

## TRADE AND TOURISM

### INTERNATIONAL TRADE

A moderate growth in the earnings of exports and a relatively high growth in the outlay on imports marked the developments in the external trade during 1994. The depressed international prices for most of the export commodities were largely responsible for the modest growth performance of the export sector. Total export earnings increased by 9 per cent\* or SDR 189 million in 1994 compared with an appreciable 17 per cent growth (SDR 299 million) recorded in 1993. Increased earnings were recorded in all major sectors; agricultural, industrial and mineral exports, in 1994 although their respective growth rates were well below those of 1993. The expenditure on imports rose by SDR 458 million in 1994 in comparison with a growth of SDR 383 million recorded in 1993. The rate of growth was 16 per cent in 1994 which was more or less the same as in 1993. All major categories of imports recorded increases in 1994 with more pronounced growth rates in imports of investment goods and consumer goods. A decelerated growth in exports relative to imports caused the trade deficit to expand by SDR 269 million to SDR 1,093 million, in 1994, compared with the deficit of SDR 824 million in 1993.

According to provisional Customs data, export earnings at SDR 2,237 million (Rs. 158,660 million) and import outlay at SDR 3,125 million (Rs. 221,527 million) resulted in a trade deficit of SDR 888 million (Rs. 62,867 million) in 1994. When the Customs data were adjusted for reporting lags, total exports and imports amounted to SDR 2,235 million (Rs. 158,554 million) and SDR 3,328 million (Rs. 236,030 million), respectively. The adjusted data reflected a trade deficit of SDR 1,093 million (Rs. 77,476 million) in 1994 compared with a deficit of SDR 824 million (Rs. 55,375 million) in 1993.

**TABLE 1.46**  
**Performance of External Trade 1992 - 1994**

| Year     | Growth rates |         | Trade Indices<br>(1985 = 100) |               |                | Ratio             |
|----------|--------------|---------|-------------------------------|---------------|----------------|-------------------|
|          | Exports      | Imports | Export Prices                 | Import Prices | Terms of trade | Exports / Imports |
| 1992     | 20.3         | 11.2    | 211.2                         | 237.0         | 89.1           | 0.70              |
| 1993     | 17.3         | 15.5    | 233.3                         | 256.8         | 90.9           | 0.71              |
| 1994 (a) | 9.2          | 16.0    | 234.1                         | 270.4         | 86.6           | 0.67              |

(a) Provisional.

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

The average export prices of all major exports improved only marginally in 1994. The overall export price index rose by 0.3 per cent in rupee terms, being the combined effect of a 0.7 per cent increase in the prices of agricultural exports, a 3.2 per cent decrease in the prices of industrial exports and a 7.7 per cent increase in the prices of mineral products. The overall import price index recorded an increase of 5.3 per cent in rupee terms reflecting the composite effect of increases in the prices of investment, consumer and intermediate goods by 8.5 per cent, 6.8 per cent and 0.2 per cent, respectively. These price developments resulted in a 4.7 per cent deterioration in the terms of trade in 1994 compared with a 2.0 per cent improvement in 1993.

\* Unless otherwise stated, percentage changes are computed on the basis of SDR values.

## EXPORTS

Adjusted Customs data indicated a 9 per cent growth in total export earnings to SDR 2,235 million (Rs. 158,554 million) in 1994 from SDR 2,046 million (Rs. 138,175 million) in 1993. All major categories; agricultural, industrial and mineral exports, recorded increases in earnings. The earnings from industrial exports, which contributed 74 per cent of total export earnings in 1994, rose by 11 per cent over the earnings in 1993, largely due to increased earnings from textiles and garments (7 per cent) and other industrial exports (21 per cent). Meanwhile, earnings from agricultural exports rose by 4 per cent largely as a result of increases in exports of coconut products (29 per cent) and rubber (11 per cent). The earnings from mineral exports increased by 11 per cent in 1994 compared with a higher growth of 20 per cent in 1993.

**TABLE 1.47**  
**Exports, Imports and Balance of Trade 1983 - 1994**

Rs. Million (SDR Million in brackets)

| Year     | Customs Data          |                       |                     | Adjusted Data      |                    |                     |
|----------|-----------------------|-----------------------|---------------------|--------------------|--------------------|---------------------|
|          | Exports (a)<br>f.o.b. | Imports (b)<br>c.i.f. | Balance of<br>Trade | Exports            | Imports            | Balance of<br>Trade |
| 1983     | 25,183<br>(1,001)     | 42,021<br>(1,670)     | -16,838<br>(-669)   | 25,096<br>(998)    | 45,558<br>(1,811)  | -20,461<br>(-813)   |
| 1984     | 37,006<br>(1,419)     | 46,913<br>(1,799)     | -9,908<br>(-380)    | 37,347<br>(1,432)  | 47,541<br>(1,823)  | -10,194<br>(-391)   |
| 1985     | 35,035<br>(1,268)     | 49,069<br>(1,776)     | -14,034<br>(-508)   | 36,207<br>(1,311)  | 54,049<br>(1,956)  | -17,843<br>(-646)   |
| 1986     | 34,092<br>(1,036)     | 51,282<br>(1,559)     | -17,189<br>(-523)   | 34,072<br>(1,036)  | 54,559<br>(1,658)  | -20,487<br>(-623)   |
| 1987     | 39,861<br>(1,046)     | 59,750<br>(1,568)     | -19,889<br>(-522)   | 41,133<br>(1,080)  | 60,528<br>(1,589)  | -19,396<br>(-509)   |
| 1988     | 47,092<br>(1,101)     | 70,320<br>(1,645)     | -23,228<br>(-543)   | 46,928<br>(1,098)  | 71,030<br>(1,661)  | -24,102<br>(-564)   |
| 1989     | 55,511<br>(1,202)     | 75,353<br>(1,631)     | -19,842<br>(-430)   | 56,175<br>(1,216)  | 80,225<br>(1,737)  | -24,050<br>(-521)   |
| 1990     | 76,624<br>(1,408)     | 105,559<br>(1,940)    | -28,936<br>(-532)   | 76,624<br>(1,408)  | 107,729<br>(1,980) | -31,105<br>(-572)   |
| 1991 (c) | 82,225<br>(1,453)     | 127,831<br>(2,258)    | -45,606<br>(-806)   | 82,225<br>(1,452)  | 126,643<br>(2,237) | -44,418<br>(-785)   |
| 1992 (c) | 107,509<br>(1,741)    | 149,780<br>(2,425)    | -42,272<br>(-685)   | 107,855<br>(1,747) | 153,555<br>(2,487) | -45,700<br>(-740)   |
| 1993 (c) | 137,994<br>(2,043)    | 181,381<br>(2,687)    | -43,387<br>(-644)   | 138,175<br>(2,046) | 193,550<br>(2,870) | -55,375<br>(-824)   |
| 1994 (d) | 158,660<br>(2,237)    | 221,527<br>(3,125)    | -62,867<br>(-888)   | 158,554<br>(2,235) | 236,030<br>(3,328) | -77,476<br>(-1,093) |

