1985. When customs data are adjusted for lags and other factors pertaining to recording, total imports amounted to Rs. 54,609 million (SDR 1,660 million) while exports totalled Rs. 34,072 million (SDR 1,036 million). The resulting adjusted trade deficit of Rs. 20,537 million (SDR 624 million) was 3 per cent lower in SDR terms than the previous year's adjusted deficit of Rs. 17,843 million (SDR 646 million).

**TABLE 1.28**

### Balance of Trade 1984-1986

Rs. Million (SDR Million in brackets)

Year	Imports(a)		Exports(b)		Balance of Trade	
	Customs	Adjusted	Customs	Adjusted	Customs	Adjusted
1984	46,913 (1,799)	47,541 (1,823)	37,006 (1,419)	37,347 (1,432)	- 9,908 (-380)	-10,194 (-391)
1985	49,069 (1,776)	54,049 (1,956)	35,035 (1,268)	36,207 (1,311)	-14,034 (-508)	-17,843 (-646)
1986(c)	51,332 (1,560)	54,609 (1,660)	34,092 (1,036)	34,072 (1,036)	-17,239 (-524)	-20,537 (-624)

- (a) Excluding Bullion and Specie  
 (b) Includes re-exports  
 (c) Provisional

Sources: Customs Sri Lanka,  
 Food Commissioner's Department,  
 Ceylon Fertilizer Corporation and  
 other major importers of fertilizer,  
 Air Lanka Ltd,  
 Ceylon Shipping Corporation.

The average export prices of all agricultural products were lower in 1986 compared to those of the previous year. Although on the import side, petroleum prices dropped sharply and the prices of a number of basic food items also declined, the favourable impact of these were less than sufficient to avoid the country's terms of trade from remaining adverse for the second consecutive year. Export prices, measured by the export price index, decreased by 11 per cent during the year while import prices measured by import price index decreased by 6 per cent. Thus, the relative movements in prices resulted in a deterioration in the terms of trade and the index decreased by 5 per cent, declining from 108 in 1985 to 102 in 1986.

**TABLE 1.29**  
**Foreign Trade 1979-1986**

Year	Rupees Million			Index Numbers 1981-100				Terms of Trade
				Volume		Prices		
	Exports* (f.o.b.)	Imports* (c.i.f.)	Balance of Trade	All Exports	All Imports	All Exports	All Imports	
1979	15,286	22,560	- 7,275	89	85	82	76	109
1980	17,595	33,942	-16,347	95	107	92	90	102
1981	21,043	36,583	-15,540	100	100	100	100	100
1982	21,454	41,946	-20,492	105	98	98	107	92
1983	25,096	45,558	-20,461	99	108	125	110	113
1984	37,347	47,541	-10,194	116	109	160	119	134
1985	36,207	54,049	-17,843	120	102	142	132	108
1986(a)	34,072	54,609	-20,537	128	114	126	124	102

\* Adjusted data from 1980 onwards.  
(a) Provisional

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

### Exports

According to adjusted data, total earnings from exports in 1986 stood at Rs. 34,072 million (SDR 1,036 million) compared to Rs. 36,207 million (SDR 1,311 million) in 1985, showing a decline of 6 per cent in Rupee terms and 21 per cent in SDR terms. This was somewhat similar to the performance of the export sector in the previous year when export earnings dropped by 3 per cent in Rupee terms and by 8 per cent in SDR terms in comparison with 1984. The drop in export earnings in 1986 was due mainly to reduced earnings from agricultural exports which declined from Rs. 19,026 million (SDR 689 million) in 1985 to Rs. 15,764 million (SDR 479 million). Earnings from industrial exports too declined in SDR terms, largely due to a sharp reduction in petroleum exports, falling from SDR 517 million in 1985 to SDR 483 million in 1986. In Rupee terms, however, industrial exports recorded an increase, rising from Rs. 14,295 million to Rs. 15,878 million over the two year period. Mineral exports at Rs. 1,182 million (SDR 36 million) registered an increase of 37 per cent (15 per cent in SDR terms) in 1986, recording a most impressive growth, but due to the smaller share in total exports, its impact on the overall export sector was very marginal.

