INDUSTRY

OVERALL PERFORMANCE

The industrial sector continued to maintain its growth momentum in 1989, despite continuing civil disturbances which caused interruptions to production and distribution. The value of industrial output which grew by 6 per cent in real terms in 1988, expanded by a further 6 per cent in 1989. This growth originated entirely from private sector industry which demonstrated a greater degree of resilience, despite adverse circumstances. The output of private sector industry rose by 15 per cent while that of the public sector declined by 21 per cent.

In the private sector, the industrial sub-sectors which recorded large increases in production were textile and wearing apparel; food, beverages and tobacco and fabricated metal products. The sharp decline in public sector industrial output in 1989 was mainly due to production shortfalls in a number of important public sector industries, e.g. the Ceylon Petroleum, National Textile, Sri Lanka Cement, Ceylon Steel and National Paper Corporations.

The value of industrial exports increased from Rs. 22,674 million in 1988 to Rs. 28,468 million in 1989. The relative share of industrial exports in total export earnings increased from 48 per cent in 1988 to 51 per cent in 1989. As was the case in more recent years, ready-made garments and petroleum products dominated the industrial exports, accounting for about 70 per cent of the total value of industrial exports in 1989. This suggests the urgent necessity for a diversification of the structure of industrial production and exports by shifting to more value added products in order to strengthen the industrial base of the economy.

INDUSTRIAL POLICY

A new industrial strategy was introduced by the Ministry of Industries with a view to restructuring the overall domestic industrial policy. This was approved by the Cabinet on December 27, 1989. The new strategy intends to (a) transform the import substituting industry to an export oriented industry, (b) provide greater employment and income opportunities, (c) diversify the economy and strengthen the balance of payments and (d) ensure a more equitable distribution of income and wealth.

The strategy also includes policy measures aimed at mobilising resources for investment and exports; encouraging foreign and local investments; reforming public enterprises; promoting a competitive environment; establishing linkages between large and small industries; promoting research, training and marketing and removing administrative obstacles to investment, production and exports.

PRODUCTION

In real terms, the value of industrial output is estimated to have increased by 6 per cent in 1989. The overall output in private sector industries recorded an increase of 15 per cent, while that of public sector industry declined by 21 per cent. When the value of petroleum output is excluded, industrial production is estimated to have increased by 10 per cent.

Industrial sub-sectors that recorded increases in production in 1989 were: fabricated metal products (17 per cent); textile, wearing apparel and leather products (16 per cent) and food, beverages and tobacco (12 per cent). The sub-sectors that recorded decreases in output were: paper and paper products (20 per cent); chemicals, petroleum and plastic products (18 per cent); basic metal products (11 per cent) and non-metallic mineral products (5 per cent).

The value of industrial production in current terms, is estimated to have increased by

14 per cent in 1989. The value of textile, wearing apparel and leather products increased by 22 per cent; food, beverages and tobacco products by 26 per cent; non-metallic mineral products by 9 per cent; basic metal products by 14 per cent and fabricated metal products by 28 per cent. The output of chemicals, petroleum, rubber and plastic products and paper and paper products declined by 7 and 2 per cent, respectively.

TABLE 1.19

Value of Industrial Production 1985-1989 (Current Prices)

Rs. Million

Category	1985	1986	1987	1988	1989(a)
1. Food, beverages and tobacco	10,497	12,129	12,962	14,675	18,458
2. Textile, wearing apparel and leather products	9,505	12,088	15,428	18,166	22,072
3. Wood and wood products (including furniture)	705	632	677	640	667
4. Paper and paper products	1,187	1,289	1,372	1,492	1,456
5. Chemicals, petroleum, coal, rubber and plastic products	13,104	11,088	13,477	13,681	12,710
6. Non-metallic mineral products (except petroleum and coal)	1,854	2,053	2,156	2,267	2,474
7. Basic metal products	123	281	307	487	555
8. Fabricated metal products, machinery and transport equipment	1,592	1,757	2,006	2,477	3,182
9. Products not elsewhere specified	125	136	155	178	231
Total	38,692	41,453	48,540	54,063	61,805

(a) Provisional.