- (a) Includes value of re-exports.  
(b) Excludes bullion and specie.  
(c) Revised.  
(d) Provisional.

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

## **Tea**

Among agricultural exports, tea continued to be the major export product, accounting for 60 per cent of the value of agricultural exports and 13 per cent of total export earnings in 1994. The value of tea exports rose only marginally from SDR 295 million (Rs. 19,911 million) in 1993 to SDR 296 million (Rs. 20,964 million) in 1994. This was the combined outcome of an increase in the volume of exports by 5 per cent and a decline in the average export price by 4 per cent.

The average export price of tea dropped in SDR terms from SDR 1.35 per kg. (Rs. 91.16 per kg.) in 1993 to SDR 1.29 per kg. (Rs. 91.32 per kg.) in 1994. Depressed tea prices in 1994 are attributed to increased global supply, sluggish growth in demand from major consuming countries and availability of poor quality teas. The adverse situation in the global tea market was reflected in the Colombo auctions, where the gross sale average price dropped by 6 per cent in 1994 from that of 1993. A downward trend in prices was evident for all the elevational categories, with the prices of medium grown, which dropped by 9 per cent being affected the most. The prices of high grown dropped by 3 per cent. The low grown, which accounted for around 50 per cent of total sales at the Colombo auctions, recorded a 6 per cent drop in the average price.

The tea export sector as a whole was affected by the depressed prices in 1994. Operations of some tea factories were adversely affected and as a temporary relief measure, special financial facilities at subsidised interest rates were extended to tea factory owners to revive the operations, and to tea exporters to cover operational costs.

The volume of tea exports rose from 218 million kgs. in 1993 to 230 million kgs. in 1994, reflecting the impact of the highest ever recorded tea crop in Sri Lanka. A drop in the volume of tea exports to the Commonwealth of Independence States (CIS) by 51 per cent in 1994 over that of 1993 was more than off set by increases in tea exports to other major markets including Syria (29 per cent), the United Arab Emirates (23 per cent), the U.K. and Egypt (29 per cent each).

## **Rubber**

The value of rubber exports increased by 11 per cent from SDR 46 million (Rs. 3,086 million) in 1993 to SDR 51 million (Rs. 3,582 million) in 1994. This was solely due to an increase in the average export price by 11 per cent from SDR 0.66 per kg (Rs. 44.34 per kg.) in 1993 to SDR 0.73 per kg. (Rs. 51.81 per kg.) in 1994, reflecting the impact of strengthening international natural rubber prices. The uptrend in rubber prices gathered momentum following strong demand due to the economic recovery in some industrialised countries and a shortage in global supply as a result of disruptions to production in many leading producer countries. The upward movement in prices was further strengthened by a sharp drop in synthetic rubber production in Russia, generating further demand for natural rubber, while cancellations and re-negotiations in trading contracts led to strong speculative demand. The Buffer Stock Manager (BSM) of the International Natural Rubber Organization (INRO) intervened in the market as a seller in July 1994 for the first time since 1989, as the indicator price of the INRO reached the "must-sell" level. Even with the sale of the entire stock of the BSM by September 1994, prices continued to move upwards. However, Sri Lanka was not successful in reaping the maximum benefit of high prices since the volume of rubber exports marginally declined from 69.6 million kgs. in 1993 to 69.1 million kgs. in 1994.

## **Coconut**

Total earnings from the export of coconut products rose by 29 per cent from SDR 41 million (Rs. 2,796 million) in 1993 to SDR 53 million (Rs. 3,761 million) in 1994, reflecting a marked increase in the volume of exports. The nut equivalent of the export volume of coconut kernel products increased by 49 per cent, from 293 million in 1993 to 436 million in 1994, with increased production due to the lagged effect of favourable weather conditions in 1993. Meanwhile,

**TABLE 1.48**  
**Composition of Exports 1992 - 1994**

| Category                        | Value in Rs. Million |                |                | SDR Million  |              |              | Percentage of Total Exports |              |              |
|---------------------------------|----------------------|----------------|----------------|--------------|--------------|--------------|-----------------------------|--------------|--------------|
|                                 | 1992                 | 1993           | 1994(c)        | 1992         | 1993         | 1994         | 1992                        | 1993         | 1994         |
| 1. Agricultural Exports         | 26,504               | 31,618         | 34,692         | 429          | 469          | 490          | 24.6                        | 22.9         | 21.9         |
| 1.1 Tea                         | 14,893               | 19,911         | 20,964         | 241          | 295          | 296          | 13.8                        | 14.4         | 13.2         |
| 1.2 Rubber                      | 2,960                | 3,086          | 3,582          | 48           | 46           | 51           | 2.7                         | 2.2          | 2.3          |
| 1.3 Coconut                     | 3,691                | 2,796          | 3,761          | 60           | 41           | 53           | 3.4                         | 2.0          | 2.4          |
| 1.3.1 Kernal Products           | 2,665                | 1,847          | 2,476          | 43           | 27           | 35           | 2.5                         | 1.3          | 1.6          |
| 1.3.2 Other                     | 1,026                | 949            | 1,285          | 17           | 14           | 18           | 1.0                         | 0.7          | 0.8          |
| 1.4 Minor Agricultural Products | 4,959                | 5,825          | 6,385          | 80           | 86           | 90           | 4.6                         | 4.2          | 4.0          |
| 2. Industrial Exports (a)       | 76,699               | 100,420        | 116,744        | 1,242        | 1,487        | 1,646        | 71.1                        | 72.7         | 73.6         |
| 2.1 Textiles and Garments       | 53,209               | 68,150         | 76,614         | 862          | 1,009        | 1,080        | 49.3                        | 49.3         | 48.3         |
| 2.2 Petroleum Products          | 2,771                | 3,801          | 3,959          | 45           | 57           | 56           | 2.6                         | 2.7          | 2.5          |
| 2.3 Other                       | 20,719               | 28,469         | 36,171         | 336          | 422          | 510          | 19.2                        | 20.6         | 22.8         |
| 3. Mineral Exports              | 2,749                | 3,653          | 4,293          | 45           | 54           | 60           | 2.5                         | 2.6          | 2.7          |
| 3.1 Gems                        | 2,482                | 3,402          | 3,917          | 40           | 50           | 55           | 2.3                         | 2.4          | 2.5          |
| 3.2 Other                       | 267                  | 251            | 375            | 4            | 4            | 5            | 0.2                         | 0.2          | 0.2          |
| 4. Unclassified (b)             | 1,903                | 2,484          | 2,825          | 31           | 36           | 39           | 1.8                         | 1.8          | 1.8          |
| <b>Total Exports (a) (b)</b>    | <b>107,855</b>       | <b>138,175</b> | <b>158,554</b> | <b>1,747</b> | <b>2,046</b> | <b>2,235</b> | <b>100.0</b>                | <b>100.0</b> | <b>100.0</b> |

