9. TRADE, BALANCE OF PAYMENTS AND TOURISM

9.1 Overview

The global economy witnessed a strong recovery in 2000 after a depressed economic environment seen in many parts of the world after the outbreak of the East Asian currency crises, followed by crises in Russia and Brazil. A robust economy in the US, some economic recovery in Japan, continued growth in Europe and fast recovery in crisis affected countries eliminated the risk of a continuation of a global economic slowdown. The gradual build up of investor confidence brought some stability to exchange and capital markets. The economic recovery in most affected East Asian countries and the higher global demand had a positive impact on commodity markets, which had remained depressed during the past two years. Thus, the recovery of world trade improved the external environment for Sri Lanka. However, sharp increases in international petroleum prices and high security related imports exerted heavy pressure on the balance of payments of Sri Lanka, which led to a sharp drop in external reserves, exerting pressure on the exchange rate. In order to arrest the situation, several changes were made in the exchange rate management of the country.

In line with the recovery in global trade, Sri Lanka's external trade registered a notable upturn with both exports and imports growing at faster rates in 2000. However, the trade deficit widened sharply owing to higher outlays on the import of petroleum products and security related material. The surplus in the services account declined owing to a slowdown in the tourism sector. The deficit in the income account widened further both due to higher interest payments on external debt and a drop in interest earnings on external reserves. However, there was a notable improvement in net current transfers arising largely from higher private transfers from expatriate nationals. As a result of these developments, the deficit in the current account widened significantly from US dollars 563 million (or 3.6 per cent of GDP) in 1999 to US dollars 1,065 million (or 6.4 per cent of GDP) in 2000. Net capital and financial inflows increased from US dollars 373 million to US dollars 565 million, as a result of an increase in private short term borrowing and an increase in net capital inflows to the government, which offset a drop in capital transfers. As the increase in net capital and financial flows were not adequate to cover the sharp increase in the current account deficit, the overall deficit in the balance of payments reflected a deterioration, the deficit of US dollars 263 million in 1999 falling further to US dollars 516 million in 2000.

Sri Lanka's external trade recovered rapidly in 2000 after a significant slowdown in 1999 affected by the lagged effects of the financial crises in Asia and Russia. Exports grew at 20 per cent in 2000 against a drop of 4 per cent in 1999. This was mainly the result of an increase in the volume of exports by 18 per cent. Meanwhile, imports (excluding aircraft), increased by 24 per cent, reflecting both increased volumes and higher international commodity prices[1]. Consequently, the trade deficit widened by 31 per cent to US dollars 1,798 million. The trade deficit, as a percentage of GDP, increased from 8.7 per cent in 1999 to 10.8 per cent in 2000, the highest since 1995.

The surplus in the services account dropped significantly due to declines in receipts from travel and transportation services. Net receipts from travel declined from US dollars 55 to US dollars 8 million, mainly reflecting an 8 per cent decline in tourist arrivals during the year. Port related services continued to suffer from competition from neighbouring countries during the year. Meanwhile, the deficit in the income account widened from US dollars 254 to US dollars 304 million. This was the result of higher net interest payments resulting from a 10 per cent decline in interest income on foreign investments and a 12 per cent increase in interest payments on foreign debt.

Gross private transfer receipts increased by 10 per cent to US dollars 1,160 million. This was boosted by compensation payments to workers affected by the Gulf War, amounting to US dollars 45 million, received during the year. As a result, net private transfers increased from US dollars 887 to US dollars 974 million. Net current official transfers declined marginally from US dollars 26 to US dollars 25 million during 2000. With these developments in the trade, services, income and transfers accounts, the deficit in the current account widened from US dollars 563 million in 1999 to US dollars 1,065 million in 2000.

The capital and financial accounts registered a notable improvement with the surplus ricing from US dollars 373 million in 1999 to US dollars 568 million. This was mainly on account of increases in long-term capital flows to the government and short-term financial flows to the private sector. Net capital transfers declined from US dollars 80 to US dollars 51 million as a result of a drop in grants during the year. Meanwhile, the surplus in the financial account increased from US dollars 293 million in 1999 to US dollars 516 million in 2000 mainly owing to increases in

1 The import of aircraft under the refleeting programme, a relatively large item in imports, is financed through a suppliers' credit. Hence, the analysis was made excluding aricraft.

TABLE 9.1

Balance of Payments Analytic Presentation (Incorporating FCBUs of Commercial Banks as Part of the Domestic Banking System)(a)

ITEM	US Dollars Million					Rupees Million				
	1996	1997	1998	1999	2000(b)	1996	1997	1998	1999	2000(b)
Trade balance	-1,344	-1,225	-1,092	-1,369	-1,798	-74,276	-71,833	-69,742	-96,702	-134,176
Exports	4,095	4,639	4,798	4,610	5,522	226,801	274,194	310,401	325,170	420,114
Imports	5,439	5,864	5,889	5,979	7,320	301,077	346,026	380,142	421,873	554,290
Services (net)	105	159	145	147	38	5,805	9,386	9,300	10,342	2,907
Receipts	765	875	914	968	953	42,358	51,692	59,084	68,132	72,187
Payments	660	716	770	820	915	36,553	42,306	49,783	57,791	69,280
Income (net) (c)	-197	-160	-180	-254	-304	-10,923	-9,417	-11,556	-17,831	-22,967
Receipts	186	234	214	167	152	10,258	13,792	13,882	11,810	11,568
Payments	383	393	394	421	456	21,182	23,210	25,437	29,640	34,535
Goods, services and income (net)	-1,436	-1,225	-1,127	-1,476	-2,063	-79,395	-71,864	-71,997	-104,191	-154,235
Private transfers (net)	710	788	848	887	974	39,230	46,494	54,843	62,472	73,620
Receipts (d)	832	922	999	1,056	1,160	46,003	54,445	64,585	74,356	87,697
Payments	122	135	151	169	186	6,773	7,951	9,742	11,884	14,076
Official transfers (net)	49	44	52	26	25	2,709	2,625	3,359	1,816	1,855
Current account	-677	-393	-226	-563	-1,065	-37,456	-22,745	-13,795	-39,903	-78,780
Capital and financial account	459	602	413	373	568	25,725	30,691	26,570	30,473	41,296
Capital account	96	87	80	80	51	5,286	5,140	5,109	5,650	3,895
Capital transfers(net)	96	87	80	80	51	5,286	5,140	5,109	5,650	3,895
Receipts	100	91	84	86	57	5,495	5,386	5,410	6,018	4,331
Payments	4	4	5	5	6	209	246	301	368	435
Financial account	363	515	334	293	516	20,439	25,550	21,461	24,823	37,400
Long-term:	381	716	398	435	428	20,962	37,029	25,906	30,985	31,962
Direct investment	120	430	193	177	176	6,606	25,504	12,379	12,449	13,326
Foreign direct investment (net)	86	129	137	177	173	4,756	7,587	8,846	12,449	13,125
Privatisation proceeds	33	301	56	-	3	1,850	17,918	3,533	-	200
Private long-term (net),(c)	2	47	2	196	82	88	3,054	352	14,086	5,587
Inflows (e)	156	150	146	361	298	8,628	8,741	9,686	25,727	22,134
Outflows	155	102	145	165	217	8,539	5,687	9,334	11,641	16,546
Government, long-term (net) (f)	259	239	203	62	171	14,268	8,471	13,175	4,451	13,049
Inflows	497	500	493	381	479	27,442	24,761	31,896	26,896	36,361
Outflows	238	262	290	319	308	13,174	16,291	18,721	22,445	23,312
Short-term:	-18	-201	-64	-142	88	-523	-11,479	-4,445	-6,162	-5,438
Portfolio investment (net)	7	13	-24	-13	-45	353	749	-1,521	-886	-3,355
Private short-term (net),(c)	-44	-20	8	-10	100	-2,426	-1,195	414	-667	7,569
Commercial bank assets (net),(c)	59	-323	180	-19	-141	1,127	-23,384	5,035	1,766	-18,738
Commercial bank liabilities (net),(c)	-40	129	-228	-101	174	423	12,352	-8,374	-6,375	19,960
Government short-term (net),(c)	-	-	-	-		-	-	-	-	
SDR allocations	-	-	-	-		-	-	-	-	
Valuation adjustments	-	-	-	-		4,213	-562	8,559	2,103	5,189
Errors and omissions	150	-46	-151	-73	-19	7,527	8,461	-7,534	-6,857	900
Overall balance (g)	-68	163	37	-263	-516	9	15,845	13,800	-14,184	-31,382
Monetary movements (g)	68	-163	-37	263	516	-9	-15,845	-13,800	14,184	31,382
Exchange rate Rs/US$						55.27	58.99	64.59	70.39	75.78
Ratio to GDP as percentage										
Trade account						-9.7	-8.1	-6.9	-8.7	-10.7
Current account						-4.9	-2.6	-1.4	-3.6	-6.3
Current account without grants						-5.2	-2.8	-1.7	-3.8	-6.4

Source: Central Bank of Sri Lanka

(a) This presentation conforms as far as possible to the Balance of Payments Manual, 5th Edition (1993) of the International Monetary Fund. In addition, beginning 1994, Foreign Currency Banking Units (FCBUs) have been treated as a part of the domestic banking system.

(b) Provisional

(c) From 1994 onwards Foreign Currency Banking Units (FCBUs) have been treated as a part of the domestic banking system in the compilation of balance of payments statistics. Accordingly, transactions involving FCBUs and non-residents are taken into account in the compilation of balance of payments statistics, while those involving FCBUs and residents are excluded.

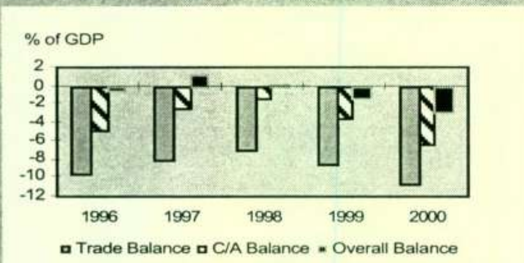
(d) Includes US dollars 64 mn., US dollars 78 mn., US dollars 85 mn. and US dollars 45 mn. received in 1997, 1998, 1999 and 2000 as compensation of US dollars 2,500 per person to 26,101, 31,279, 37,343 and 29,323 Sri Lankans, respectively, who lost employment in Kuwait due to the Gulf War in 1990. In addition, US dollars 27 mn. was also received as second round payments of US dollars 1,500 each to 18,244 Sri Lankans in 1999.

(e) Includes adjustment to capital inflows in 1999 and 2000 on account of the import of aircraft for which advance payments had been made in previous years.

(f) Data since 1994 have been revised to incorporate additional information.