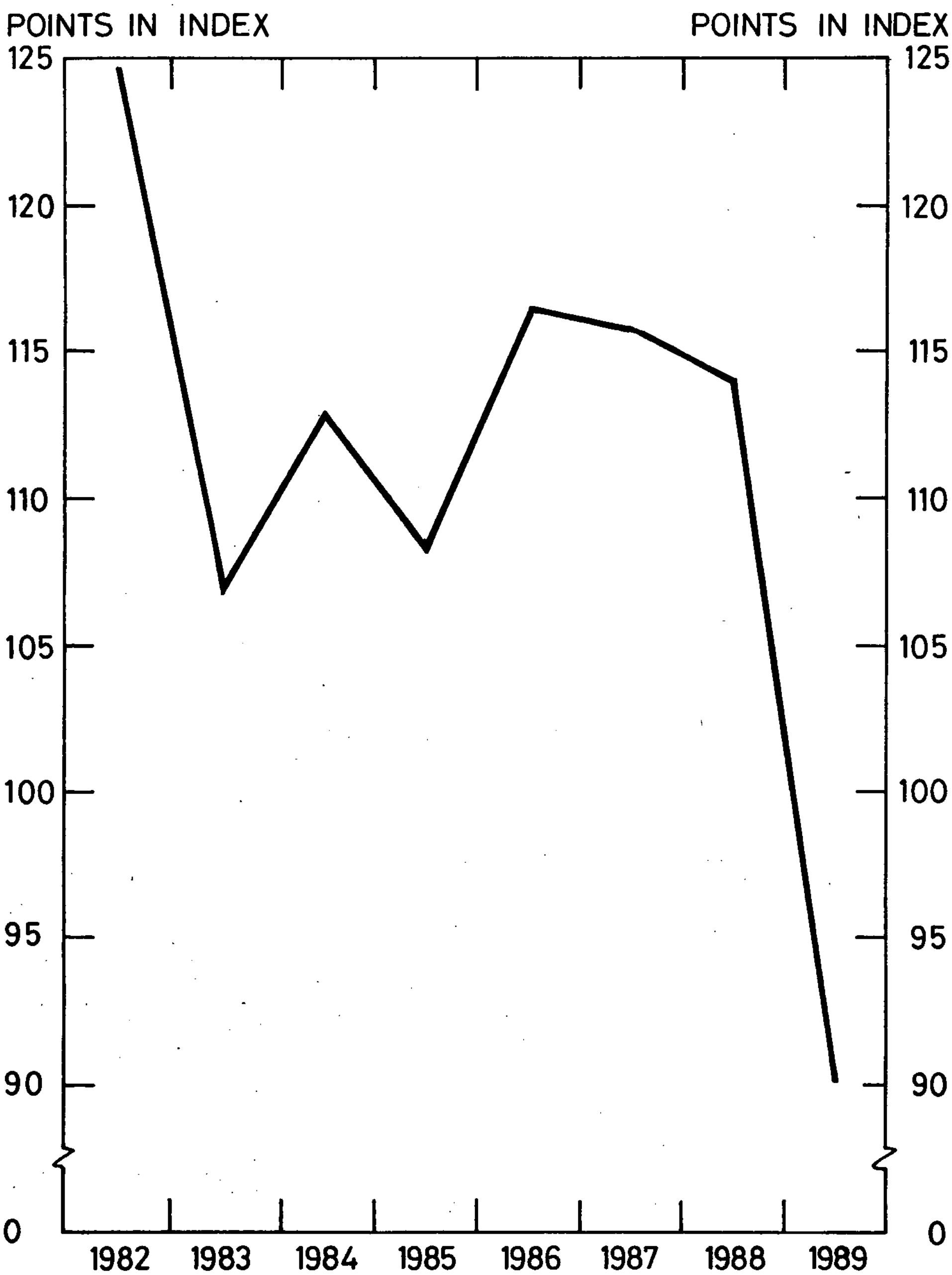
Source: Central Bank of Sri Lanka.

The improved performance within the textile, wearing apparel and leather products category was mainly due to a substantial increase in the output of ready-made garments, both within and outside the investment promotion zones. The public sector output in this category, however, declined by 2 per cent in 1989. In the food, beverages and tobacco category, private sector industries showed an impressive performance, largely due to increases in output of a number of products such as tobacco, milk products, flour, confectionery and meat products. The public sector in this category also recorded an increase due to the expansion of output of the Sri Lanka Sugar and National Salt Corporations.