(a) Adjusted.  
(b) Includes re-exports.  
(c) Provisional.

Sources : Customs, Sri Lanka;  
Ceylon Petroleum Corporation;  
Central Bank of Sri Lanka.

the average export price per nut declined by 11 per cent from SDR 0.09 per nut in 1993 to SDR 0.08 per nut in 1994. The drop in export price (f. o. b.) of coconut was largely due to depressed international prices that resulted from over-supply caused by increased production in major producing countries. The value of export earnings of coconut by-products including coir fibre and coir yarn also increased by 29 per cent in 1994.

### **Minor Agricultural Exports**

The value of minor agricultural exports rose from SDR 86 million (Rs. 5,825 million) in 1993 to SDR 90 million (Rs. 6,385 million) in 1994. In spite of a 57 per cent increase in volume, the earnings increased by only 5 per cent as the average export price of minor agricultural products registered a marked drop of 33 per cent in 1994 over that of 1993. The share of minor agricultural exports in total exports remained at 4 per cent in value terms in 1994, more or less the same figure reported for the previous year. Among minor agricultural products, major increases were recorded in the earnings from vegetables, fruits, arecanuts, coffee, sesame seeds and other minor agricultural exports. In contrast, major decreases were registered in the earnings from cloves, betel leaves, cocoa, unmanufactured tobacco, cashewnut and pepper. The drop in earnings from betel leaves and unmanufactured tobacco was largely due to decreases in international prices, while reduced volumes of exports led to lower earnings in the rest of the minor agricultural export products.

### **Industrial Exports**

The value of industrial exports in 1994, at SDR 1,646 million (Rs. 116,744 million), was an increase of 11 per cent over the 1993 figure of SDR 1,487 million (Rs. 100,420 million). The major impetus to growth in earnings from manufactured exports came from textiles and garments and other industrial exports. The earnings from textile and garments exports rose by 7 per cent from SDR 1,009 million (Rs. 68,150 million) in 1993 to SDR 1,080 million (Rs. 76,614 million) in 1994. The deceleration in growth in the earnings of textile and garments in 1994 in comparison with the 17 per cent increase recorded in 1993 was partly a reflection of uncertainties regarding the textile quotas to the USA in the latter part of 1994 and the increase in exports of lower priced items of garments. Exports of garments to the USA, the major market for Sri Lanka's apparel exports, were adversely affected in the latter part of 1994 with the over-utilization of certain categories of quota items which subsequently led to a deferment of shipments to avoid the imposition of trade embargoes against Sri Lanka's garment exports. This issue was resolved at the end 1994, with the implementation of the Uruguay Round Agreement on textiles and clothing and the subsequent conversion of the USA Textile Agreement to a calendar year.

The category of other industrial exports has wide scope for diversifying the exports structure through the promotion of industrial products with a high content of domestic value addition. It has recently emerged as one of the growing sectors in the economy. The combined value of other industrial products which contributed to 31 per cent of the earnings from total industrial exports in 1994, rose from SDR 422 million (Rs. 28,469 million) in 1993 to SDR 510 million (Rs. 36,171 million) in 1994. This was a 21 per cent increase. The major contributors to growth in this category were increases in earnings from jewellery (96 per cent), leather, rubber, paper, wood and ceramics (33 per cent), food, beverages and tobacco (29 per cent) and machinery, mechanical and electrical appliances (19 per cent). The value of exports of petroleum products and diamonds remained more or less at the 1993 level.

### **Mineral Exports**

Earnings from mineral exports showed a 11 per cent increase from SDR 54 million (Rs. 3,653 million) in 1993 to SDR 60 million (Rs. 4,293 million) in 1994. This was largely due to increased earnings from exports of gems by 10 per cent from SDR 50 million (Rs. 3,402 million) in 1993 to

SDR 55 million (Rs. 3,917 million) in 1994. The earnings from other mineral exports rose from SDR 4 million (Rs. 251 million) to SDR 5 million (Rs. 375 million) between the two periods owing to increases in exports of ilmenite, metallic ores and iron pyrites.

## **IMPORTS**

According to adjusted Customs data, the total expenditure on imports rose by 16 per cent to SDR 3,328 million (Rs. 236,030 million) in 1994 from SDR 2,870 million (Rs. 193,550 million) in 1993, reflecting increases in all major categories of imports. The highest increase was in the category of investment goods, which rose by 27 per cent or SDR 199 million over 1993. Increases were also recorded in the imports of intermediate goods (by 10 per cent or SDR 155 million) and consumer goods (by 17 per cent or SDR 94 million) between the two periods.

### **Consumer Goods**

The outlay on imports of consumer goods rose by 17 per cent from SDR 555 million (Rs. 37,372 million) in 1993 to SDR 650 million (Rs. 45,983 million) in 1994. The expenditure on durable consumer goods, which grew by 21 per cent, was the major contributory factor to the increase in consumer goods. The import outlay on food and drinks too rose by 13 per cent.