(g) All transactions in the monetary sector are converted at the end of year exchange rates.

Chart 9.1
Balance of Payments (a) (b)



(a) With the change in classification from BPM4 to BPM5 format changes in commercial banks assets and liabilities are excluded from the overall balance.
(a) Beginning 1994 Foreign Currency Banking Units (FCBUs) have been treated as part of the domestic banking system.

TABLE 9.2
External Trade Performance

Year	Growth in Value (a)		Unit Value Index (1997=100)			As a percentage of GDP	
	Exports	Imports	Exports	Imports	Terms of Trade (b)	Exports	Imports
1998 (c)	3.4	0.4	114.9	101.3	113.4	30.5	37.4
1999 (c) (d)	-3.9	1.5	114.6	106.4	107.7	29.2	37.9
2000 (d) (e)	19.8	22.4	125.2	123.8	101.1	33.1	43.9

Sources: Sri Lanka Customs
Central Bank of Sri Lanka

(a) Growth rates are given in US dollar terms
(b) (Export unit value index / Import unit value index) * 100
(c) Revised
(d) Import indices in 1999 and 2000 are calculated excluding aircraft imports
(e) Provisional

Chart 9.2
External Trade

Chart 9.2.1
Trade Balance

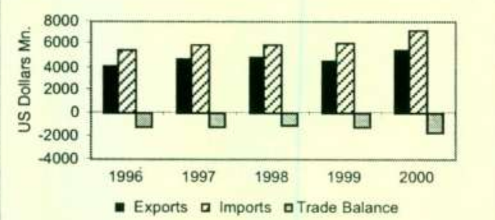


Chart 9.2.2
Export and Import Volume Indices

Chart 9.2.3
Unit Value Indices
(1997=100)

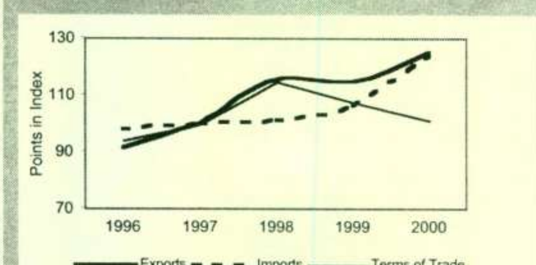
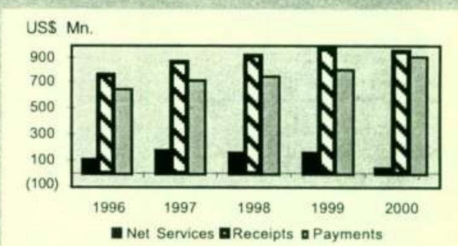


Chart 9.2.4
Trade in Services (a)



(a) With the change in classification from BPM4 to BPM5 format, services exclude Income which now appears as a separate item in the current account.

government long-term investment inflows and private short-term inflows. Net foreign direct investment inflows declined marginally from US dollars 177 to US dollars 173 million, reflecting a decline of 13 per cent in FDI inflows and a significant drop in capital outflows arising from direct investments abroad by Sri Lankan residents. As in the previous year, the uncertain environment disrupted Sri Lanka's privatisation programme in 2000. Net private long term capital inflows declined from US dollars 196 to US dollars 82 million, reflecting both a drop in capital inflows and an increase in debt repayments during the year, especially by SriLankan Airlines. Net long-term capital flows to the government increased from US dollars 62 million in 1999 to US dollars 171 million, mainly due to an increase in long-term suppliers' credit and a decline in loan repayments during the year. Temporary disruptions to project implementation by elections held during the year, delays in aid utilisation and the continued general decline in resource availability from donor countries, affected capital flows to the government. Loan repayments during the year included the repayment of the remaining amount of US dollars 16 million of the US dollars 50 million Floating Rate Notes (FRN) issued in 1997. In contrast, net short-term capital flows reflected a turnaround from an outflow of US dollars 142 million to a net inflow of US dollars 88 million during the year. This was the net result of increased foreign liabilities of commercial banks, higher private short-term trade credit and an increased outflow of portfolio investments.

The external debt stock of the country declined by 2.5 per cent to US dollars 8,859 million, mainly due to a decline of US dollars 246 million (4 per cent) in concessional debt and a drop of US dollars 61 million (32 per cent) in non-concessional debt of the government, offset to some extent by an increase of US dollars 76 million (6 per cent) in non-concessional debt of the private sector. The drop in the debt stock during the year was entirely due to cross rate changes among major international currencies. The bulk of the total debt stock (77 per cent) comprised concessional debt, while non-concessional debt accounted for the remaining 23 per cent. The external debt/GDP ratio declined from 57.8 per cent in 1999 to 53.5 per cent in 2000, while the external debt service ratio declined from 12.4 per cent to 12.2 per cent.

International exchange markets continued to remain stable during the year. However, despite a relatively low rate of inflation, the deteriorating balance of payments continued to exert pressure on the Sri Lanka rupee. The rupee depreciated by 9.9 per cent during 2000, as measured by the change in the average of the Central Bank's buying and selling rates for the US dollar; the corresponding depreciation was 12.6 per cent in the interbank average exchange rate. The real effective exchange rate of the Sri Lanka rupee against a 24 currency basket showed a marginal appreciation of 0.6 per cent in 2000, maintaining the country's external competitiveness.

Total gross external assets of the country declined by 18 per cent to US dollars 2,126 million at the end of 2000 and were sufficient to finance 3.5 month of imports in 2000. Meanwhile, gross official reserves declined by 36 per cent to US dollars 1,043 million and were sufficient to finance 1.7 months of imports in 2000.

9.2 Exports

Sri Lanka's exports grew significantly throughout 2000, benefiting from both external and internal favourable developments. Total export earnings, amounting to US dollars 5,522 million in 2000, grew by 20 per cent compared to the 4 per cent decline in 1999. This growth was generated mainly by the continued expansion in textiles and garments, tea, machinery, mechanical and electrical equipment, rubber based products, fish products, gems, diamonds and jewellery exports. The increase in exports is attributable to a moderate recovery in commodity prices as well as improved global demand. The export price index rose by 2 per cent, while the volume index rose by 18 per cent, accounting for a large part of the increase in export earnings. International terms of trade deteriorated for the second consecutive year reflecting unfavourable international price developments.

Export trade recovered, beginning the last quarter of 1999, due to healthy growth in the world economy, particularly robust growth in USA and the European Union (EU). There was an improved demand for textiles and garments from those countries. Recovery in the Japanese economy strengthened the market for Sri Lankan products, particularly gems, jewellery and diamonds. Similarly, as way, recovery in the transition economies and the Middle East countries too helped in satisfying the demand for tea, improving the prices. The fast recovery in the East Asian economies and subsequent appreciation of their currencies increased Sri Lanka's competitiveness in major export items such as garments and rubber based products.

Export Structure

Spurred by the economic liberalisation in 1977, industrial exports became more significant beginning the early 1980's, and the share of plantation agricultural commodities in total exports declined from 74 per cent in 1977 to 15 per cent in 2000. Industrial exports continued to be the major contributor to expanding exports, the share of which increased from 14 per cent in 1977 to 78 per cent in 2000. This ratio has remained around 75 per cent during the last 8 years. Textiles and garments, which became Sri Lanka's largest single item of exports in 1986, continued to maintain its dominant position, increasing its share from 2 per cent

TABLE 9.3
Composition of Exports

Category	US Dollars Million					Rs. Million				
	1996	1997	1998	1999 (a)	2000 (b)	1996	1997	1998	1999 (a)	2000 (b)
1. Agricultural exports	961	1,060	1,088	947	1,005	53,206	62,667	70,225	66,751	76,271
Tea	615	719	780	621	700	34,067	42,533	50,280	43,728	53,133
Rubber	104	79	44	33	29	5,753	4,640	2,808	2,305	2,179
Coconut	110	118	94	129	121	6,091	6,939	6,110	9,119	9,174
Kernel products	81	82	56	84	77	4,469	4,864	3,632	5,973	5,786
Other	29	35	38	45	45	1,622	2,075	2,478	3,146	3,388
Minor agricultural products	132	145	170	165	155	7,295	8,555	11,027	11,598	11,784
2. Industrial exports (c)	3,006	3,436	3,607	3,551	4,283	166,543	203,114	233,508	250,516	325,931
Food,beverages and tobacco	95	91	118	86	152	5,272	5,354	7,586	6,093	11,573
Textiles and garments	1,902	2,274	2,460	2,425	2,982	105,341	134,455	159,303	171,068	226,930
Petroleum products	104	97	73	74	98	5,740	5,743	4,662	5,210	7,414
Rubber products	169	178	178	161	196	9,357	10,513	11,528	11,350	14,924
Ceramic products	48	55	54	49	47	2,677	3,246	3,478	3,442	3,558
Leather, travel goods and footwear	139	183	214	201	176	7,690	10,812	13,855	14,140	13,391
Machinery and equipment	154	204	182	201	244	8,572	12,076	11,811	14,155	18,594
Diamond and jewellery (d)	192	142	131	171	192	10,643	8,384	8,491	12,064	14,546
Other industrial exports	202	212	197	184	197	11,251	12,531	12,794	12,995	15,002
3. Mineral exports	96	90	60	64	97	5,292	5,271	3,863	4,540	7,352
Gems	86	84	56	61	93	4,771	4,899	3,577	4,326	7,091
Other mineral exports	10	6	4	3	4	521	372	286	214	261
4. Unclassified (c) (e)	32	53	43	48	137	1,760	3,141	2,802	3,363	10,560
Total exports(c)	4,095	4,639	4,798	4,610	5,522	226,801	274,193	310,398	325,171	420,114

(a) Revised.
(b) Provisional
(c) Adjusted
(d) Diamond exports reported by the Sri Lanka Customs in 1999 and 2000 were adjusted for data obtained from the National Gem and Jewellery Authority
(e) Includes re-exports

Sources : Sri Lanka Customs
Ceylon Petroleum Corporation and Other exporters of petroleum
Central Bank of Sri Lanka
National Gem and Jewellery Authority

in 1977 to 28 per cent in 1986 and further to 54 per cent in 2000. Although earnings from the textiles and garment sector were high, tea remained the country's largest net foreign exchange earner until 1991. However, textiles and garments came to this lead position in 1992 and continued to be in that position thereafter.

In 2000, the share of industrial exports in total exports, led by textiles and garments, increased to 78 per cent from 77 per cent in 1999. Industrial exports consisted of textiles and garments (70 per cent), machinery and equipment (6 per cent), rubber products (5 per cent), diamonds and jewellery (4 per cent), leather goods (4 per cent), prawns and other fish products (3 per cent), petroleum products (2 per cent), ceramic products (1 per cent) and other industrial exports (5 per cent). The share of agricultural exports declined from 21 per cent in 1999 to 18 per cent in 2000 attributable to lower contributions from rubber, coconut and minor agricultural products. The share of mineral exports increased from 1 per cent to 2 per cent, while other exports accounted for 2 per cent of the total in 2000 against 1 per cent in 1999. Other exports include re-exports of parts of airplanes and textile items.