In the chemicals, petroleum and plastic products category, increased output levels were recorded mainly in the private sector industries engaged in the manufacture of chemical products, plastic products, pharmaceuticals, soap, tooth paste, glycerine and paints. However, the public sector contribution to this category recorded a sharp decline due to a substantial drop in output of the Ceylon Petroleum Corporation.

In the wood and wood products category, an increased output level was recorded in the private sector. However, the reduced output levels of Ceylon Plywoods and State Timber Corporations resulted in a substantial drop in the output of the public sector. The decrease in the output of National Paper Corporation was largely responsible for the reduced level of output of paper and paper products. The increase in output in the fabricated metal products sector was entirely due to the performance of private sector industries engaged in the

INDEX OF INDUSTRIAL PRODUCTION OF THE PUBLIC SECTOR



Central Bank of Sri Lanka.

manufacture of cables, water pumps, batteries, bulbs, refrigerators, machinery and equipment.

PUBLIC SECTOR INDUSTRIES *

In real terms, the public sector industrial output decreased by 21 per cent in 1989, when compared with 1 per cent decline in the previous year. This was the outcome of production shortfalls in a number of important public sector industrial enterprises, namely the Ceylon Petroleum, National Textile, Sri Lanka Cement, Ceylon Steel, National Paper, Ceylon Oils & Fats and Sri Lanka Tyre Corporations.

TABLE 1.20

Public Sector Major Industry Output Index 1987 - 1989 (1977=100)

Category	1987	1988	1989(a)
1. Food,beverages and tobacco	40.7	31.0	32.0
2. Textile, wearing apparel and leather products	200.0	189.7	173.7
2.1 Textile	271.3	257.6	236.2
3. Wood and wood products	103.8	71.4	35.1
4. Paper and paper products	167.9	153.7	107.8
5. Chemical products	115.3	119.3	85.5
5.1 Petroleum products	115.9	120.7	85.6
6. Non-metallic mineral products	147.2	142.4	137.2
6.1 Cement	177.3	175.1	164.8
7. Basic metal products	71.0	86.1	76.4
8. Fabricated metal products	102.5	65.5	32.5
All categories	115.7	114.0	90.1
Excluding petroleum products	115.4	106.4	95.0

(a) Provisional.

Source : Central Bank of Sri Lanka.

The majority of public sector industrial enterprises displayed poor performance during the year. The enterprises which recorded decreases in output were: Ceylon Plywoods (65 per cent), State Timber (35 per cent), National Paper (30 per cent), Ceylon Petroleum (29 per cent), State Mining and Mineral Development (20 per cent), Ceylon Leather Products (16 per cent), Ceylon Steel (11 per cent), National Textile (8 per cent), State Hardware (7 per cent), Sri Lanka Cement (6 per cent), Ceylon Oils & Fats (6 per cent) and Sri Lanka Tyre (3 per cent) Corporations.

* The Public Sector industrial enterprises which were converted into Public Companies under the Conversion of Public Corporations or Government Owned Business Undertakings into Public Coompanies Act No. 23 of 1987 during the year, includes State Distilleries (17.10.1989), Ceylon Oils & Fats (19.10.1989), Sri Lanka Sugar (19.10.1989), Colombo Commercial (21.11.1989) and Ceylon Oxygen (05.12.89).

The Corporations that recorded production increases in output during the year were: Ceylon Mineral Sands (47 per cent), National Salt (41 per cent), State Distilleries (12 per cent), Sri Lanka Sugar (7 per cent) and Ceylon Ceramics (4 per cent) Corporations. The substantial increase in output of Ceylon Mineral Sands Corporation was mainly due to a large increase in the output of ilmenite and increased availability of storage facilities during the year. The output of the National Salt Corporation increased mainly due to improved security conditions in the Northern and Eastern regions of the island. The expansion of harvesting area and improved security conditions in the Northern and Eastern regions of the island reflected in the increase in output of Sri Lanka Sugar Corporation.