TABLE 1.30

## Composition of Exports 1984 - 1986

Category	Value in Rs. Million			SDR Million			Percentage of Total Exports		
	1984	1985	1986(d)	1984	1985	1986	1984	1985	1986
1. Agricultural Exports	22,575	19,026	15,764	866	689	479	60.4	52.5	46.3
1.1 Tea	15,764	12,003	9,253	605	434	281	42.2	33.1	27.2
1.2 Rubber	3,301	2,566	2,622	127	93	80	8.8	7.1	7.7
1.3 Coconut	2,118	3,093	2,389	81	112	73	5.7	8.5	7.0
1.3.1 Kernel products	1,553	2,383	1,609	60	86	49	4.2	6.7	4.7
1.3.2 Other	566	710	780	22	26	24	1.5	2.0	2.3
1.4 Minor Agricultural products (a) (b)	1,391	1,365	1,500	53	49	46	3.7	3.8	4.4
2. Industrial Exports (a) (b)	12,918	14,295	15,878	495	517	483	34.6	39.5	46.6
2.1 Textile and garments	7,566	7,960	9,629	290	288	293	20.3	22.0	28.3
2.2 Petroleum products	3,288	3,877	2,358	126	140	72	8.8	10.7	6.9
2.3 Other	2,064	2,459	3,891	79	89	118	5.5	6.8	11.4
3. Mineral Exports	834	864	1,182	32	31	36	2.2	2.4	3.5
3.1 Gems	617	561	755	24	20	23	1.6	1.6	2.2
3.2 Other	217	303	427	8	11	13	0.6	0.8	1.3
4. Unclassified (c)	1,020(e)	2,021(e)	1,249	39	73	38	2.7	5.6	3.7
Total Exports (b)	37,347	36,207	34,072	1,432	1,311	1,036	100.0	100.0	100.0

- (a) Selected items.  
 (b) Adjusted.  
 (c) Includes re-exports.  
 (d) Provisional.  
 (e) Includes export of an aircraft.

Sources: Customs, Sri Lanka,  
 Ceylon Petroleum Corporation.

## Conversion

1984 — 1 SDR = Rs. 26.08

1985 — 1 SDR = Rs. 27.63

1986 — 1 SDR = Rs. 32.90

One of the most disturbing features of Sri Lanka's external trade in 1986 has been the drop in the earnings from agricultural exports. The sharp drop in agricultural commodity prices was the main factor responsible for this disappointing performance. Value of tea exports declined by 23 per cent (35 per cent in SDR terms) while that of coconut, decreased by 23 per cent (35 per cent in SDR terms) from the levels of export values in 1985. Although earnings from rubber and minor agricultural products registered increases of 2 and 10 per cent in Rupee terms respectively, they decreased by 14 and 8 per cent, respectively in SDR terms.

The reduction in tea export earnings took place despite an increase in the export volume by 5 per cent from 198.0 million kgs. in 1985 to 207.8 million kgs. in 1986, the highest level in 11 years. The reduction in price more than off-set the favourable effect of the increased volume. The average export price of tea declined sharply from Rs. 60.62 per kg. (SDR 2.19) in 1985 to Rs. 44.52 per kg. (SDR 1.35) in 1986.

A gradual declining trend in tea prices in world markets has been observed since early 1985, and this trend was reflected in the Colombo Auctions too, where the average price dropped by 21 per cent from Rs. 39.01 per kg. in 1985 to Rs. 30.68 per kg. in 1986, despite the depreciation of the Rupee. Meanwhile, the average price of Sri Lanka teas at the London Auctions declined more by 26 per cent from 155.65 pence per kg. to 115.67 pence per kg. over the same period.

The volume of rubber exports decreased by 8 per cent, falling from 120 million kgs. in 1985 to 110 million kgs. in 1986. The average f.o.b. price too decreased by 6 per cent from SDR 0.77 per kg. in 1985 to 0.72 per kg. in 1986. The average f.o.b. price of rubber in Rupee terms increased by 12 per cent from Rs. 21.34 per kg. in 1985 to Rs. 23.83 per kg. in 1986. In 1986, the export earnings from rubber in Rupee terms rose by 2 per cent from Rs. 2,566 million to Rs. 2,622 million, while in SDR terms, the earnings decreased by 14 per cent, falling from SDR 93 million in 1985 to SDR 80 million in 1986.