Several sectors showed significant improvements in the last decade, further diversifying the composition of exports and strengthening the resilience in the economy. These were rubber based products, spare parts including electronics, leather products such as footwear and travel goods, diamonds, jewellery, petroleum products, canned food, fruit and fish products, ceramics, handicrafts, chemical products and minor agricultural products. Exports of mineral products, dominated by gems, also improved after 1977. The contribution by all those products taken together, increased from 22 per cent in 1977 to 28 per cent in 2000, surpassing the position held by plantation sector products.

Industrial Exports

Earnings from industrial exports grew by 21 per cent in 2000 reversing the decline of 2 per cent in 1999. The major contributor, textiles and garment exports, increased by 23 per cent in 2000 as against a 1 per cent drop in 1999. The textiles and garment sector, which suffered during the first eight months of 1999, started to recover after September 1999 with improving prices and growth in volume. The volume of textile and garment exports increased by 17 per cent while prices rose by 5 per cent. Garment exports were

Chart 9.3
Value of Exports by Major Categories

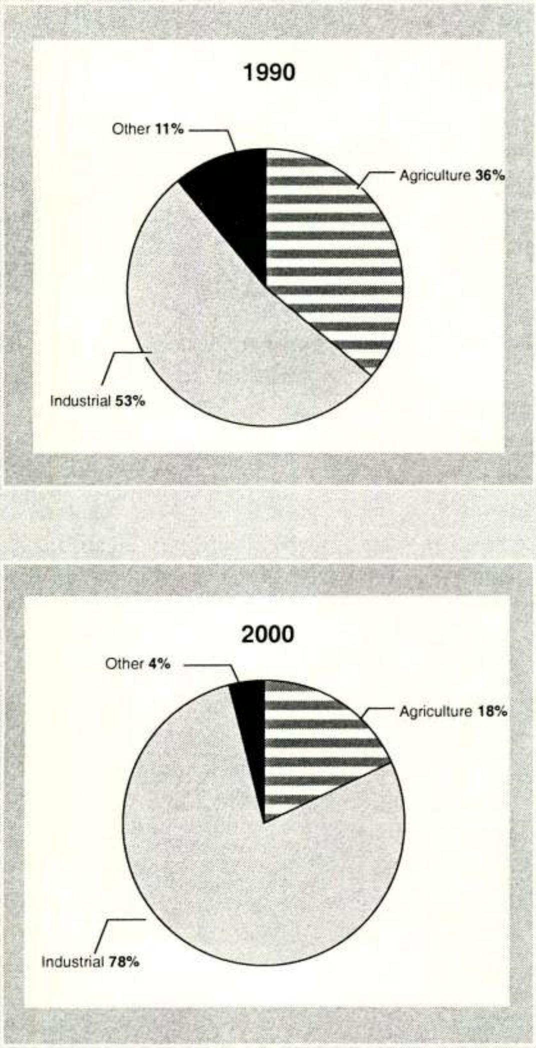
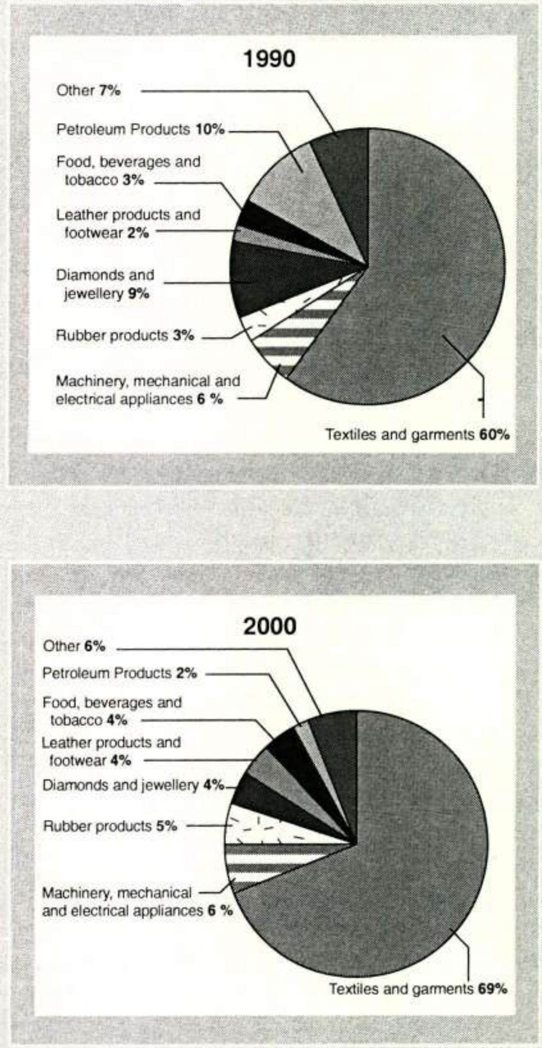


Chart 9.4
Value of Industrial Exports by Major Categories



higher prior to the beginning of summer and winter seasons in USA and European countries. Among the sub categories in the textiles and garment sector, garment exports increased by 23 per cent while textile exports grew by 20 per cent. Exports of yarn and other made-up articles increased by 12 per cent and 20 per cent, respectively. Despite the higher costs of imported raw materials, an improvement in domestic value addition in textile and garment exports resulted in an increase in net foreign exchange earnings by 37 per cent to US dollars 1,511 million.

As in the previous year, more than 90 per cent of textile and garment exports were from BOI companies. Export earnings in BOI enterprises increased by 24 per cent in 2000 compared to a 1 per cent decline in 1999. Exports by non-BOI enterprises rose by 17 per cent in 2000 compared to a decline of 7 per cent in 1999. USA (62 per cent) and EU (33 per cent) led by UK (22 per cent) continued to be the first and second largest markets for textiles and garment exports.

Exports of machinery, mechanical and electrical equipment grew by 21 per cent as against the growth of 10 per cent in 1999. Major export items in 2000 were parts and accessories of data processing machines, printed circuits, electrical transformers, machine tools, screws and bolts and nuts. This category accounted for 6 per cent of total industrial exports.

Earnings from rubber based product exports, at US dollars 196 million, indicated an increase of 22 per cent in 2000. Exports of retreaded tyres increased by 23 per cent, while solid and cushion tyres rose by 35 per cent. The recovery continued after September 1999, due to the global economic recovery and high demand from European countries. Exports of examination gloves recovered after September 1999, with the adoption of new technology by the main producers to meet consumer preferences. Exports of industrial glove showed an improvement while surgical glove exports declined by 20 per cent due to lower demand. Those categories of gloves accounted for 31 per cent of the total rubber based product exports in 2000. Other rubber based products such as floor coverings and mats, plates and sheets performed well throughout 2000. A few new products such as machine parts and floor tiles which emerged in 1999, continued to expand in 2000. Rubber based products contributed 5 per cent to total industrial exports.

Earnings in the food, beverages and tobacco sector increased by 76 per cent in 2000 due to a sharp improvement in the export of crustaceans, molluscs and other fish products, which contributed 84 per cent to this sub category and 3 per cent to the total industrial exports in 2000. Earnings from prawn exports increased by 80 per cent in 2000. At present, 'Yellow Head' and 'White Spot' diseases have been suppressed and the situation has returned to normal since January 2000. About 80 per cent of the farming area and all nine factories that process shrimp for export are now in operation. Government has regularised 14 unauthorised shrimp farms covering 62 hectares in 2000, which increased the total number of active farms to 955. The total extent of those farms is 3,752 hectares. With the extensive awareness programmes conducted by the National Aquatic Resources Research and Development Agency (NARA), National Aquaculture Development Authority (NAQDA) and Aquaculture Services Center of the North Western Provincial Ministry of Fisheries, shrimp farmers have learnt to prevent or control the outbreak of diseases. As a result, the quality and the size of prawns and shrimp have improved attracting new markets. The Ministry of Fisheries and Aquatic Resources Development closely monitored the farms to prevent diseases.

Fish exports improved remarkably after February 1999, with an increase of 135 per cent in 2000. This was due to steps taken under the continuous assistance of the Swedish International Development Co-operation Agency to improve the quality of fish products in compliance with the requirements of European markets. As a long-term strategy to sustain the industry, fishermen were given training to preserve fish, to maintain quality even at the point of catching, in addition to instructions given to private entrepreneurs. The major markets for crustaceans and molluscs and other fish products continued to be Japan, USA, Singapore, Hong Kong, UK and East Asian countries. Economic recovery in those countries contributed positively to improvements in the industry.

Among other food items, coconut milk powder, coconut cream, canned or bottled fruit, malted milk, sweet biscuits, mineral water and animal fodder reported growth in 2000 over 1999.

Export earnings from travel goods, footwear and other leather products declined by 12 per cent in 2000. However, export earnings from hand bags, travel cases with outer surface of leather and textiles grew. Even though exports of travel goods declined, the industry showed an expansion towards the end of 2000. Export earnings from footwear declined by 18 per cent with a marked drop in exports of special kinds. Earnings from slippers and canvas shoes increased in 2000. Exports of other articles of leather, although small in magnitude, increased significantly in 2000. Earnings from ceramic products declined by 4 per cent marked by lower exports of tableware. Exports of wall tiles increased by 10 per cent in 2000.

Diamond exports increased by 12 per cent in 2000 with exports to Belgium, Israel, Vietnam, USA and Japan. The jewellery market, which suffered a setback due to the East Asian crisis, showed steady recovery reporting a 25 per cent increase in 2000. The Export Development Board (EDB) took initiatives to improve the skills of craftsmen, the quality of jewellery manufactured in craft villages, and the skills for jewellery designing through workshops, seminars and consultations. Assistance was provided to new and existing exporters to enter the international market while opportunities were given to some exporters to participate in local and international trade fairs and exhibitions. USA continued to be the largest buyer of jewellery followed by Germany, Japan, Switzerland and UK.

Earnings from exports of petroleum products increased by 33 per cent in 2000 compared to 1.5 per cent in 1999 due to the substantial growth in the first half of 2000. The value of petroleum product exports increased by 83 per cent during the first half of 2000, the combined effect of both higher prices (67 per cent) and volumes (10 per cent). Despite the higher international prices that prevailed throughout 2000, the quantity of petroleum exports declined by 31 per cent during the latter half of 2000. This reduction was largely in bunkering fuel, as local production had to cater to increased use of those products locally for electricity generation and industrial activity. As a result, earnings from petroleum exports increased at a much slower rate of 5 per cent during the latter half of 2000.