The increased import outlay on the food and drinks category was largely a reflection of increases recorded in imports of sugar, milk and milk products, fish products and the residual category of other food items. The value of sugar imports, which accounted for 37 per cent of total expenditure under the food and drinks category in 1994, rose by 50 per cent over 1993. This was the combined outcome of increases in the volume of imports by 25 per cent and the average price by 20 per cent. Expenditure on milk and milk products increased by 12 per cent from SDR 54 million (Rs. 3,656 million) in 1993 to SDR 61 million (Rs. 4,305 million) in 1994 while the outlay on imports of fish products including dried fish rose by 17 per cent from SDR 36 million (Rs. 2,456 million) to SDR 42 million (Rs. 2,955 million) between the two years. A similar upward trend was observed in other food items, which rose by 26 per cent to SDR 101 million (Rs. 7,104 million) in 1994 from SDR 80 million (Rs. 5,397 million) in 1993. In the food and drinks category, major decreases were recorded in expenditure on rice and wheat flour. The value of rice imports declined by 73 per cent from SDR 35 million (Rs. 2,386 million) in 1993 to SDR 10 million (Rs. 655 million) in 1994, largely due to a substantial decline in the volume of imports from 208,806 metric tons to 58,434 metric tons following increased domestic paddy production. Meanwhile, the value of imports of wheat flour declined to a negligible level in 1994 from SDR 9 million (Rs. 552 million) in 1993.

In the durable consumer goods category, high growth rates were recorded for motor cars and cycles (79 per cent), medical and pharmaceutical products (26 per cent) and radio receivers and television sets (10 per cent). In contrast, import expenditure on rubber tyres and tubes dropped by 34 per cent.

### **Intermediate Goods**

Expenditure on the import of intermediate goods amounted to SDR 1,694 million (Rs. 119,970 million) in 1994, a 10 per cent rise over the previous year. Major increases were recorded in textiles and clothing by 17 per cent from SDR 617 million (Rs. 41,740 million) in 1993 to SDR 724 million (Rs. 51,299 million) in 1994 and in fertilizer by 21 per cent from SDR 46 million (Rs. 3,108 million) in 1993 to SDR 56 million (Rs. 3,885 million) in 1994. Increases were also recorded in other industrial raw materials such as chemical elements and compounds (9 per cent), dyeing, tanning and colouring products (7 per cent), paper and paper boards (13 per cent) and other intermediate goods (12 per cent). The impact of the above increases was partly offset by declines recorded in the import outlay on wheat grain and petroleum by 12 per cent and 7 per cent,

TABLE 1.49

## End-Use Classification of Imports 1992 - 1994

| Category                  | Value in Rs. Million |                |                | Value in SDR Million |                |               | Percentage of Total Imports |              |              |
|---------------------------|----------------------|----------------|----------------|----------------------|----------------|---------------|-----------------------------|--------------|--------------|
|                           | 1992                 | 1993           | 1994 (a)       | 1992                 | 1993           | 1994          | 1992                        | 1993         | 1994         |
| 1. Consumer Goods         | 32,197               | 37,372         | 45,983         | 521.4                | 555.2          | 649.6         | 21.0                        | 19.3         | 19.5         |
| 1.1 Food and Drinks       | 18,395               | 20,066         | 23,912         | 297.9                | 298.9          | 338.4         | 12.0                        | 10.4         | 10.1         |
| 1.1.1 Rice                | 2,852                | 2,386          | 655            | 46.2                 | 35.4           | 9.5           | 1.9                         | 1.2          | 0.3          |
| 1.1.2 Flour               | 3                    | 552            | 17             | 0.0                  | 8.6            | 0.2           | 0.0                         | 0.3          | 0.0          |
| 1.1.3 Sugar               | 4,952                | 5,621          | 8,875          | 80.2                 | 84.1           | 125.8         | 3.2                         | 2.9          | 3.8          |
| 1.1.4 Other               | 10,588               | 11,507         | 14,365         | 171.5                | 170.8          | 202.9         | 6.9                         | 6.0          | 6.1          |
| 1.2 Other                 | 13,802               | 17,306         | 22,071         | 223.5                | 256.3          | 311.2         | 9.0                         | 8.9          | 9.4          |
| 2. Intermediate Goods     | 82,592               | 103,952        | 119,970        | 1,337.4              | 1,538.7        | 1693.6        | 53.8                        | 53.7         | 50.8         |
| 2.1 Petroleum             | 13,938               | 14,920         | 14,641         | 225.7                | 221.3          | 207.0         | 9.1                         | 7.7          | 6.2          |
| 2.2 Fertilizer            | 2,366                | 3,108          | 3,885          | 38.3                 | 46.1           | 55.6          | 1.5                         | 1.6          | 1.6          |
| 2.3 Chemicals             | 4,125                | 5,244          | 5,975          | 66.8                 | 77.7           | 84.4          | 2.7                         | 2.7          | 2.5          |
| 2.4 Wheat                 | 4,549                | 5,609          | 5,178          | 73.7                 | 83.2           | 73.0          | 3.0                         | 2.9          | 2.2          |
| 2.5 Textile & Clothing    | 33,552               | 41,740         | 51,299         | 543.3                | 616.9          | 723.6         | 21.9                        | 21.6         | 21.7         |
| 2.6 Other                 | 24,062               | 33,331         | 38,992         | 389.6                | 493.5          | 550.0         | 15.7                        | 17.2         | 16.6         |
| 3. Investment Goods       | 37,294               | 50,508         | 67,524         | 603.9                | 750.0          | 948.8         | 24.2                        | 26.1         | 28.6         |
| 3.1 Machinery & Equipment | 17,098               | 22,377         | 27,635         | 276.9                | 331.5          | 389.6         | 11.1                        | 11.6         | 11.7         |
| 3.2 Transport Equipment*  | 7,889                | 15,012         | 22,425         | 127.7                | 224.1          | 312.8         | 5.1                         | 7.8          | 9.5          |
| 3.3 Building Materials    | 7,936                | 9,342          | 11,898         | 128.5                | 138.3          | 168.0         | 5.2                         | 4.8          | 5.0          |
| 3.4 Other                 | 4,371                | 3,777          | 5,566          | 70.8                 | 56.1           | 78.4          | 2.8                         | 2.0          | 2.4          |
| 4. Unclassified Imports   | 1,472                | 1,718          | 2,553          | 23.9                 | 26.1           | 36.0          | 1.0                         | 0.9          | 1.1          |
| <b>Total Imports (b)</b>  | <b>153,555</b>       | <b>193,550</b> | <b>236,030</b> | <b>2,486.6</b>       | <b>2,870.0</b> | <b>3328.0</b> | <b>100.0</b>                | <b>100.0</b> | <b>100.0</b> |

(a) Provisional.