TABLE 1.21

Transfer of Government Funds to Industrial Enterprises 1987 - 1989

Rs. Million

Corporation/Enterprise	Capital			Current			Total		
	1987	1988	1989 (a)	1987	1988	1989 (a)	1987	1988	1989 (a)
1. National Paper Corporation	-	-	-	7.5	7.6	-	7.5	7.6	-
2. Sri Lanka Sugar Corporation	185.0	131.4	107.0	-	-	225.0	185.0	131.4	332.0
3. Ceylon Steel Corporation	-	-	-	-	48.3	-	-	48.3	-
4. National Milk Board	1.9	2.5	-	-	28.9	-	1.9	31.4	-
5. State Fertilizer Manufacturing Corporation	-	-	-	27.0	1.2	-	27.0	1.2	-
6. Ceylon Plywoods Corporation	-	-	-	-	7.1	-	-	7.1	-
7. National Textile Corporation	42.0	42.0	42.0	-	-	-	42.0	42.0	42.0
8. Ceylon Oils & Fats Corporation	-	-	-	-	8.5	5.6	-	8.5	5.6
9. State Hardware Corporation	-	-	-	0.6	3.5	-	0.6	3.5	-
Total	228.9	175.9	149.0	35.1	105.1	230.6	264.0	281.0	379.6

(a)Estimated. Source:General Treasury.

The disruptions caused to electricity supplies, absenteeism and the interruption to production and distribution during the year had adverse effects on the performance of public sector industries. The substantial decline in output of the Ceylon Petroleum Corporation was partly due to the closure of the refinery for 5 weeks for maintenance purposes in the first quarter of 1989. Shorter working hours and absenteeism resulted in a decline in the output of the Textile Corporation which accounts for about 23 per cent of public sector industrial production. The drop in output of the Sri Lanka Tyre Corporation was mainly caused by reduced working hours due to disturbances. The inadequate supply of timber had an adverse impact on the production of State Timber and Ceylon Plywoods Corporations. A decrease in demand resulting from a price revision was the main reason for the reduced output of the Ceylon Oils and Fats Corporation.

In terms of sectoral classification of corporations, food and beverages was the only category which recorded an output increase (4 per cent) in 1989. The other sectors that recorded decreases in output were fabricated metal products (50 per cent); wood and wood products (50 per cent); chemical products (28 per cent); paper and paper products (30 per cent); basic metal products (11 per cent); textile, wearing apparel and leather (8 per cent) and non-metallic mineral products (4 per cent).

Budgetary transfers to public sector industrial enterprises during the year amounted to Rs. 380 million, of which 231 million (61 per cent) were current transfers and the balance Rs. 149 million (39 per cent) capital transfers. The Sri Lanka Sugar Corporation received Rs. 332 million or 68 per cent of total budgetary transfers to public corporations in 1989. Other industrial enterprises that received budgetary transfers in 1989 were State Hardware, National Textile and Ceylon Oils & Fats Corporations.

POWER AND FUEL

The sale of industrial fuel, excluding that to the Ceylon Electricity Board decreased by 7.8 per cent in 1989. Sales of furnace oil decreased by 8.2 per cent while those of heavy diesel increased by 0.5 per cent during the year.

TABLE 1.22

Power and Fuel used in Industry 1988-1989

Item	1988	1989 (a)
1. Electricity (Gwh) (b)	905.4	872.0
1.1 Small industry	41.8	43.6
1.2 Medium industry	479.5	481.3
1.3 Large industry	384.1	347.1
2. Domestic sales of industrial fuel ('000 metric tons) (c)	186.8	172.3
2.1 Heavy diesel	21.3	21.4
2.2 Furnace oil	165.5	150.9

Sources: Ceylon Electricity Board, Ceylon Petroleum Corporation.

(a) Provisional

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

(c) Sales other than to the Ceylon Electricity Board.

The use of electricity in industry decreased by 3.7 per in 1989. This was largely due to a drop in electricity consumption by public sector industries on account of the civil disturbances. The use of electricity in small and medium industries increased by 4.3 per cent and 0.4 per cent, respectively and that of large industries decreased by 9.6 per cent in 1989.