Other manufactured exports such as chemical products, wooden toys, articles of copper, quartz, brooms and brushes showed a healthy growth to meet increased demand from Western countries.

Plantation Crops

Earnings from plantation crops increased by 9 per cent in 2000. Tea exports increased substantially. Exports of the other two major crops, rubber and coconut declined in 2000. Tea prices continued to improve after December 1999, following the combined effect of production shortfalls in major producing countries such as India and Kenya, and increased demand from the Commonwealth of Independent States (CIS) and Middle Eastern countries. Prices increased rapidly during the first four months of 2000 but decelerated thereafter with increased world tea production. However, export prices of tea remained higher than in 1999 throughout the year, benefiting from strong demand. The average price increased from US dollars 2.30 per kg in 1999 to US dollars 2.43 per kg in 2000. The volume of tea exports increased by 7 per cent to 288.2 million kg keeping pace with the highest reported production of 305.8 million kg in 2000, which was 8 per cent higher than 1999.

Out of Sri Lanka's tea exports, 63 per cent was in bulk form, while 30 per cent was in packed form. The rest was in higher value added forms such as tea bags, tea blended with foreign teas and instant and green tea. Orthodox tea accounted for more than 99 per cent of Sri Lankan tea, and Cut, Tear and Curl (CTC) tea was produced in small quantities. Sri Lanka imported 3.6 million kg of tea for blending purposes, which was 1 per cent of domestic production in 2000. Russia re-emerged as the largest buyer (share of 16 per cent) in 2000. The United Arab Emirates (UAE), which overtook Russia in 1999, became the second largest buyer (share of 14 per cent), while Syria took the third position (share of 7.4 per cent) that Turkey held in 1999. Other major buyers were Turkey (share of 7 per cent), Saudi Arabia and Iran (share of 4 per cent each). However, as a group, Middle East countries bought 46 per cent of total tea exports while the CIS countries became the second largest buyer (share of 20 per cent) followed by EU (share of 9 per cent) in 2000.

Earnings from three major coconut products declined by 8 per cent in 2000, due to lower prices which offset the growth in the quantity of exports in 2000. Export quantities of desiccated coconuts, copra and coconut oil increased by 31 per cent, 30 per cent and 28 per cent, respectively. Following international price trends, average prices of those three products have declined since November 1999. This was caused by the recovery of coconut production in the Philippines and Indonesia after the last quarter of 1999. Benefiting from rains during the last quarter of 1999, Sri Lanka also reported a harvest of 3,055 million nuts (growth of 8 per cent) in 2000. As a result of the large supply, prices in the local market (retail price) declined by about 15 per cent (21 per cent in US dollar terms) over 1999. As a result of this bumper harvest of coconut, desiccated coconut and coconut oil production also increased resulting in lower prices. Heavy imports of substitute vegetable oils to the country too had a depressive impact on local prices. The government decided to impose a surcharge of 25 per cent on the prevailing 25 per cent duty for the period from 21 July 2000 to 12 January 2001 and Rs.20 per kg thereafter to ease the pressure on domestic coconut oil prices. World market prices of other substitutes such as palm oil, soybean oil and sunflower oil remained at lower levels in 2000 than in 1999.

Earnings from other coconut products remained unchanged in 2000. Despite the higher production of fresh nuts which provided input for other coconut products, the quantity of coir fibre mattress exported declined by 37 per cent largely attributable to reduced competitiveness consequent upon higher freight rates to USA and increased cost of raw materials. However, prices increased substantially, neutralising the negative impact of lower quantities. Except for fresh nuts and coir fibre bristle, prices of all other coir products were higher than in the previous year. Exports of coconut shell charcoal, coir fibre bristle, coir yarn and fresh nuts also improved in 2000. However, total export earnings from coconut based products was about 2 per cent of total exports.

Rubber production in Sri Lanka in 2000 at 87.2 million kg, the lowest production during the last five decades, was 10 per cent lower than 96.6 million kg in 1999. Local consumption of rubber increased from 54 million kg to 55 million kg reflecting the expansion of the rubber based products sub-sector. In order to meet input quality requirements, 4.3 million kg of natural rubber were imported by the domestic manufacturing industry in 2000 compared to 1.3 million kg in 1999.

Export prices of natural rubber (NR) continued to increase after December 1999, resulting in a growth of 16 per cent in 2000. In contrast, the volume of rubber exports declined by 24 per cent in 2000. Accordingly, earnings from NR exports declined by 12 per cent. Lower production in major producing countries due to unfavourable weather and increased demand for NR in world markets, particularly from USA, the Republic of Korea, Japan and China contributed to growth in rubber prices. Prices of all major grades of rubber products increased, resulting in an increase in the average price from US dollar 0.77 per kg in 1999 to US dollar 0.89 per kg in 2000. The average export price of latex and other crepe rubber except sole crepe, rose by 23 per cent while the average price of sheet rubber grades increased by 8 per cent in 2000. Earnings from rubber exports accounted for less than 1 per cent of total exports.

Other Agricultural Products

Other agricultural export earnings declined by 6 per cent in 2000, due to lower quantities of major products. Lower international prices for cinnamon compelled producers to limit exports. Cinnamon production remained unchanged in 2000. Export prices of pepper, which remained steady during the first half of 2000, dropped significantly during the second half of the year responding to international market trends. Except in India, in all other major pepper producing countries such as Brazil, Malaysia, Indonesia and Vietnam, production increased substantially to exert downward pressure on prices. Sri Lanka's pepper harvest increased by 15 per cent in 2000, due to favourable weather. As a result, the volume of pepper exported during the year increased by 29 per cent with a 13 per cent growth in export earnings. Despite lower prices, earnings from un-manufactured tobacco increased by 2 per cent due to higher demand from Austria, Belgium, UK and Spain. These three products together accounted for 67 per cent of the 'other agricultural products' category. Earnings from nutmeg and mace increased by 25 per cent due to higher prices. Even though local production of nutmeg and mace dropped marginally, export volumes increased responding to better prices. Export earnings from vegetables, fruit, coffee, cloves, arecanuts, cardamom, betel leaves and cashew nuts declined over 1999 levels, largely reflecting lower quantities exported.

Mineral Products

Earnings from the export of all mineral products increased by 52 per cent contributing about 2 per cent to the total export earnings in 2000. Gem exports, which covered 96 per cent of mineral exports, increased by 52 per cent. This growth was due to the recovery in the East Asian markets and Japan, as well as increased demand from USA and European countries. Demand for calibrated blue, pink and yellow sapphires in the European and USA markets remained stable throughout the year. Sri Lanka continued to be the largest supplier of high quality blue sapphires of natural colours to the world market. Prices of these products grew steadily during the year. Demand for fancy cut semi-precious stones to USA remained stable. Hong Kong emerged as the centre for fine gems and jewellery in the Asian Pacific Region. Japan and Thailand too continued as major markets for gems with a high potential, while Switzerland, France, Italy and Germany were among the major buyers in the European market. The emergence of Madagascar as a producer of all gem varieties found in Sri Lanka has resulted in increased competition. On the supply side, the suspension imposed on the auction of government and estate owned lands for gem mining resulted in a shortage of raw gems in 2000. Earnings from other mineral exports grew by 13 per cent with higher earnings from natural graphite, metallic ores and iron pyrites.

9.3 Imports

Expenditure on imports grew by 22 per cent to US dollars 7,320 million in 2000. This includes the value of three aircraft (US dollars 298 million), imported by SriLankan Airlines in January, May and June 2000 under the re-fleeting program. Three aircraft were also imported in 1999. If aircraft imports in both years are excluded, the growth in imports would be 24 per cent in 2000. The growth in imports is largely attributable to substantially higher costs of petroleum products, high demand for intermediary imports from export manufacturers, and high expenditure on defence related imports. All three major categories of imports, consumer goods, intermediate goods and investment goods, grew over 1999. Consumer goods imports grew by 12 per cent while intermediate and investment goods grew by 24 per cent and 11 per cent, respectively. When aircraft imports are excluded, investment goods imports rose by 14 per cent reflecting expanding investment activities.

Growth in imports was a result of an 8 per cent increase in average import prices and a 13 per cent growth in volumes. Higher prices of major agricultural and dairy products (sugar, wheat and milk products) and major inputs (petroleum, fertiliser and textiles) contributed to the growth in import prices. Larger volumes of food and consumer durables, (sugar, wheat, milk products, motor vehicles, radios and television sets), intermediate goods (petroleum products, textiles and diamonds) and investment goods (building materials and machinery) contributed to the growth in volume.

Import Structure

A significant change in the import structure in favour of intermediate and investment goods has been observed during the last 23 years following economic liberalisation in 1977. The share of intermediate goods increased from 42 per cent in 1977 to 52 per cent in 2000. The expansion in the industrial sector called for higher imports of intermediate goods increasing the relative importance of intermediate goods in total imports. The share of investment goods increased from 12 per cent in 1977 to 24 per cent in 2000. Development of infrastructure facilities, construction and transport, combined with increased use of advanced technology, increased imports of investment goods. The share of consumer goods in total imports declined from 45 per cent in 1977 to 19 per cent over the same period. When compared with 1999, the relative importance of intermediate goods increased from 51 per cent to 52 per cent in 2000. Consumer goods declined from 21 per cent in 1999 to 19 per cent in 2000, while the share of investment goods declined from 26 per cent to 24 per cent in 2000.