(b) Adjusted.

\* including the values of aircrafts imported in 1993 and 1994.

Sources: Customs, Sri Lanka;  
Co-operative Wholesale Establishment;  
Ceylon Fertilizer Co. Ltd &  
other major importers of fertilizer;  
Ceylon Petroleum Corporation;  
Central Bank of Sri Lanka.

**TABLE 1.50**  
**Volume of Major Imports in 1994**

| Metric tons      |               |                |                |                          |                |
|------------------|---------------|----------------|----------------|--------------------------|----------------|
| Month            | Rice          | Wheat          | Sugar          | Petroleum<br>(Crude Oil) | Fertilizer     |
| January          | 24,146        | 92,317         | 37,367         | 187,802                  | 31,990         |
| February         | 12,744        | 52,466         | 62,804         | 185,160                  | 23,786         |
| March            | 426           | 32,939         | 26,450         | 130,300                  | 43,654         |
| April            | 2,300         | 52,964         | 47,528         | 180,023                  | 58,502         |
| May              | 2,095         | 104,202        | 54,258         | 182,768                  | 40,427         |
| June             | 7,310         | 101,487        | 45,168         | 183,935                  | 60,014         |
| July             | 4,699         | -              | 54,014         | 58,279                   | 42,191         |
| August           | 350           | 109,901        | 52,221         | 182,217                  | -              |
| September        | 85            | 111,840        | 27,731         | 123,632                  | 28,755         |
| October          | 201           | 101,774        | 14,001         | 182,715                  | 16,575         |
| November         | 2,348         | 2,060          | 23,001         | 238,632                  | 25,465         |
| December         | 1,730         | 64,407         | 46,457         | 62,258                   | 55,158         |
| <b>Total (a)</b> | <b>58,434</b> | <b>826,357</b> | <b>491,000</b> | <b>1,897,721</b>         | <b>426,517</b> |

(a) Adjusted.

*Sources* : Customs, Sri Lanka;  
Co-operative Wholesale Establishment;  
Ceylon Petroleum Corporation;  
Ceylon Fertilizer Co. Ltd., and  
other major importers of fertilizer.

respectively. The drop in expenditure on wheat grain imports was entirely a reflection of a decline in import prices by 18 per cent, which more than offset a 7 per cent increase in import volume. The decline in the import outlay on petroleum was partly due to a drop in the average import price of crude petroleum by 10 per cent offset by an increase in the import volume by 8 per cent.

### Investment Goods

The outlay on investment good imports increased significantly by 27 per cent from SDR 750 million (Rs. 50,508 million) in 1993 to SDR 949 million (Rs. 67,524 million) in 1994. All sub categories of investment goods recorded increases with more pronounced growth rates for imports of transport equipment and the residual category of other investment goods. The value of transport equipment rose by 40 per cent or SDR 89 million (Rs. 7,413 million), largely due to the importation of two aircrafts, valued at SDR 150 million (Rs. 11,260 million), under the Air Lanka refueling programme. When this exceptional item is excluded, the expenditure on transport equipment indicated an increase of 2 per cent thus bringing down the growth in total investment good imports to 16 per cent in 1994. Meanwhile, the import outlay on machinery and equipment increased by 18 per cent from SDR 332 million (Rs. 22,377 million) in 1993 to SDR 390 million (Rs. 27,635 million) in 1994 while building materials rose by 21 per cent from SDR 138 million (Rs. 9,342 million) to SDR 168 million (Rs. 11,898 million) between the two years. The imports of other investment goods which accounted for 8 per cent of total investment goods, also rose by 40 per cent to SDR 78 million (Rs. 5,566 million) in 1994.

The composition of imports changed between 1993 and 1994. In statistical terms, the share of investment goods rose from 26 per cent to 29 per cent while that of intermediate goods declined from 54 per cent to 51 per cent between the two periods. However, if the value of aircrafts imported



by Air Lanka were excluded, the share of investment good imports would remain at 24 per cent as in 1993. The share of consumer goods remained unchanged at 19 per cent.

## **FOREIGN TRADE POLICY**

Sri Lanka's foreign trade policy continued to be moulded in line with the outward-oriented growth strategy based on trade liberalization. Within this overall policy framework, steps have been taken to remove trade distortive elements such as licensing requirements on both exports and imports. Save for some exceptions, in general, average tariffs on imports were maintained within the three band tariff system. The export sector continued to be free from export duties, except for a few royalties and cesses. With a view to diversifying the export structure and enhancing the productive capacity of exports, the export sector continued to be provided with fiscal, financial and institutional incentives during 1994.

With the removal of all remaining restrictions on payments and transfers for current international transactions, Sri Lanka formally accepted the obligations of Article VIII of the International Monetary Fund's (IMF) Articles of Agreement in March 1994. Re-affirming Sri Lanka's commitment towards integrating with the globalisation process of a free multilateral trading system, Sri Lanka ratified the final act of the Uruguay Round (UR) and the agreement on the World Trade Organization (WTO) in 1994. In the wake of the growing significance of regional trade groupings in promoting intra-regional trade, Sri Lanka continued to participate in the negotiations under the South Asian Preferential Trading Agreement (SAPTA) and the Bangkok Agreement during 1994. In addition, Sri Lanka continued to maintain close economic relations with her trading partners through several bilateral co-operation arrangements.