Earnings from coconut products decreased by 23 per cent (35 per cent in SDR terms), from Rs. 3,093 million (SDR 112 million) in 1985 to Rs. 2,389 million (SDR 73 million) in 1986. Value of kernel exports declined by 32 per cent (43 per cent in SDR terms) from Rs. 2,383 million (SDR 86 million) in 1985 to Rs. 1,609 million (SDR 49 million) in 1986. This was due entirely to a sharp drop in the prices (f.o.b.) of all three major coconut products, *i.e.*, coconut oil, copra and dessicated coconut, which more than off-set a substantial 18 per cent increase in the export volume. Earnings from coconut by-products rose by 10 per cent, from Rs. 710 million in 1985 to Rs. 780 million in 1986. However, in SDR terms, such earnings dropped by 8 per cent from SDR 26 million to SDR 24 million in 1986.

The nut equivalent of coconut kernel products exports at 1,105 million was the highest since 1972 when 1,248 million nut equivalent was exported. However, the export price of nut equivalent of kernel products dropped dramatically by more than half—43 per cent (56 per cent in SDR terms) from Rs. 2.54 (SDR 0.09) in 1985 to Rs. 1.46 (SDR 0.04) in 1986.

Earnings from minor agricultural exports, which have been on a declining trend during the last three years, registered an increase of 10 per cent in 1986. In SDR terms, however, earnings from these exports showed a decline of 8 per cent. Products which registered noticeable decreases in earnings in SDR terms were fruits, coffee, cardamoms, sesame seed, other oil seeds, cocoa, unmanufactured tobacco and papain.

Industrial exports earned 11 per cent more in Rupee terms in 1986, but in SDR terms, the earnings were lower by 7 per cent. The value of industrial exports in 1986 totalled Rs. 15,878 million (SDR 483 million), as compared with Rs. 14,295 million (SDR 517 million) in 1985. Earnings from garment exports increased by 21 per cent (but only 2 per cent in SDR terms) to reach Rs. 9,629 million (SDR 293 million) from a level of Rs. 7,960 million (SDR 288 million) in 1985.

Other industrial exports registered an impressive growth rate of 58 per cent (33 per cent in SDR terms) rising from Rs. 2,459 million (SDR 89 million) in 1985 to Rs. 3,891 million (SDR 118 million) in 1986. The encouraging performance in this category of exports can be attributed mainly to diamond exports, which registered a three-fold increase, rising from Rs. 313 million (SDR 11 million) in 1985 to Rs. 1,047 million (SDR 32 million) in 1986. However, the growth in both garments and textile exports and in other industrial exports was negated by a sharp drop in the value of petroleum exports, which declined by 39 per cent (49 per cent in SDR terms) from Rs. 3,877 million (SDR 140 million) in 1985 to Rs. 2,358 million (SDR 72 million) in 1986. This was entirely due to a sharp drop in prices.

### Imports

The total outlay on imports, according to adjusted Customs data, was Rs. 54,609 million (SDR 1,660 million) in 1986, as compared with Rs. 54,049 million<sup>1</sup> (SDR 1,956 million) in 1985. This was a marginal increase of 1 per cent in Rupee terms, but a decrease of 15 per cent in SDR terms. The decrease was reflected in both intermediate goods and investment goods.

The composition of imports further changed in 1986 following the pattern observed in the previous year. The share of consumer goods which rose from 23 per cent in 1984 to 26 per cent in 1985, increased further to 34 per cent in 1986. This was partly the outcome of increased importation of consumer goods for meeting domestic consumption requirements as well as for the building-up of buffer stocks. The share of intermediate goods in total imports dropped further to 41 per cent from 47 per cent in 1985. The reduction in the share of intermediate goods can be mainly attributed to the substantial decline in the value of petroleum imports, due to the decline in world prices of oil. The share of investment goods increased marginally, to 19.3 per cent from 19.2 per cent in the previous year. All items of imports in this category, other than machinery and equipment, registered decreases in 1986.