Consumer Goods

The increase in consumer goods imports was evident in both food and consumer durable categories. Higher international prices of major food items boosted expenditure on the food and drink category. Food imports grew by 5 per cent, due to a substantial increase in expenditure on sugar, wheat, milk foods and other food items. Wheat grain

TABLE 9.4
End-Use Classifiction of Imports

Category	US Dollars Million					Rs. Million				
	1996	1997	1998	1999 (a)	2000 (b)	1996	1997	1998	1999 (a)	2000 (b)
1. Consumer goods	1,234	1,223	1,255	1,242	1,388	68,372	72,062	80,956	87,505	105,403
Food and drink	801	781	723	661	693	44,377	45,996	46,543	46,562	52,584
Rice	91	73	42	46	4	5,118	4,331	2,621	3,290	288
Sugar	145	184	129	106	141	8,026	10,788	8,384	7,446	10,777
Wheat	204	139	127	111	127	11,267	8,128	8,133	7,792	9,626
Other	361	385	425	398	421	19,966	22,749	27,405	28,032	31,894
Other consumer goods	433	442	532	581	696	23,995	26,066	34,413	40,943	52,819
2. Intermediate goods	2,767	3,096	2,982	3,057	3,789	153,117	182,754	192,494	215,658	287,196
Petroleum	479	539	345	500	901	26,525	31,828	22,275	35,344	68,381
Fertiliser (c)	76	66	62	66	80	4,189	3,916	3,989	4,690	6,059
Chemicals	134	136	143	136	147	7,402	8,024	9,241	9,590	11,152
Textiles and clothing	1,168	1,386	1,397	1,320	1,471	64,601	81,816	90,099	93,105	111,386
Other intermediate goods (d)	910	969	1,035	1,035	1,190	50,400	57,170	66,890	72,929	90,218
3. Investment goods	1,204	1,325	1,477	1,565	1,737	66,647	78,232	95,322	110,599	130,889
Machinery and equipment	649	742	786	678	787	35,987	43,853	50,592	47,736	59,536
Transport equipment (e)	179	208	264	523	529	9,885	12,276	17,098	37,191	39,499
Building materials	263	272	303	260	305	14,540	16,030	19,590	18,296	23,087
Other investment goods	113	103	124	104	116	6,235	6,073	8,042	7,376	8,776
4. Unclassified imports	234	220	176	115	406	12,940	12,978	11,367	8,126	30,802
Total imports (f)	5,439	5,864	5,890	5,980	7,320	301,076	346,026	380,138	421,888	554,290

(a) Revised
(b) Provisional
(c) From 1997 onwards Customs data on fertiliser have been used instead of data obtained from Ceylon Fertiliser Co Ltd. & other major importers of fertiliser
(d) Diamond imports reported by the Sri lanka Customs in 1999 and 2000 were adjusted for data obtained from major importers
(e) Includes the value of 3 aircraft imported by SriLankan Airlines in 1999 and 2000
(f) Adjusted

Sources: Sri Lanka Customs
Co-operative Wholesale Establishment
Ceylon Fertiliser Co Ltd. & other major importers of fertiliser
Ceylon Petroleum Corporation
Major importers of diamonds
Central Bank of Sri Lanka

imports increased by 15 per cent due to higher quantity and higher prices. Following the government decision to liberalise wheat and flour imports on 29 February 2000, flour imports increased by 42 per cent from 24,427 metric tons in 1999 to 34,706 metric tons in 2000, but still accounted only for a relatively small share of demand for wheat flour. Wheat grain imports grew by 7 per cent to 921,653 metric tons. Expenditure on sugar imports increased by 33 per cent. During the first half of 2000, higher yields from the Maha harvest and accumulated stocks from the previous year resulted in lower imports of rice. However, the government brought rice under import controls on 21 July 2000 limiting the import of rice to high quality varieties in order to ensure a reasonable price for domestic paddy farmers. Rice imports are subject to 35 per cent import duty. Accordingly, imports of rice (14,855 metric tons) declined by 93 per cent despite the marginal drop in local paddy production (2,859,000 metric tons) in the Yala season. Among other food items, imports of milk products, fish products, lentils, big onions, chillies, maize, chickpeas and peas, malt, garlic, liquor, chocolate and sugar confectionery and fruits such as oranges, apples and grapes were higher in 2000. Imports of potatoes declined reflecting the impact of a surcharge of 35 per cent levied in addition to the 35 per cent import duty, with effect from 30 August to 8 December 2000. Potato prices were brought under a duty rate of Rs.20 per kg thereafter.

In the durable consumer goods category, imports of motor cars and motor cycles increased by 17 per cent, partly attributable to a partial duty waiver granted for public sector employees to import motor vehicles. During 2000, 11,767 cars were imported with duty concessions; the corresponding number was 4,344 in 1999. Imports of radio receivers and television sets showed an increase of 12 per cent. Imports of medical and pharmaceutical products rose by 25 per cent. Imports of rubber tyres and tubes increased by 4 per cent in 2000. Other consumer durables which increased in 2000 were glass fibre, paper and paper board, footwear, cartons and boxes, toys, padlocks and locks and ceramic sinks.

Intermediate Goods

Imports of intermediate goods increased by 24 per cent in 2000, due to higher volumes and prices of textiles, crude oil, refined petroleum products, fertiliser, diamonds and other intermediate goods. The value of crude oil imports increased nearly two-fold, reflecting higher prices and volume of imports. The volume of crude oil imports increased from 13.5 million barrels in 1999 to 17.3 million barrels in 2000, while the average price rose from US dollars 19.06 per barrel to US dollars 28.77 per barrel (51 per cent) between these two years. Expenditure on other petroleum products increased by 66 per cent. However, intermediate goods excluding petroleum products increased by 13 per cent parallel to the growth in industrial exports. There was an increase in fertiliser imports due to higher prices reflecting trends in international markets which move parallel to the cost of petroleum.

Textile imports, with a share of 39 per cent of intermediate goods imports, increased by 11 per cent. Diamond imports increased by 9 per cent, responding to recovery in the diamond and jewellery industries. Other intermediate goods imports grew by 15 per cent, marked by higher imports of cement clinker, inputs for soap, garments, farm inputs and rubber based manufacturing industries. Imports of edible oil declined considerably due to the imposition of a surcharge on these items.

Investment Goods

Imports of investment goods increased by 11 per cent in 2000. Investment goods excluding import of three aircraft increased by 14 per cent in 2000. Imports of transport equipment excluding aircraft increased by 3 per cent. This includes railway coaches (US dollars 25 million) imported in May 2000. Imports of machinery and equipment increased by 23 per cent largely due to the import of a power generator valued of US dollars 84 million by a private sector company in April 2000. Other major items of imports were parts and accessories for industrial washing machines, telecommunication equipment, tractors and construction related machinery. Imports of building materials increased by 17 per cent. Other major investment goods imported in 2000 were instruments and equipment used in the medical profession, meters and other equipment used for gas and electricity supply, iron and steel, aluminum wires, tubes and pipes.

TABLE 9.5

Volume of Major Imports (a)

'000 mt

Item	1996	1997	1998	1999	2000(b)
Rice	341	306	168	214	15
1st Quarter	1	104	136	24	7
2nd Quarter	23	9	12	12	7
3rd Quarter	117	12	2	31	
4th Quarter	201	181	18	146	1
Wheat	913	789	880	859	922
1st Quarter	201	302	340	207	266
2nd Quarter	303	172	155	263	210
3rd Quarter	157	168	126	189	247
4th Quarter	252	147	259	200	199
Sugar	381	545	444	479	562
1st Quarter	94	176	79	152	128
2nd Quarter	84	163	129	64	185
3rd Quarter	58	83	99	138	85
4th Quarter	146	123	137	125	164
Petroleum (Crude oil)	2,033	1,814	2,156	1,832	2,347
1st Quarter	566	299	567	244	608
2nd Quarter	493	389	431	503	583
3rd Quarter	466	606	662	548	613
4th Quarter	508	520	496	537	543
Fertiliser	361	391	440	539	559
1st Quarter	104	56	109	97	149
2nd Quarter	60	87	98	158	102
3rd Quarter	53	87	82	129	174
4th Quarter	144	161	151	155	134

(a) Adjusted
(b) Provisional

Sources: Sri Lanka Customs
Co-operative Wholesale Establishment
Ceylon Petroleum Corporation

Direction of Trade

Industrialised countries were the major destinations for Sri Lankan exports in 2000 with a share of 74 per cent. Developing countries had a share of 20 per cent followed by European countries in transition with a share of 3 per cent. Sri Lanka imported mostly from developing countries in 2000 (share of 57 per cent) followed by industrialised countries (share of 32 per cent) and economies in transition with a negligible share of 0.1 per cent. The share of exports to South Asian Association for Regional Co-operation (SAARC) countries constituted 3 per cent of the total, while imports formed 10 per cent of the total. The Maldives was the most important export destination (1.6 per cent of total exports) and India was the largest country of import origin (8.5 per cent of total imports) in the region.

USA continued to be the largest single buyer of Sri Lanka's exports in 2000 as well as in 1999. The market share of USA (40 per cent) in 2000 remained unchanged at the 1999 level. However, total exports to USA increased by 22 per cent in 2000. Textiles and garment exports accounted for 77 per cent of total exports to USA and grew by 26 per cent. UK, the second largest buyer, recorded a share of 13 per cent, followed by Germany and Japan as the third and fourth largest buyers, respectively, accounting for a share of 4 per cent each. Garments accounted for 79 per cent of goods exported to UK. Japan was one of Sri Lanka's major markets for crustaceans, fish products, machinery parts and accessories, tea, and precious stones. Out of total exports to Germany, garments and tea accounted for 43 per cent and 5 per cent, respectively. Exports to CIS countries increased by 32 per cent with higher tea exports to Russia. Western industrial countries, as a group, continued to be Sri Lanka's largest trading partner in 2000.

Japan remained the largest single exporter to Sri Lanka in 2000, accounting for 9 per cent of Sri Lanka's imports. Major imports were motor cars and other vehicles, electricity generating sets, spare parts and woven fabrics. India, which accounted for 8.5 per cent of imports, was the second largest exporter, followed by Hong Kong, Singapore, South Korea, Taiwan, UK and USA. Imports from Japan rose by 15 per cent due to the import of 34 electricity generators and motor vehicles. Imports from India and Hong Kong increased by 17 per cent and 12 per cent, respectively. Pharmaceuticals, food items such as lentils, chillies and big onions, auto trishaws and textiles were among the major items imported from India. Fabrics and accessories for the garment industry were the major items imported from Hong Kong. Petroleum gases, sewing machines, telephone equipment, wheat, data processing machines and parts were among major items imported from Singapore.

Among developing countries, the market share of Middle East countries increased from 6.2 per cent in 1999 to 8.6 per cent in 2000. The market share of Asian countries dropped from 52 per cent in 1999 to 48 per cent in 2000. However, imports from Asian countries increased by 14 per cent, as a result of higher imports from India and East Asian countries. Imports from Middle East countries increased by 72 per cent marked by the higher cost of petroleum product imports from Iran.

9.4 Services and Income

A significant drop in the surplus of the services account was witnessed in 2000, mainly due to increased outflows on transport and travel. The net surplus in the services account declined from US dollars 147 million in 1999 to US dollars 38 million in 2000. This was mainly a result of declines in net receipts from transportation services and in net travel receipts. Services receipts declined marginally by 1 per cent, mainly due to the combined effect of a drop of 8.3 per cent in travel receipts, as a result of an equal drop in tourist arrivals during the year and a drop of 2.3 per cent in transshipment cargo handling, offset to some extent by increases in freight and insurance services receipts. Services payments registered an increase of 12 per cent reflecting increases in transportation payments by 19 per cent and in travel payments by 11 per cent during the year. The increase in transportation payments was reflected in payments in terms of passenger fares, freight services and other port related expenditure. Meanwhile, net outflows on account of other business services increased from US dollars 47 million to US dollars 51 million.