### **Import and Export Control**

As a further step towards liberalization of foreign trade, seven items of exports were liberalised with effect from November 1994, thus leaving only four categories of exports under licence control; namely, coral chunk and shells, wood and articles of wood, ivory and ivory products and passenger motor vehicles registered in Sri Lanka prior to 1945. Import licensing requirements were removed for certain items including red lentils, rice, articles of jewellery, rough gem stones, non-monetary gold, certain types of motor cars and diesel engines. However, imports of B'onions, which were liberalised in January 1994, were brought back under licence control in June 1994 as a measure of protection for local farmers.

### **Tariffs and Taxes**

The four-band tariff system for imports with 45, 35, 20 and 10 per cent rates which came into effect in November 1993 continued during 1994. However, undermining the desired objectives of maintaining simplicity and transparency in the on going rationalization process of the tariff structure, some items remained outside the three-band system and several duty waivers and exemptions continued to be operated during 1994. Among the items for which full duty waivers have been granted were tractors, agricultural equipment, stationery, electrical generating sets, fibres, dhal, dried fish and generators. Moreover, partial duty waivers were granted for several items including full cream milk powder, sugar, skimmed milk powder, fabrics, yarn, edible oils and some construction equipment.

The export sector continued to be free from any ad-valorem sales taxes or duties during 1994, while export cesses and royalties on some items of exports continued.

### **Freight Rates**

With the liberalisation of shipping services in 1990, competition among shipping lines continued to strengthen during 1994 with several new shipping lines entering the trade. This led to a lowering of freight charges.

On a product-cum-destination basis, freight rates for tea to the U.K. and France declined by around 10 per cent, while rates for Japan, Singapore, Saudi Arabia, Kuwait and East Canada remained unchanged. The freight rates for exports of garments, desiccated coconuts and rubber to the U.K., North Continent, Mediterranean countries and France continued to decline during the year. In contrast, freight rates to the U.S.A. for exports of tea and garments showed increases, largely due to an increase in bunkering surcharges, while freight rates for most other commodities to the U.S.A. remained at the 1993 level.

### **Incentives to Exporters**

The export sector, being one of the leading sectors in stimulating overall economic growth, continued to be provided with financial, fiscal and institutional incentives during 1994.

A programme of assistance to export oriented Small and Medium Enterprises (SMEs) was introduced by the Export Development Board (EDB) in 1994 with the objective of expanding production and promotion entrepreneurship at the provincial level. This programme was aimed at improving managerial skills, market development, product development and providing financial, informational and other general assistance to exporters.

Financial assistance schemes to assist both small scale and large scale exporters in the non-traditional area also continued to be operated by the EDB during 1994. Incentive schemes for rubber products, handlooms and textile products, fruits, vegetables, cut flowers and foliage sectors were introduced during the year under review.

On the fiscal incentive front, the Duty Rebate Scheme, the Manufacture-in-Bond Scheme and the Duty Free Clearance of Machinery Scheme continued to operate in 1994. With a view to simplifying the procedures and minimizing delays in the payment of rebates, certain changes to the existing schemes for duty free access to imported inputs were re-considered during the year.

In addition to monetary and fiscal incentives, the EDB extended a wide range of other services, including the organization of several local and foreign seminars and workshops for exporters to enhance the awareness of export procedures, marketing, packaging and product development through technological improvements. Moreover, selected exporters were assisted by the EDB to participate in trade fairs and exhibitions abroad.

The Sri Lanka's second international trade fair "Expo-94" held in October 1994, provided a good opportunity for international exposure for Sri Lankan exports. "Expo-94" saw the participation of over 350 exhibitors and attracted approximately 1,732 overseas buyers and investors from 42 countries. The fair was effective in generating approximately Rs. 142 million worth of confirmed orders.

Exporters were also assisted by the Sri Lanka Export Credit Insurance Corporation (SLECIC) by way of issuing bank guarantees and providing insurance schemes. The total number of insurance policies issued increased more than five-fold to 474, while the value of policies recorded a more than four-fold increase to Rs. 1,971 million in 1994. The number of bank guarantees issued more than doubled from 430 in 1993 to 1,133 in 1994, while the value of such guarantees rose more than four-fold to Rs. 3,429 million in 1994 from Rs. 650 million in 1993. The SLECIC extended other services during 1994, by introducing a direct guarantee scheme for exporters of gems and jewellery participating in trade fairs and exhibitions abroad. Under this scheme, exporters were assisted to obtain a standard certificate (an ATA carnet), issued by the Sri Lanka National Council of the International Chamber of Commerce (ICC) without any collateral security, which permitted duty free access to foreign exhibitions.

## Trading Arrangements and Trade Relations

Sri Lanka continued to promote international trade and economic co-operation through active participation in several international and regional organizations. With a view to achieving the benefits of expansion in global trade by way of lowering tariff and non-tariff barriers and strengthening rules and disciplines in international trade, Sri Lanka signed the Final Act of the Uruguay Round (UR) on 15 April 1994. This was the eighth in the series of multilateral trade negotiations under the auspices of the General Agreement on Trade and Tariffs (GATT). The implementation of the rules of the UR is crucially important for the Sri Lankan economy since it covers not only measures to lower tariff and non-tariff barriers, but also a wide spectrum of issues including the integration of textiles and clothing into the GATT, trade in agriculture and services, trade related investment measures and intellectual property rights. According to the changes in tariffs, Sri Lanka's major export items would considerably benefit from the implementation of the UR act. According to a GATT review and assessment of the proposed tariff changes, decreases in weighted tariff averages for Sri Lanka's major exports to the U.S.A., the European Union (EU) and Japan are estimated at 7 per cent, 21 per cent and 56 per cent, respectively. However, the general reduction in tariffs will lead to an erosion of preferential margins enjoyed by many developing countries lowering the significance of regional trade groupings. The integration of agriculture into the UR would generate adverse consequences on food importing developing countries like Sri Lanka in the short and medium term due to increases in commodity prices, particularly prices of wheat flour, dairy products, sugar and rice. With the implementation of the UR trade measures, the Multi Fibre Arrangement (MFA), which was established in 1974 to regulate and monitor the international trade in textiles and clothing through bilateral quotas, would be phased out within a period of ten years from 1995. This will provide a sufficient time period for appropriate adjustments to be carried out in Sri Lanka's textile and clothing industry to enhance efficiency and productivity so as to face competition when textile quotas are removed in the future. All MFA restraints that were in place as at 31 December 1994, are to be incorporated into the New Accord on Textile and Clothing of the UR with effect from January 1995.