1. Customs data for 1985 with respect to imports were further adjusted in 1986 to accommodate unclassified imports to the extent of Rs. 1,132 million (SDR 41 million). Accordingly, the import figure of Rs. 53,917 million (SDR 1,915 million) was revised upwards to Rs. 54,049 million (SDR 1,956 million).

**TABLE 1.31**  
**End-Use Classification of Imports**

Category	Value in Rs. Million			SDR Million			Percentage of Total		
	1984	1985(a)	1986(b)	1984	1985	1986	1984	1985	1986
1. Consumer goods ...	11,052	14,261	18,609	423.8	516.2	565.6	23.2	26.4	34.1
1.1 Food and drink ...	4,986	5,906	6,746	191.2	213.8	205.0	10.5	10.9	12.3
1.1.1 Rice ...	197	1,089	1,052	7.5	39.4	32.0	0.4	2.0	1.9
1.1.2 Flour ...	28	206	90	1.1	7.5	2.7	0.1	0.4	0.2
1.1.3 Sugar ...	1,346	1,985	1,764	51.6	71.8	53.6	2.8	3.7	3.2
1.2 Textile and Clothing ...	2,974	3,799	6,353	114.0	137.5	193.1	6.2	7.0	11.6
1.3 Other ...	3,092	4,556	5,510	118.6	164.9	167.5	6.5	8.4	10.1
2. Intermediate goods ...	23,749	25,532	22,314	910.7	924.2	678.3	50.0	47.2	40.9
2.1 Petroleum ...	10,681	10,986	6,293	409.6	397.6	191.3	22.5	20.3	11.5
2.2 Fertilizer ...	1,103	1,579	1,282	42.3	57.2	39.0	2.3	2.9	2.4
2.3 Chemicals ...	1,028	902	1,587	39.4	32.6	48.2	2.2	1.7	2.9
2.4 Wheat ...	2,471	2,765	2,370	94.8	100.1	72.0	5.2	5.1	4.3
3. Investment goods ...	12,170	10,387	10,556	466.7	376.0	320.9	25.6	19.2	19.3
3.1 Machinery and equipment ...	5,335	4,769	5,828	204.6	172.6	177.1	11.2	8.8	10.7
3.2 Transport equipment ...	3,031(c)	2,499(c)	1,457	116.2	90.5	44.3	6.4	4.6	2.7
3.3 Building Materials ...	727	899	907	27.9	32.5	27.6	1.5	1.7	1.7
4. Unclassified ...	570	3,868	3,130	21.8	140.0	95.1	1.2	7.2	5.7
<b>Total Imports(d) ...</b>	<b>47,541</b>	<b>54,049</b>	<b>54,609</b>	<b>1,823.0</b>	<b>1,956.4</b>	<b>1,659.9</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

(a) Revised.

(b) Provisional.

(c) Includes values of ships and aircraft which have not been recorded in the Customs Returns.

(d) Adjusted.

Sources: Customs, Sri Lanka,  
Food Commissioner's Department,  
Ceylon Fertilizer Corporation and  
other major Importers of Fertilizer,  
Ceylon Petroleum Corporation,  
Air Lanka Limited,  
Ceylon Shipping Corporation.

Total outlay on investment goods in 1986 amounted to Rs. 10,556 million (SDR 321 million). This compared with Rs. 10,387 million (SDR 376 million) in 1985, showing a moderate increase of 2 per cent in Rupee terms and a decrease of 15 per cent in SDR terms. The imports of transport equipment in 1986 at Rs. 1,457 million (SDR 44 million) was sharply lower by 42 per cent (51 per cent in SDR terms). Imports of machinery and equipment increased moderately by 3 per cent, while building materials dropped by 15 per cent (in SDR terms).