The deficit in the income account widened further by 20 per cent to US dollars 304 million during 2000, reflecting both a drop in interest income on a depleted external reserve stock and an increase in interest payments resulting from higher interest rates. Investment income receipts on foreign exchange reserves declined by 10 per cent to US dollars 137 million, while interest payments on external liabilities increased by 12 per cent during the period under review. Meanwhile, net outflows on account of profits and dividend payments decreased marginally to US dollars 108 million.

TABLE 9.6

Net Services, Income and Transfers (a)

Item	US Dollars Million		Rs. Million	
	1999	2000(b)	1999	2000(b)
1. Transportation	122	69	8,569	5,237
2. Travel	55	8	3,888	653
3. Insurance services	17	19	1,206	1,438
4. Other business services	-47	-51	-3,282	-3,841
5. Government expenditure n.i.e.	...	-6	-38	-479
Total services	147	38	10,342	2,907
1. Compensation of employees	-2	-2	-112	-159
2. Direct investment	-109	-108	-7,693	-8,188
3. Other (c)	-143	-194	-10,025	-14,620
Total income	-254	-304	-17,831	-22,967
1. Private (d)	887	974	62,472	73,620
2. General government	26	25	1,816	1,855
Total current transfers	913	999	64,288	75,475

Source: Central Bank of Sri Lanka.

(a) This presentation conforms as far as possible to the Balance of Payments Manual, 5th Edition (1993) of the International Monetary Fund.

(b) Provisional

(c) From 1994 onwards Foreign Currency Banking Units (FCBUs) of commercial banks have been treated as a part of the domestic banking system in the compilation of balance of payments statistics. Accordingly, transactions involving FCBUs and non-residents are taken into account in the compilation of balance of payments statistics, while those involving FCBUs and residents are excluded.

(d) Inclodes US dollars 85 mn. and US dollars 45 mn. received in 1999 and 2000 as compensation of US dollars 2,500 per person to 26,101, 31,279, 37,343 and 29,323 Sri Lankans, respectively,who lost employment in Kuwait due to the Gulf War in 1990. In addition US dollars 27 mn. was also received as second round payments of US dollars 1,500 each to 18,244 Sri Lankans in 1999.

9.5 Current Transfers

Despite a drop in official current transfers by 5 per cent to US dollars 25 million, net current transfers increased by 9 per cent to US dollars 999 million due to a 10 per cent increase in private current transfer receipts during the year. Private transfer receipts, mainly comprising remittances by Sri Lankan workers in the Gulf, were boosted by compensation payments amounting to US dollars 45 million received by Sri Lankan workers displaced during the Gulf war. Private transfer receipts, excluding these compensation payments in both 1999 and 2000, increased by 18 per cent from US dollars 944 million to US dollars 1,115 million. Increased domestic interest rates for foreign currency deposits, an attractive exchange rate and higher incomes in countries in the Middle East arising from high oil prices are likely to have influenced higher private remittances during the year. Net private transfer receipts were sufficient to finance 47 per cent of the deficit in the goods, services and income account in 2000, a drop from the 60 per cent in 1999. Net inflows of official current transfers, which consist of food and commodity grants, continued to decline and stood at US dollars 25 million in 2000 against US dollars 26 million in the previous year.

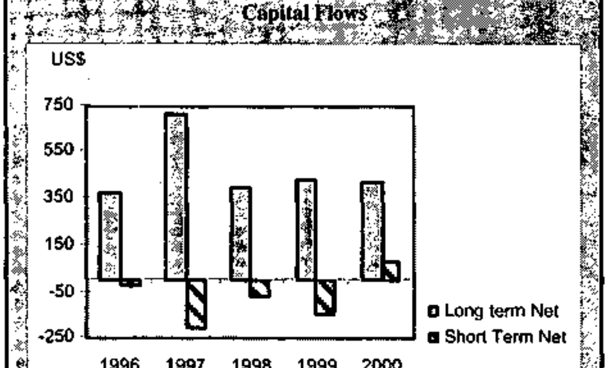
9.6 Capital Movements

Capital flows to emerging market economies witnessed a resurgence with the restoration of market stability and investor confidence after the Asian financial crises. However, Sri Lanka could not benefit from these favourable developments in international capital markets as reflected in a drop in private foreign capital inflows during the year. Net capital and financial inflows improved from US dollars 373 million in 1999 to US dollars 568 million in 2000. Net long-term capital inflows to the government increased and there was a turn around in net short-term capital flows from an outflow of US dollars 142 million in 1999 to an inflow of US dollars 88 million in 2000. However, increased capital flows were not adequate to cover the large current account deficit arising from the wider trade deficit. As a result, the overall balance in the balance of payments was a deficit of US dollars 516 million in 2000 (3.1 per cent of GDP) in comparison to a deficit of US dollars 263 million (1.7 per cent of GDP) in 1999.

Capital Transfers

During the year, net capital transfers declined by 36 per cent to US dollars 51 million due to a drop of 41 per cent in official project grants. Total official capital transfer receipts during the year amounted to US dollars 46 million while private capital transfers amounted to US dollars 12 million. As in the past, Japan continued to be the major donor contributing to 55 per cent of total grants during the year.

Chart 9.5
Capital Flows



Notes :
(a) With the change in classification from BPM4 to BPM5 format, private and government capital transfers are classified as long term capital flows, which were previously included in the current account, and changes in assets and liabilities of commercial banks are classified as short term capital flows, which were previously included in the monetary sector.
(b) Beginning 1994, Foreign Currency Banking Units (FCBUs) have been treated as part of the domestic banking system.

Long-term Capital

Despite the improved global economic and financial environment and the increased capital flows to emerging market economies, net private long-term capital inflows to Sri Lanka declined from US dollars 373 million in 1999 to US dollars 257 million in 2000 due to a drop in long-term borrowing by the private sector. Foreign direct investment inflows declined to US dollars 175 million in 2000 from US dollars 201 million in 1999.

Long-term capital inflows to the private sector consisted mainly of the loan received by SriLankan Airlines, amounting to US dollars 257 million to finance the purchase of three aircraft during the year and US dollars 4.5 million received by DFCC Bank for financing its small and medium enterprises project. With the purchase of the three additional aircraft during the year, SriLankan Airlines completed its current refleeting programme. Amortisation of US dollars 129 million by SriLankan Airlines accounted for the bulk of private capital outflows during the year. Foreign direct investment inflows at US dollars 175 million was lower by 13 per cent in 2000. The major sectors that benefited from FDI inflows during the year were power (78 per cent), garments (11 per cent), port services (5 per cent), telecommunications (2 per cent) and health services (2 per cent). Meanwhile, FDI outflows amounted to US dollars 2 million on investment by a resident entrepreneur in a garment factory in the Maldives. Foreign inflows in terms of privatisation proceeds amounted to US dollars 3 million only during the year. The privatisation programme was postponed for 2001, in view of the prevailing uncertain political and economic environment and an international environment that was not conducive to divestment in the telecommunications sector.

Long-term loan capital inflows to the government increased by 26 per cent to US dollars 479 million. This included long-term suppliers' credits on account of defence imports. Long-term loan capital to the government excluding these suppliers' credits reflected a marginal growth of one per cent in 2000. The slow growth in project related loan disbursements was due to a host of factors such as the uncertain environment that prevailed in an election year, which also caused temporary delays in project implementation, delays in foreign aid utilisation and a general decline in the inflow of Official Development Assistance (ODA). The majority of the concessional aid disbursements during the year were for power generation, telecommunications, plantations, irrigation, education and infrastructure development. Major projects financed by multilateral agencies during the year included the second power systems expansion project (US dollars 18 million), the plantation reform project (US dollars 11 million), the emergency rehabilitation of petroleum facilities (US dollars 9 million) funded by the Asian Development Bank (ADB), the teacher education and teacher development project (US dollars 8 million) and the year 2000 emergency assistance project (US dollars 5 million) funded by the International Development Association (IDA). Meanwhile, projects financed by Japan, the major bilateral donor, included the regional telecommunications development project (US dollars 22 million), the Kelanitissa combined cycle power plant project (US dollars 21 million), the telecommunications network expansion project for Greater Colombo (US dollars 20 million) and the Mahaweli System C upgrading project (US dollars 11 million). Gross outflows on account of capital repayments declined from US dollars 319 million in 1999 to US dollars 308 million in 2000. Loan repayments included the payment of the remaining amount of US dollars 16 million of the US dollars 50 million floating rate notes (FRN) issued in 1997. In sum, net long-term capital inflows to the government increased from US dollars 62 million in 1999 to US dollars 171 million in 2000.

The Asian Development Bank and the International Development Association continued to be the major multilateral donor agencies in 2000 extending US dollars 74 million and US dollars 47 million, respectively, under concessional project related lending. Meanwhile, Japan continued to be the major bilateral aid donor providing US dollars 182 million in project aid during the year. While Japan accounted for 52 per cent of total concessional aid, ADB and IDA accounted for 21 per cent and 13 per cent, respectively, during the year.

Short-term Capital

Total net short-term private capital flows increased significantly from a net outflow of US dollars 142 million in 1999 to a net inflow of US dollars 88 million in 2000, mainly due to an increase in foreign liabilities of commercial banks and an increase in private short-term trade credits.

Amidst uncertainties in the domestic economy and rising global interest rates, foreign selling continued in the Colombo Stock Market. Portfolio investment inflows declined significantly from US dollars 72 million in 1999 to US dollars 19 million in 2000, while investment outflows declined at a lower pace from US dollars 85 million in 1999 to US dollars 64 million in 2000, resulting in a net outflow of US dollars 45 million through the share market in 2000. Short-term capital flows to the private sector increased from a net outflow of US dollars 10 million in 1999 to a net inflow of US dollars 100 million mainly reflecting increased trade credits obtained by the Ceylon Petroleum Corporation and other non-BOI enterprises.

Commercial banks' foreign liabilities increased by US dollars 174 million mainly due to an increase in borrowing from banks abroad by Foreign Currency Banking Units (FCBUs), including a syndicated loan of US dollars 100 million mobilised by Bank of Ceylon as a foreign currency loan to the government, while assets increased by US dollars 141 million reflecting an increase in deposits with banks abroad by domestic banking units. As a result, net foreign assets of commercial banks declined by US dollars 33 million in 2000.