On the 1 June 1994, Sri Lanka ratified the agreement on the World Trade Organization (WTO), which is entrusted with the authority of overseeing operations under the new global order of international trade following the rules and disciplines stipulated in the UR Final Act.

As a founder member of the South Asian Preferential Trading Arrangement (SAPTA), Sri Lanka has actively participated in negotiations with a view to promoting trade and regional economic co-operation through mutual concessions. In April 1994, bilateral consultations were held at the fourth meeting of the inter-governmental group on trade liberalisation. This provided a forum for exchanging trade information and finalising "Request Lists" among the member countries. Sri Lanka's "Request Lists" were prepared in consultation with the Presidential Commission on Tariffs and Trade (PCTT) and were forwarded to all contracting states, except Pakistan. Among the member states, Sri Lanka has received a formal "Request List" from Bangladesh during 1994.

Sri Lanka continued to enjoy preferential access under the Generalised System of Preferences (GSP) in 1994. The GSP system was established in 1968 as a generalised, non-reciprocal and non-discriminatory system of preferences to assist the developing countries to accelerate their economic growth. As at the end of 1994, sixteen different schemes extended by twenty six developed countries including the U.S.A., Japan, Australia, Canada and the EC continued to operate under the GSP system. However, the European Commission (EC) has announced a revised GSP scheme in December 1994, to comply with the rules of the UR which aimed to broadbase the benefits towards the least developed countries. The proposed changes for agricultural products in the new GSP scheme will be implemented in 1996 and no major changes for Sri Lanka's exports are expected. Some items of industrial exports from Sri Lanka continued to face certain limitations even under the new scheme, as they did under the previous scheme. For example, Sri Lanka's exports of garments to the EC are in a disadvantaged position since the country does not have a

fabric base. According to the revised GSP scheme, Sri Lanka's exports of textiles and garments are subject to an additional payment of 85 per cent over the EC's existing rates offered for Most Favoured Nations (MFN), with effect from January 1995. The new proposed scheme of graduation of preferential access will depend on country-specific and product-specific situations. The Department of Commerce studied the impact of the proposed GSP scheme on exports from Sri Lanka in consultation with trade sources and made representations to the EC during 1994.

The new Co-operation Agreement between Sri Lanka and the EC on Partnership and Development was signed in July 1994 with a view to facilitating projects in the fields of energy, environment, investment and industrial co-operation, while the activities under ongoing and pipeline projects under the previous agreement continued in 1994. Arrangements have been made to obtain project proposals for submission to the EC under the new co-operation agreement.

Sri Lanka is also a signatory to the Agreement on the Generalised System of Trade Preferences (GSTP). In the second round of negotiations under the GSTP, developing countries enjoy preferential access to other member countries in the GSTP in terms of a reduction in tariffs and elimination of non tariff barriers. Sri Lanka's "Request Lists" to other participating countries have been formulated in consultation with the Presidential Commission on Tariffs and Trade (PCTT) and the private sector. Sri Lanka has submitted her "Request Lists" to eighteen participating countries and has received lists from nine member countries. The preliminary bilateral negotiations have been conducted with thirteen member countries during 1994.

Sri Lanka continued to be a member of the United Nations Conference on Trade and Development (UNCTAD) and the International Natural Rubber Agreement (INRA). Negotiations relating to a new Coffee Agreement, which was intended to replace the former coffee agreement, were held in 1994. However, Sri Lanka has decided not to become a signatory to the new coffee agreement which does not contain any economic clauses including export quotas.

Sri Lanka is also a member of the Bangkok Agreement which aimed at promoting trade among member countries through the grant of mutual concessions. Sri Lanka receives benefits in terms of preferential tariffs for certain exports, while offering the same concessions for certain imports from member countries, *i.e.* India, Bangladesh, Laos, the Republic of Korea and Papua New Guinea. The reduction of the Most Favoured Nations rate of duty by India in 1994 resulted in an erosion of certain preferential margins offered under the Bangkok Agreement. Following representations made by Sri Lanka, India revised the preferential rates of duty applicable to products covered by the Bangkok Agreement.

Bi-lateral co-operation is an important element in Sri Lanka's foreign trade policy as a way of promoting trade and economic co-operation. Under the existing bilateral co-operation agreements, nine joint committees with India, China, Iran, Pakistan, Rumania, Bangladesh, Maldives, Egypt and Turkey met in 1994. A new trade agreement was also signed with Kuwait in April 1994.

## **INTERNAL TRADE**

During 1994, the internal trade policy was focused mainly on assuring consumer protection. The Department of Internal Trade (DIT) carried out the functions of eliminating malpractices in trade and administering specified guidelines on quality standards during 1994. The activities of the DIT were curtailed to a certain extent due to the decentralisation of the DIT into the Divisional Secretariats. In an effort to remedy the situation, a Cabinet decision was taken to re-establish the district offices of the Department under the District Secretaries with effect from 1 July 1994.

Under the provisions of the Consumer Protection Act, directions have been issued to the Match Industry requiring it to conform to the requirements under the Sri Lanka Standards and to mark certain specifications on labels. The DIT was also involved in strict enforcement of the Fertilizer Act, in an effort to contain malpractices such as adulteration of fertilizer by some traders. In addition to regulating the trading activities through supervision and inspections, the DIT organ-

ized a series of educational programmes for both school children and for the general public. Steps have also been taken to re-activate inoperative consumer societies. Seventy new societies were also established during 1994.

The Fair Trading Commission (FTC) continued its activities relating to investigating monopolies, mergers and anti-competitive practices and determining maximum retail prices for pharmaceutical items, which are the only products currently subject to price controls. According to the recommendations made by a committee which was appointed by the Ministerial Cabinet Sub-Committee on Cost of Living, the prices of 74 locally manufactured essential drugs, as identified by the Ministry of Health, were de-controlled from February 1994. The FTC investigated anti-competitive practices in industrial gases and related products and orders were issued to terminate such practices during 1994. Investigations on mis-representation of brand names of wall clocks were completed in 1994 and recommendations have been conveyed to the DIT which will issue a directive under the Consumer Protection Act.