In 1986, the import outlay on intermediate goods totalled Rs. 22,314 million (SDR 678 million), compared to Rs. 25,532 million (SDR 924 million) in the previous year, registering a decrease of 13 per cent (27 per cent in SDR terms). Expenditure on intermediate goods such as petroleum, wheat grain and fertilizer decreased considerably. The value of petroleum imports at Rs. 6,293 million (SDR 191 million) was less than half that of the previous year, largely on account of the sharp fall in the world price of crude oil, from around SDR 28 per barrel in 1985 to around SDR 13 per barrel in 1986. The volume of crude oil imports also declined marginally from 12.2 million barrels in 1985 to 12.1 million barrels in 1986. The value of wheat grain imports declined from Rs. 2,765 million (SDR 100 million) in 1985 to Rs. 2,370 million (SDR 72 million) in 1986. However, the volume of wheat grain imports increased from 665 thousand metric tons in 1985 to 681 thousand metric tons in the year under review. The decline in import outlay was, therefore, due entirely to a drop in the average import price from SDR 150 to SDR 106 per metric ton over the

TABLE 1.32

## Volume of Major Imports in 1986

Month	Metric Ton				
	Rice	Wheat	Sugar	Petroleum (Crude Oil)	Fertilizer
January	39,200	—	31,320	65,961	11,617
February	19,497	95,911	32,017	125,495	26,512
March	20,146	113,473	19,385	185,272	49,238
April	10,060	—	19,328	155,242	26,257
May	10,136	52,499	10,734	153,502	38,048
June	10,021	—	12,672	152,924	39,806
July	39,631	104,250	45,195	29,380	54,907
August	20,349	52,500	4,950	181,555	20,481
September	20,500	66,304	15,695	152,505	24,510
October	21,041	163,009	34,419	185,873	12,065
November	10,022	33,000	39,950	67,048	35,166
December	10,396	—	56,219	183,790	39,601
Total(a)	230,999	680,946	321,884	1,638,547	378,208

(a) Adjusted.

Sources: Customs, Sri Lanka, Ceylon Petroleum Corporation, Ceylon Fertilizer Corporation and other major Importers of Fertilizer, Central Bank of Sri Lanka.

two years. A sizeable quantity of wheat grain was imported in 1986 under the Export Enhancement Programme (EEP),<sup>1</sup> the average price paid for which at SDR 77 per metric ton was substantially lower than market prices.

Expenditure on consumer goods imports in 1986 of Rs. 18,609 million (SDR 566 million) increased by 30 per cent (10 per cent in SDR terms) over that of the previous year. The increase was reflected in all major categories of consumer goods. Textile and clothing registered the highest increase of 40 per cent in SDR terms. This may be attributed largely to the liberalisation of textile imports in November, 1985. The imports of textile and clothing in 1986 were valued at Rs. 6,353 million (SDR 193 million), as compared with Rs. 3,799 million (SDR 138 million) in the previous year. Imports of other consumer goods such as motor cars, motor cycles, consumer durables and pharmaceuticals at Rs. 5,510 million (SDR 168 million) were 21 per cent (2 per cent in SDR terms) higher than those of 1985. Outlays on food and drink imports, however, dropped in SDR terms by 4 per cent, although an increase of 14 per cent was recorded in Rupee terms.

### Foreign Trade Policy

The liberalised trade policies set in motion in 1977 continued in force in 1986. Marginal modifications in policy were effected by modest changes in the tariff structure as well as by the introduction of other measures to facilitate export growth and further liberalisation.

The full impact of the liberalisation of the textile trade was felt in 1986, when imports rose substantially. These imports which were under regulation were liberalised in November, 1985 and a duty of 100 per cent of the CIF value or Rs. 40 per square metre (whichever is higher) for synthetic textile and 100 per cent of the CIF value or Rs. 25 per square metre (whichever is higher) for cotton textiles were imposed.

During the year 1986, the import tariff on wheat grain was increased from 5 per cent to 10 per cent. This was the first step in the increase in import duty on wheat grain to 25 per cent as proposed by the Presidential Tariff Commission in 1984. The import tariff on crude oil was increased in March, 1986 from 20 to 45 per cent, so as to prevent a disruption of national energy policies followed since the world oil price hike. With world prices declining sharply, the basis of duty was changed to an ad-valorem rate of 45 per cent or a specific rate of Rs. 1,800 per metric ton, whichever is higher, in late 1986.