9.7 Foreign Exchange Market Developments

International foreign exchange markets remained relatively stable throughout the year reflecting improved macroeconomic stability in most economies although some volatility in key international currencies was in evidence during the year. Continued impressive growth in the United States strengthened the dollar against all major currencies during 2000. The Japanese yen depreciated by 11.0 per cent against the US dollar amidst growing pessimism about Japan's economic recovery. The euro continued to slide against the dollar during most of the year with an annual depreciation of 7.7 per cent, with recovery towards the end of the year. The pound sterling depreciated by 7.9 per cent during the year while the Indian rupee weakened by 6.8 per cent. The Singapore dollar remained relatively stable through the year with a depreciation of 3.9 per cent. The Korean won and the Thai baht depreciated by 10.0 per cent and 13.5 per cent, respectively, with a faster rate of depreciation towards the latter part of the year. Meanwhile, prevailing economic and political uncertainties in Indonesia and the Philippines resulted in a faster depreciation of 26.1 per cent and 19.6 per cent in the rupiah and the peso, respectively. Malaysia continued with its fixed exchange rate policy throughout the year.

A growing balance of payments deficit and the drain on external reserves to pay for it exerted heavy pressure on the Sri Lanka rupee during the year. In response, frequent adjustments were made to the exchange rate band, particularly during the latter part of the year to release pressure in the foreign exchange market by providing progressively larger scope for the market to determine the exchange rates.

The band between the buying and selling rates of the Central Bank was widened on 20 June 2000 from 5 per cent to 5 per cent with a 4 per cent depreciation in the implicit middle rate (for more information see Box 1). The wider band was expected to allow the market, to determine the exchange rate in a more flexible environment, while the fixed nature of the band was expected to bring about stability in the exchange market at least during the initial

Chart 9.6
Effective Exchange Rate Indices

Chart 9.6.1
Real Effective Exchange Rate Indices
(1995=100)

Chart 9.6.2
Nominal Efective Exchange Rate Indices
(1995=100)

stage after the introduction of the new system. That band width continued until 3 November 2000 when it was widened by a further one percentage point from 5 per cent to 6 per cent with the reintroduction of the crawling band. The growing pressure on the rupee forced the Central Bank to widen the band again on 11 December from 6 per cent to 8 per cent.

The rupee depreciated each time the band was widened. The market rate reached the selling rate of the Central Bank within a matter of a few days, compelling the Central Bank to use its external reserves, which were declining fast, in support of the exchange rate band. That decline demonstrated the unsustainability of maintaining the prevailing exchange rate system of a managed float, when there was a large deficit in the balance of payments and a market perception of a continued depreciation of the rupee.

The sales of foreign exchange by the Central Bank to commercial banks increased to US dollars 303.6 million from US dollars 58.2 million in 1999. Of this total, US dollars 195.1 million were sold in the second half of 2000. Purchases of US dollars by the Central Bank from commercial banks increased slightly from US dollars 0.4 million in 1999 to US dollars 2.0 million in 2000. Total interbank turnover of spot, tom and cash transactions stood at US dollars 2,259.4 million in 2000, compared to US dollars 1,933.2 million in 1999.

Overall, the Sri Lanka rupee depreciated at a faster rate of 9.9 per cent against the US dollar during 2000 as measured by the change in the Central Bank's middle rate (12.5 per cent as measured by the interbank forex market average exchange rate), compared to 6 per cent in 1999. It depreciated against the Indian rupee (3.3 per cent), the euro (2.4 per cent) and the pound sterling (2.2 per cent). However, the rupee appreciated by 1.2 per cent against the Japanese yen due to changes in cross rates. Against the composite unit of account the SDR, the rupee depreciated by 1 per cent in 2000. Meanwhile, the buying exchange rate against the US dollar for commercial banks' transactions with customers also depreciated by 7.3 per cent during 2000 while the selling rate depreciated by 12.4 per cent.

The uncertainty in the exchange market was reflected in forward transactions. Total forward transactions during 2000 amounted to US dollars 620.4 million compared to US dollars 458 million in 1999. However, forward transactions declined significantly during the second half of the year, from US dollars 283.1 million in 1999 to US dollars 244.6 million. This was mainly due to a sharp increase in the forward premium during the second half. Market expectations of a sharp depreciation and the increase in domestic interest rates, pushed up the premia. The premium for one month as a percentage of the spot rate, increased from 4.32 per cent at the end of 1999 to 9.3 per cent at the end of June 2000 and to 17.97 per cent at the end of 2000. Similarly, the three month premium increased from 7.17 per cent to 8.05 per cent and to 15.94 per cent.

The nominal effective exchange rate of the Sri Lanka rupee against the twenty four currency basket depreciated by 6.7 per cent. However, the real effective exchange rate recorded a marginal appreciation (0.6 per cent) due to higher inflation in Sri Lanka, maintaining the country's external competitiveness in 2000.

9.8 External Assets

The rise in international oil prices, increased generation of thermal power and unfavourable developments in the domestic security front had a severe impact on Sri Lanka's external assets position in 2000. The sharp increase of about 50 per cent in international prices of crude oil and increased use of thermal fuel to generate power required an extra expenditure of about US dollars 400 million. Additional expenditure on defence imports was US dollars 280 million in 2000. Expectations of a sharp depreciation of the rupee prompted delaying the repatriation of export proceeds. Commercial banks bought foreign exchange from the Central Bank to finance some large corporate sector bills, particularly those of the Ceylon Petroleum Corporation (CPC) and the Co-operative Wholesale Establishment (CWE).

Consequently, Sri Lanka's gross external reserves declined by US dollars 456 million (18 per cent) to US dollars 2,126 million at the end of 2000. This was reflected in a drop in gross official reserves, consisting of foreign assets held by the Central Bank and the government, by US dollars 597 million or 36 per cent to US dollars 1,043 million and an increase in gross external assets of commercial banks by US dollars 141 million (15 per cent) to US dollars 1,083 million. While the drop in foreign assets of the Central Bank was mainly reflected in a liquidation of its foreign securities holdings, the increase in foreign assets of commercial banks was indicated in an increase in deposits held abroad by domestic banking units. Gross foreign assets of commercial banks were augmented to some extent by borrowing US dollars 100 million through a syndicated loan by Bank of Ceylon. Foreign liabilities of commercial banks increased by 23 per cent to US dollars 938 million, resulting in a drop in net foreign assets of commercial banks by US dollars 33 million. Gross official liabilities declined by US dollars 80 million after repaying US dollars 97 million to the IMF.

TABLE 9.7
Exchange Rate Movements

Currency	In Rupees per unit of Foreign Currency						Percentage Change Over Previous Year(a)			
	End of Year Rates			Annual Average			Point to Point		Annual Average	
	1998	1999	2000	1998	1999	2000	1999	2000	1999	2000
Deutsche mark	40.36	37.09	38.00	36.80	38.39	35.76	8.8	-2.4	-4.1	7.4
French franc	12.03	11.06	11.33	10.98	11.45	10.66	8.8	-2.4	-4.1	7.4
Indian rupee	1.59	1.66	1.71	1.57	1.64	1.68	-4.3	-3.3	-3.7	-2.6
Japanese yen	0.59	0.71	0.70	0.50	0.62	0.70	-16.1	1.2	-20.1	-11.7
Pound sterling	112.62	116.72	119.37	107.05	113.91	114.78	-3.5	-2.2	-6.0	-0.8
US dollar	67.78	72.12	80.06	64.59	70.39	75.78	-6.0	-9.9	-8.2	-7.1
SDR	95.44	98.87	99.90	87.66	96.25	99.90	-3.5	-1.0	-8.9	-3.7

Source: Central Bank of Sri Lanka.

(a) Changes computed on the basis of foreign currency equivalent of Sri Lanka rupees. A minus sign indicates depreciation.

Chart 9.7
Exchange Rate Movement - 2000

Chart 9.7.1
Exchange Rate 2000 - Rs./US$

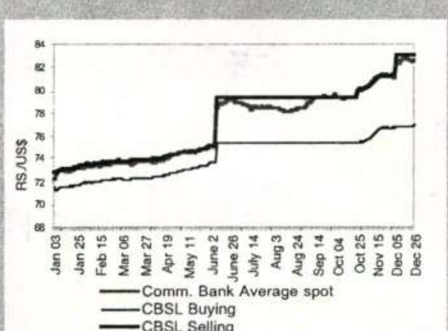


Chart 9.7.2
Inter Bank Forward Transactions-2000

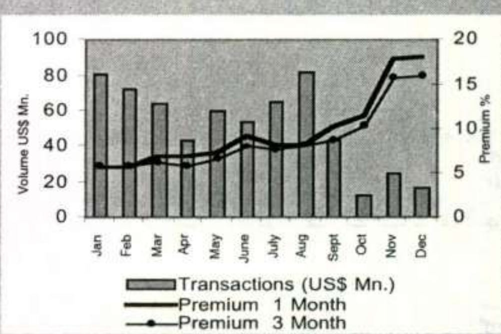


TABLE 9.8
External Assets of Sri Lanka

Ownership as at end of	US Dollars Million(a)					Rupees Million(a)				
	1996	1997	1998	1999	2000	1996	1997	1998	1999	2000
1. Government (b)	23	19	20	20	17	1,295	1,192	1,372	1,441	1,322
2. Government agencies	-	-	-	-		-	-	-	-	
3. Central Bank (c)	1,915	2,009	1,964	1,619	1,026	108,506	123,093	132,900	116,571	81,819
4. Total official assets	1,937	2,029	1,984	1,639	1,043	109,800	124,286	134,272	118,013	83,141
5. Commercial banks (d)	780	1,103	923	942	1,083	44,211	67,596	62,561	67,946	86,682
6. Total external assets	2,717	3,132	2,907	2,582	2,126	154,011	191,881	196,833	185,958	169,823
7. Gross official assets in months of										
7.1 Merchandise imports	4.3	4.2	4.0	3.3	1.7					
7.2 Import of goods and services	3.8	3.7	3.6	2.9	1.5					
8. Total assets in months of										
8.1 Merchandise imports	6.0	6.4	5.9	5.2	3.5					
8.2 Import of goods and services	5.3	5.7	5.2	4.6	3.1					

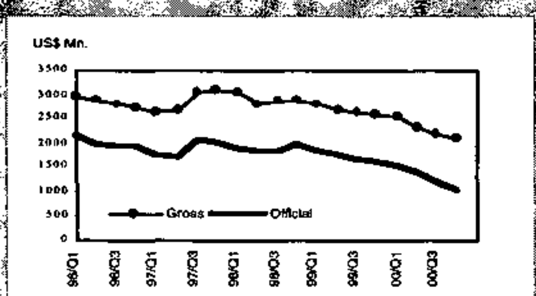
(a) Converted at the following end year rates except for certain items in the International Reserve of the Central Bank which were converted at the representative rate agreed with the IMF

Year	1996	1997	1998	1999	2000
Rs. per US Dollar	56.71	61.29	67.78	72.12	80.06

(b) Figures since 1985 have been revised to include the DST's Special Revolving Credit Balances
(c) Figures since 1993 have been revised to include foreign currency deposits of commercial banks maintained with the Central Bank as reserve requirement on their foreign currency deposits.
(d) From 1994 onwards Foreign Currency Banking Units (FCBUs) of commercial banks have been treated as a part of the domestic banking system in the compilation of balance of payments statistics. Accordingly, transactions involving FCBUs and non-residents are taken into account in the compilation of balance of payments statistics, while those involving FCBUs and residents are excluded.