FACILITIES TO INDUSTRIES

The industrial sector continued to receive financial assistance on concessional terms during the year under review. The Medium and Long-term Credit Fund of the Central Bank (MLCF) and the Small and Medium Scale Industries Credit Guarantee Scheme (SMI) of the National Development Bank were two major refinancing programmes under which industries received financial assistance. In addition, the Development Finance Corporation of

Ceylon (DFCC), the National Development Bank (NDB) and commercial banks provided direct financial assistance to industrial ventures in the form of loans and equity participation.

During the year 1989, the Central Bank continued to operate the MLCF in collaboration with commercial banks and the Export Development Board. The approval of refinance under the MLCF of the Central Bank reflected a substantial increase in 1989. The aggregate sum of refinance provided under categories ii, iii and iv amounted to Rs. 441 million in 1989, as compared with Rs. 255 million in the previous year. The increase was largely due to a rise in the number of approvals in the tourist industry for rehabilitation of hotels. The rehabilitation of sick industries category absorbed a major share with a sum of Rs. 298 million. The amount of refinance received by the export sector increased from Rs. 19 million in 1988 to Rs. 32 million in 1989. Refinance in respect of industry amounted to Rs. 21 million in 1989 as compared with Rs. 2 million in 1988.

TABLE 1.23

Approvals of Refinance and Financial Assistance Sanctioned by the National Development Bank-1989

Category	Refinance Approvals SMI Project iii		Direct Financial Assistance		Total	
	No	Amount Rs. Mn	No	Amount Rs. Mn	No	Amount Rs. Mn
1. Food, beverages and tobacco	177	104	18	179	195	283
2. Textile, wearing apparel and leather products	111	70	17	115	128	185
3. Wood and wood products (including furniture)	49	16	3	8	52	24
4. Paper and paper products	34	18	5	28	39	46
5. Chemicals, petroleum, coal, rubber and plastic products	60	62	19	165	79	227
6. Non-metallic mineral products (except petroleum and coal)	98	24	-	-	98	24
7. Basic metal products	-	-	2	14	2	14
8. Fabricated metal products, machinery and transport equipment	62	17	69	439	131	456
9. Products not elsewhere specified	85	50	11	136	96	196
Total	676	361	144	1,084	820	1,445

Source : National Development Bank.

By the end of December, 1989 the Central Bank had issued 2,531 guarantees covering loan disbursements of Rs. 1,393 million. By the end of the year, a sum of Rs. 52 million was fully recovered in respect of 230 loans. With regard to the loans outstanding category, a sum of Rs. 268 million has fallen into arrears in respect of 548 loans. As at the end of 1989, the Central Bank had paid a sum of Rs. 9 million in settlement of 57 claims.

The National Development Bank (NDB) provides direct financial assistance to industrial projects by way of loans and equity participation. In 1989, the NDB approved 144 projects with an outlay of Rs. 1,084 million for direct financial assistance, in comparison to

109 projects serviced with an outlay of Rs. 840 million in 1988. The industrial categories that received the major share of this assistance were fabricated metal products; food, beverages and tobacco; chemicals, petroleum, coal, rubber and plastic products and textile, wearing apparel and leather products.

Commercial Banks continued to provide financial facilities to industries during 1989. Commercial banks' advances for industrial purposes amounted to Rs. 12,536 million as at the end of September, 1989. Commercial banks' advances to private sector industries absorbed Rs. 9,168 million, while public sector industrial corporations received Rs. 3,368 million.

PRIVATE FOREIGN INVESTMENT

Foreign Investments Advisory Committee

The Foreign Investment Advisory Committee (FIAC) which co-ordinates foreign investment outside the GCEC approved 62 projects in 1989, of which 39 were in the manufacturing sector.The total envisaged investment of these 62 projects amounted to 1,370 million, of which Rs. 605 million or 44 per cent comprised of foreign investments. The approved projects had an employment potential of 4,999 persons.

Of the 39 projects approved in the manufacturing sector, 11 were in the chemicals, petroleum, coal, rubber and plastic products category. The other manufacturing industries approved were textile, wearing apparel and leather products (6 projects); wood and paper products (6 projects); non-metallic mineral products (6 projects); basic metal products and fabricated metal products (3 projects) and other industries (7 projects). The employment potential of the projects approved in the manufacturing sector was 3,957 persons.