Despite being severely affected by trade restrictions imposed by importing countries with import quotas, countervailing duties, etc., the industrial export sector recorded an encouraging performance in 1986. The growing protectionist tendencies were seen in the U.S.A., Canada and European countries on import of textile, garments and leather products. Quota restrictions were operated in respect of exports to U.S.A., EEC, Canada, Norway, Sweden and Finland. By the end of

1. Export Enhancement Programme (EEP) is an export incentive scheme in the U.S.A. under which a subsidy is paid to the wheat exporters by the U.S. government.



1986, there were 25 different categories of textiles and garments under quota. Nevertheless, the steady expansion of garments and textile exports and other industrial exports indicated the strong competitiveness of national exports, and the effectiveness of promotional measures.

The slump in export prices of tea, rubber and coconut was in line with the sharp decline in commodity prices in the world markets during 1986. The situation was aggravated by false and hostile propaganda, particularly the threat by separatist elements to poison tea exports. It was noteworthy that Sri Lanka tea at the Colombo Auctions fetched lower prices relative to other auction centres in the world. However, tea prices tended to be firm from about November, 1986, owing mainly to shortfall in world supply.

The present International Natural Rubber Agreement (INRA) is due to expire in October, 1987, having been extended by two years in 1985. The last round of talks held in Geneva on INRA in 1986 ended in a deadlock, when consumer nations demanded major changes in the buffer stock operations. Also, consultations were continued among producers on the question of quota allocations under the proposed International Tea Agreement in 1986.

### **Internal Trade**

The objective in the internal trade policy was to foster fair trading on a more competitive footing. Private sector participation was encouraged in wholesale, retail and other activities relating to trading in goods and services. State intervention was maintained at a minimum level, and its objective was to safeguard competition and avert the creation of monopolies. The State Trading Organizations were also deployed to maintain some price stability and adequate supplies of essential food-stuffs, and for protecting consumer interests.

The National Prices Commission carried out 56 price reviews during 1986 as against 58 in the previous year. The objective of these reviews was not to regulate prices but to safeguard the interests of both consumers and producers by a review of reasons for price changes. The Fair Trading Commission Bill that was passed by Parliament in November, 1986 provided for the setting up of the Fair Trading Commission, in place of the National Prices Commission. The proposed Commission will have powers to deal with monopolies, mergers and anti-competitive practices, in addition to its being responsible for the formulation and implementation of national price policies.

Most of the State Trading Organizations (STOs) recorded reduced turnovers during 1986, but they ventured into diversified activities in an attempt to strengthen their commercial viability in the light of growing competition from private traders. Increased financial assistance was granted to the Co-operative Wholesale Establishment (CWE) through the banking system to maintain buffer stocks of essential commodities in the context of the security situation in the country.

The Multi-Purpose Co-operative Societies (MPCS) remained as an organised network of retail outlets in the country. The strategic value of these institutions was increasingly evident in recent years, when the speedy distribution of essential food items became necessary to counter disruptive activities. Otherwise, the MPCS outlets were largely confined to the distribution of essential consumer goods under the food stamps scheme.

## TOURISM

Following the trend observed since 1983, the level of activity in the tourist industry suffered a further set-back in 1986. This was evident by the decrease in the number of tourist arrivals, tourist nights, room occupancy and earnings during the year under review.

TABLE 1.33

### Tourism Statistics 1985-1986

Item	1985	%Change over 1984	1986	%Change over 1985
1. Tourist Arrivals ...	257,456	-18.9	230,106	-10.6
2. Excursionist Arrivals ...	9,882	14.9	6,266	-36.6
3. Tourist Nights ('000) ...	2,365	-15.9	2,437	3.0
4. Gross Tourist Receipts				
4.1 Rs. Million ...	2,007	-24.8	2,000(a)	-0.4
4.2 US Dollar Million ...	74.0	-29.4	71.4	-3.5
4.3 SDR Million ...	72.6	-29.1	60.8	-16.2
5. Number of Arrivals by Purpose of Visit				
5.1 Pleasure ...	234,038	-22.0	216,148	-7.6
5.2 Business ...	18,214	66.5	10,084	-44.6
6. Number of Arrivals by Region				
6.1 Western Europe ...	153,004	-19.8	143,022	-6.5
6.2 Asia ...	79,056	-12.3	66,150	-16.3
6.3 North America ...	10,358	-27.2	9,232	-10.9
7. Total Employment ...	54,533	-7.4	48,000	-11.9
7.1 Direct ...	22,723	-7.4	20,000	-11.9
7.2 Indirect ...	31,810	-7.4	28,000	-11.9

(a) Provisional

Source: Ceylon Tourist Board.