The Commodity Purchases Department (CPD) continued to operate in the purchasing of sheet rubber from smallholders through a mobile purchasing programme and purchasing depots in all rubber growing areas. Although the activities of the Department were limited to purchasing a small percentage of sheet rubber from smallholders, these purchases aided them in obtaining remunerative prices as the Department announces producer prices for sheet rubber in line with international prices which operate as an indicator price for the private dealers.

## **TOURISM**

The tourism sector showed an improved performance in 1994. The number of tourist arrivals reached 407,511 in 1994, the highest on record and a 4 per cent increase over 1993. The number of tourist nights spent in the country rose by 3 per cent to 4,250,000 in 1994.

Tourist arrivals from all major regions increased in 1994. Western Europe continued to be the major source of arrivals, contributing to a share of 62 per cent of total arrivals in 1994. Tourist arrivals from Western Europe reached 253,899, recording a marginal increase of 1 per cent. Increased arrivals from the United Kingdom and Switzerland were, to a great extent, offset by reduced arrivals recorded from Germany, France and the Netherlands. The Asian market, the second largest source of arrivals, which was accounted for 29 per cent of the total arrivals in 1994, recorded a 9 per cent rise over the arrivals in 1993. This was largely due to the increased influx of tourists from India, Malaysia, Thailand and South Korea. Following a similar trend, arrivals from North America, Eastern Europe and Australasia increased by 15 per cent, 4 per cent and 2 per cent, respectively, during 1994.

The gross foreign exchange earnings from tourism in 1994 have been estimated at Rs. 11,375 million (SDR 161 million), an increase of 10 per cent (16 per cent in rupee terms) over the earnings in 1993.

The total employment provided by the tourist industry was estimated at 84,154, which indicated an 11 per cent growth over the previous year. This comprised 35,064 direct employment opportunities and 49,090 indirect employment opportunities.

The number of hotel units in the graded accommodation sector increased from 129 in 1993 to 134 in 1994. Consequently, the total room capacity increased from 10,365 to 10,742 between the two years. However, the annual occupancy rate showed a marginal decline to 56.6 per cent in 1994 from 57 per cent in 1993. The number of units in the supplementary accommodation sector rose by 21 per cent from 140 units in 1993 to 169 units in 1994.

A purpose-wise classification of tourist arrivals showed a marginal decline of 3 per cent in the arrivals for pleasure while a marked increase was recorded in business visits from 4,089 in 1993 to 21,340 in 1994.

According to a carrier-wise classification, a nine per cent increase in tourist arrivals was recorded in the category of scheduled flights, of which the arrivals from inter-regional flights increased by eight per cent while those from intra-regional flights rose by 14 per cent. The number of arrivals by Air Lanka flights decreased by six per cent between the two years.

**TABLE 1.51**  
**Tourists Statistics 1993 - 1994**

| Item                                    | 1993    | % change over 1992 | 1994 (a) | % change over 1993 |
|---|---------|--------------------|----------|--------------------|
| 1. Tourist Arrivals                     | 392,250 | - 0.4              | 407,511  | + 3.9              |
| 2. Number of Arrivals by Region         |         |                    |          |                    |
| 2.1 Europe                              | 256,158 | + 2.4              | 258,285  | + 0.8              |
| 2.1.1 France                            | 34,779  | - 13.5             | 30,522   | - 12.2             |
| 2.1.2 Germany                           | 95,430  | + 11.7             | 93,528   | - 2.3              |
| 2.1.3 Italy                             | 18,267  | - 28.6             | 18,069   | - 1.1              |
| 2.1.4 U.K.                              | 42,474  | + 22.6             | 47,766   | + 12.4             |
| 2.1.5 Other                             | 65,208  | + 1.6              | 68,400   | + 4.9              |
| 2.2 North America                       | 13,635  | + 8.1              | 15,612   | + 14.5             |
| 2.2.1 Canada                            | 4,062   | - 1.0              | 4,920    | + 21.1             |
| 2.2.2 U.S.A.                            | 9,573   | + 12.5             | 10,692   | + 11.7             |
| 2.3 Asia                                | 106,668 | - 6.6              | 116,352  | + 9.1              |
| 2.3.1 Japan                             | 20,421  | - 29.1             | 19,497   | - 4.5              |
| 2.3.2 India                             | 32,433  | + 25.0             | 44,142   | + 36.1             |
| 2.3.3 Pakistan                          | 12,369  | + 7.7              | 10,188   | - 17.6             |
| 2.3.4 Hong Kong                         | 4,119   | - 50.8             | 4,302    | + 4.4              |
| 2.3.5 Other                             | 37,326  | - 5.7              | 38,223   | + 2.4              |
| 2.4 Australasia                         | 11,823  | - 4.4              | 12,033   | + 1.8              |
| 2.4.1 Australia                         | 10,242  | - 6.8              | 9,681    | - 5.5              |
| 2.4.2 New Zealand                       | 1,086   | - 6.5              | 1,323    | + 21.8             |
| 2.4.3 Other                             | 495     | +139.1             | 1,029    | +107.9             |
| 2.5 Other Regions                       | 3,966   | - 11.7             | 5,229    | + 31.8             |
| 3. Arrivals by Purpose of Visit         | 392,250 | - 0.4              | 407,511  | + 3.9              |
| 3.1 Pleasure                            | 387,141 | + 3.7              | 377,537  | - 2.5              |
| 3.2 Business                            | 4,089   | - 73.6             | 21,340   | +421.9             |
| 3.3 Other                               | 1,020   | - 79.4             | 8,634    | +746.5             |
| 4. Tourist Nights ('000)                | 4,148   | + 2.5              | 4,250    | + 2.5              |
| 5. Excursionist Arrivals                | 6,093   | + 7.8              | 8,413    | + 38.1             |
| 6. Gross Tourist Receipts (Rs. Mn.) (a) | 9,815   | + 11.0             | 11,375   | + 15.9             |
| 7. Total Employment                     | 75,710  | + 8.5              | 84,154   | + 11.2             |
| 7.1 Direct                              | 30,710  | + 4.2              | 35,064   | + 14.2             |
| 7.2 Indirect                            | 45,000  | + 11.6             | 49,090   | + 9.1              |

(a) Provisional.

Source: Ceylon Tourist Board.;  
Central Bank of Sri Lanka.