As at the end of 1989, the FIAC had approved 614 projects with an envisaged investment outlay of Rs. 24,132 million, of which, 320 projects with an envisaged investment of Rs. 12,088 million were in operation during the year. In regard to projects in operation, 166 were in the manufacturing sector with an envisaged investment of Rs. 3,705 million. The foreign component of this investment is Rs. 1,702 million or 46 per cent. Within the manufacturing sector, textile, wearing apparel and leather products continued to be the largest investment area both in terms of number of projects (55) and amount of investments (Rs. 939 million). The other manufacturing activities also attracted large investments. Among the categories which recorded large investments were: food, beverages and tobacco (Rs. 701 million); non-metallic mineral products (Rs. 745 million); basic metal and fabricated metal products (Rs. 598 million) and chemicals, petroleum, coal, rubber and plastic products (Rs. 542 million). By the end of 1989, actual employment in the FIAC projects in operation stood at 53,697 persons, with 40 per cent (or 21,401 persons) being absorbed by the textile, wearing apparel and leather products sub-sector.

Investment Promotion Zones

The Greater Colombo Economic Commission (GCEC) which is the co-ordinating body in charge of Investment Promotion Zones (IPZs), approved 24 projects in 1989, bringing the total number of projects approved to 308 by the end of 1989. As at end of 1989, agreements had been signed in respect of 178 projects, of which 118 were in commercial production. Of those projects in production, 70 were in the Katunayake Investment Promotion Zone (KIPZ), 23 in the Biyagama Investment Promotion Zone (BIPZ) and 25 in various other parts of the country.

In 1989, the employment in GCEC enterprises increased by 12 per cent, bringing the total number of employment in these enterprises to 61,429 persons. Of these, 42,925 or 70 per cent were engaged in the textile, wearing apparel and leather products sector. Nevertheless, the relative share of employment in this category declined from 73 per cent in 1988 to 70 per cent of total employment in GCEC enterprises in 1989. Food, beverages and tobacco and non-metallic mineral products were among the industrial categories which recorded the highest rate of employment generation.

TABLE 1.24

Investment Promotion Zones
Employment and Export Earnings 1988-1989

Category	1988		1989(a)	
	Employment (End Dec.)	Gross Export Earnings (f.o.b) Rs. Mn.	Employment (End Dec.)	Gross Export Earnings (f.o.b) Rs. Mn.
1. Food, beverages and tobacco	796	199	1,135	368
2. Textile, wearing apparel and leather products	39,848	6,979	42,925	8,785
3. Wood and wood products (including furniture)	77	6	69	9
4. Chemicals, petroleum, coal, rubber and plastic products	2,285	379	2,049	408
5. Non-metallic mineral products (except petroleum and coal)	2,817	667	4,431	657
6. Fabricated metal products, machinery and transport equipment	1,202	414	1,287	672
7. Products not elsewhere specified	3,680	497	5,312	636
8. Services (b)	3,921	405	4,221	244
Total	54,626	9,546	61,429	11,779

(a) Provisional.
(b) Excluding "Air Lanka Ltd.

Source: Greater Colombo Economic Commission.

The total envisaged investment of projects approved in 1989 was Rs. 1,981 million. Foreign investors came from a number of countries such as Japan, Hong Kong, Australia, West Germany, South Korea, Taiwan, Holland, Switzerland and U.K. The projects approved by the GCEC in 1989 included the production of leather shoes, bags and baggages, garments, rubber products, grey cloth and yarn, cosmetic brushes, energy saving bulbs, animated cartoons, wood products, decorative candles, porcelain figurines, electrical appliances and cutting and polishing of diamonds.

Gross export earnings of GCEC enterprises was Rs. 11,779 million (SDR 255) million in 1989 showing an increase of 23 per cent over the previous year. Export earnings from textile and ready-made garments were 26 per cent higher than the previous year's level and continued to be the major foreign exchange earner, accounting for 75 per cent of the total receipts. Export earnings per employee in the textile and garment sector stood at Rs. 204,672, as compared with Rs. 175,130 in the previous year. The value of exports of non-garment enterprises increased by 17 per cent during the year under review.