Total tourist arrivals during 1986 at 230,106, the lowest since 1978, recorded a decrease of 11 per cent when compared with 1985. In comparison to the peak level of tourist arrivals at 407,230 in 1982, arrivals during the year under review were less by 43 per cent. The main factor responsible for the continued decline in tourist arrivals had been the adverse publicity abroad on the security situation in Sri Lanka.

The decline was distributed among all regions. As in the past, Western Europe continued to be the prime market accounting for 62 per cent of total tourist arrivals yet the decline of arrivals from this region by 7 per cent had a considerable impact on overall arrivals. Owing to the imposition of more stringent regulations in regard to duty free allowances granted to its nationals returning from Sri Lanka by the Indian Government in 1984, the arrivals from India continued to decline. As a result,

tourist arrivals from Asia, which is the second largest market, declined by 16 per cent in 1986. Arrivals from other main markets such as North America, Australasia and Eastern Europe decreased by 11, 28 and 10 per cent, respectively.

The Ceylon Tourist Board has estimated the gross foreign exchange earnings from tourism in 1986 at Rs. 2,000 million (SDR 61 million), the lowest since 1980. This indicated a marginal decrease in Rupee terms (0.4 per cent), and a 16 per cent decline in SDR terms from the previous year. When compared with the peak level of earnings of SDR 133 million in 1982, the earnings in 1986 showed a decrease of 54 per cent.

The main purpose of tourist travel to the island continued to be pleasure, which accounted for 94 per cent of total arrivals in 1986. Arrivals for business purpose decreased by 45 per cent while those for other purposes such as social, religious and cultural and educational decreased by 26 per cent when compared with 1985. The arrivals of excursionists (temporary visitors) showed a decrease of 37 per cent.

As in the past, the main mode of transport of tourists to Sri Lanka in 1986 continued to be by air. Of the total arrivals by this mode, scheduled inter and intra regional flights together accounted for 80 per cent, while charter flights brought in 20 per cent. Tourist arrivals by sea continued to be at a very low level due to the temporary termination of the ferry boat service at Talaimannar.

Employment opportunities provided by the tourist industry continued to suffer during 1986. The total number employed in the sector during 1986 was estimated to be around 48,000, compared to 54,533 employed in the previous year, indicating a decrease of 12 per cent. Of the number employed in 1986, approximately 20,000 were direct employees, while about 28,000 were employed in ancillary sectors.

Capacity of the graded accommodation category declined from 143 units in 1985 to 127 units in 1986. This 16 per cent decrease in graded accommodation category was due mainly to the closure of 12 of the 13 graded establishments in the East Coast. The utilisation of capacity in tourist hotels was well below desirable levels. However, average room occupancy in graded hotels increased very marginally from 32.7 per cent in 1985 to 33.1 per cent in 1986. This was more the result of the reduction of the number of hotel rooms due to hotel closures than due to an improvement in room occupancy.

Hotels in the Northern region and Eastern Coast were virtually unutilised while the Ancient Cities region experienced very low occupancy levels. However, Colombo City, the Greater Colombo, and South Coast region maintained moderate occupancy levels.

Most of the relief measures granted by the Government to the hotel sector from time to time since late 1983 were in effect throughout 1986. These measures include, among other things, a scheme for re-scheduling of loans granted to hotels. Considering the continued slump in tourist activity the moratorium of two years which was originally granted upto 1987 was extended until March, 1989, with a further concession of 100 per cent re-scheduling of loans as against 80 per cent allowed earlier. Interest free loan facilities were granted by the Government to meet the working capital needs of the effected hotels.