The resulting drop in the net official reserves by US dollars 516 million is reflected as a deficit in the overall balance of the balance of payments. Meanwhile, total gross external reserves of the country declined by US dollars 456 million to US dollars 2,126 million at the end of 2000. As a result of the sharp drop in external reserves, the import coverage of total external reserves at the end of 2000 declined from 5.6 months of imports at end 1999 to 3.5 months, while gross official reserves were sufficient to finance 1.7 months of imports in 2000.

Chart 9.8
Quarterly External Assets (a)



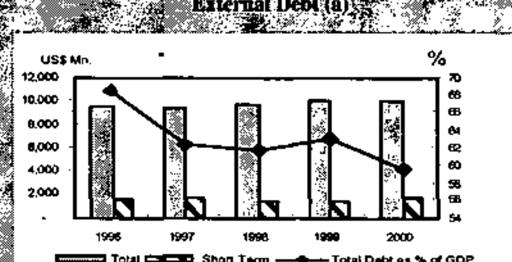
(a) Beginning 1994, Foreign Currency Banking Units (FCBUs) have been treated as part of the domestic banking system.

9.9 External Debt

Sri Lanka's total external debt declined from US dollars 9,088 million at the end of 1999 to US dollars 8,859 million, a drop of 2.5 per cent. The drop in the external debt stock was entirely due to cross rate changes among major international currencies. The Japanese yen depreciated by about 11 per cent against the US dollar during the year. As about 32 per cent of total external debt is yen denominated, this led to a 3.5 percentage point drop in foreign debt.

Medium and long-term debt consisting mainly of concessional assistance from the ADB, Japan and IDA, accounted for 76 per cent of the total debt stock in 2000. Total government debt at US dollars 6,818 million dropped by 4 per cent and accounted for 77 per cent of the total debt stock. Meanwhile, government guaranteed debt of public corporations and the private sector increased by 9 per cent to US dollars 1,028 million, mainly on account of external borrowings by SriLankan Airlines. External debt of public corporations and the private sector, not guaranteed by government, declined marginally to US dollars 278 million. Liabilities to the IMF on account of borrowings under the Structural Adjustment Facility

Chart 9.9
External Debt (a)



(a) Beginning 1994 Foreign Currency Banking Units (FCBUs) have been treated as part of the domestic banking system

TABLE 9.9
Outstanding External Debt and Banking Sector External Liabilities (a)

ITEM	US Dollars Million					Rupees Million				
	1996	1997	1998	1999	2000(b)	1996	1997	1998	1999	2000(b)
1. Medium and long-term debt	7,988	7,719	8,264	8,613	8,284	452,944	473,043	557,530	620,274	662,315
1.1 Government (c)	6,554	6,346	6,902	7,125	6,818	371,648	388,925	467,798	513,785	545,814
1.2 Public corporations and private sector with government guarantee (c)	637	670	718	944	1,028	36,098	41,061	48,673	68,105	82,302
1.3 Public corporations and private sector without government guarantee (c)	267	270	277	286	278	15,144	16,521	18,789	20,618	22,257
1.4 IMF drawings	530	433	367	258	161	30,054	26,536	22,271	17,766	11,943
2. Short-term debt	498	478	484	475	575	28,262	29,323	32,833	34,240	46,034
2.1 Government	-	-	-	-		-	-	-	-	
2.2 Other (CPC and other trade credit) (c),(d)	498	478	484	475	575	28,262	29,323	32,833	34,240	46,034
3. Banking sector external liabilities (e)	1,047	1,202	958	885	1,076	59,356	73,638	64,926	63,838	86,132
3.1 Central bank	1	1	0	0	0	43	65	24	7	33
3.2 Commercial banks	964	1,094	865	765	938	54,678	67,030	58,656	55,142	75,101
3.3 ACU liabilities	82	107	92	121	137	4,634	6,543	6,247	8,689	10,998
4. Total external debt (1+2)	8,486	8,197	8,749	9,088	8,859	481,206	502,366	590,363	654,514	708,348
5. Total external debt and liabilities (1+2+3)	9,533	9,399	9,707	9,973	9,935	540,562	576,004	655,289	718,352	794,481
Memorandum Items										
Medium and long-term debt										
(1) Project loans	4,654	4,530	5,150	5,517	5,346	263,918	277,637	349,043	397,882	427,965
(2) Non-project loans	1,724	1,612	1,656	1,612	1,551	97,745	98,788	112,237	116,247	124,174
(3) Suppliers' credit	239	343	251	182	167	13,537	21,015	17,020	13,146	13,344
(4) IMF drawings	530	433	367	258	161	30,054	26,536	22,271	17,766	11,943
(5) Other loans (f)	841	801	840	1,043	1,060	47,690	49,067	56,960	75,233	84,890
Short-term debt and banking sector liabilities	1,545	1,680	1,442	1,360	1,651	87,618	102,961	97,759	98,078	132,166
Total external debt as a percentage of GDP	61.1	54.3	55.5	57.8	53.5	62.6	56.4	58.0	59.2	56.4
Total banking sector external liabilities as a percentage of GDP	7.5	8.0	6.1	5.6	6.5	7.7	8.3	6.4	5.8	6.9
Total external debt and liabilities as a percentage of GDP	68.6	62.3	61.6	63.5	60.0	70.4	64.7	64.4	65.0	63.3
Short-term debt as a percentage of GDP	3.6	3.2	3.1	3.0	3.5	3.7	3.3	3.2	3.1	3.7
Short-term debt and banking sector external liabilities as a percentage of GDP	11.1	11.1	9.2	8.7	10.0	11.4	11.6	9.6	8.9	10.5
Short-term debt as a percentage of total debt	5.2	5.1	5.0	4.8	5.8	5.2	5.1	5.0	4.8	5.8
Short-term liabilities as a percentage of total debt	11.0	12.8	9.9	8.9	10.8	11.0	12.8	9.9	8.9	10.8

Sources: Central Bank of Sri Lanka
External Resources Department

(a) From 1994 onwards, Foreign Currency Banking Units (FCBUs) of commercial banks have been treated as a part of the domestic banking system in the compilation of balance of payments statistics. Accordingly, transactions involving FCBUs and non-residents are taken into account in the compilation of balance of payments statistics, while those involving FCBUs and residents are excluded.
(b) Provisional
(c) Data since 1994, have been revised to incorporate additional information.
(d) Includes acceptance credits of Ceylon Petroleum Corporation and other trade credit.
(e) ACU debits and foreign liabilities of commercial bank including those of FCBUs.
(f) Includes long term loans of public corporations and private sector institutions.

(SAF) and the Enhanced Structural Adjustment Facility (ESAF) declined from US dollars 258 million to US dollars 161 million with the repayment of US dollars 97 million during the year. As a result of these changes, the total external debt to GDP ratio declined from 57.8 per cent in 1999 to 53.5 per cent in 2000.

The short-term debt stock of the country stood at US dollars 575 million at end 2000 reflecting an increase of 21 per cent. The increase was mainly due to larger suppliers' credit to the Ceylon Petroleum Corporation (CPC) and private institutions. The share of short-term debt in the total debt stock increased from 5 per cent in 1999 to 6 per cent in 2000. Rising short-term debt, together with declining external assets increased the ratio of short-term debt to external assets, highlighting the necessity of corrective measures.

Meanwhile, total foreign liabilities including banking sector external liabilities, at US dollars 9,935 million, decreased marginally in 2000 due to the combined effects of a drop in external debt and an increase in banking sector external liabilities. The latter was mainly due to the short-term borrowing of US dollars 100 million by Bank of Ceylon through a consortium of foreign banks.

9.10 Debt Service Payments

Total debt service payment consisting of both amortisation of long-term and medium term debt and interest payments on all foreign debt, increased by 12.6 per cent to US dollars 953 million. This was the combined outcome of an increase in interest payments by 12 per cent to US dollars 331 million and an increase in amortisation payments by 13 per cent to US dollars 622 million. Interest payments on foreign loans increased by 12 per cent to US dollars 326 million. Interest payments to the IMF remained at US dollars 5 million. The rise in interest payments during 2000, was due to higher global interest rates that prevailed during the year. However, the impact of high international interest rates on Sri Lanka's external debt service payments is still small as 77 per cent of outstanding foreign debt is on concessional terms and most of these rates are not directly linked to market interest rates. Amortisation of foreign loans, comprising mainly concessional loans, increased by 16 per cent to US dollars 524 million. Repayments to the IMF declined by 2 per cent to US dollars 97 million. Amortisation payments during 2000, included US dollars 16 million as the balance payment on account of the US dollars 50 million FRNs issued in 1997. Debt service payments as a percentage of receipts from merchandise exports and services declined from 15.2 per cent to 14.7 per cent during the year. As a percentage of receipts from goods, services income and private transfers, debt service payments declined from 12.4 per cent in 1999 to 12.2 per cent in 2000. Total debt service payments by the government, at US dollars 436 million, accounted for 46 per cent of total debt service payments during the year.

TABLE 9.10
External Debt Service Payments (a)

Item	US Dollars Million					Rs. Million				
	1996	1997	1998	1999	2000(b)	1996	1997	1998	1999	2000(b)
1. Debt service payments	746	733	759	846	953	40,953	42,645	48,773	59,321	74,666
1.1 Amortization	439	430	469	550	622	24,007	24,764	30,076	38,472	49,559
(i) To IMF	47	66	83	100	97	2,314	3,290	5,100	6,813	9,700
(ii) To others (c)	392	364	387	451	524	21,693	21,475	24,975	31,658	39,859
1.2 Interest payments	307	303	289	296	331	16,946	17,881	18,697	20,850	25,108
(i) To IMF	7	6	7	5	5	409	361	443	376	410
(ii) To others (c)	300	297	282	291	326	16,537	17,520	18,254	20,474	24,698
2. Receipts from merchandise exports and services	4,861	5,514	5,712	5,578	6,476	269,159	325,885	369,484	393,303	492,301
3. Receipts from merchandise exports, services, income and private transfers	5,878	6,670	6,925	6,801	7,787	325,420	394,122	447,951	479,469	591,567
4. Debt service ratio (d)										
4.1 As a percentage of 2 above										
(i) Overall ratio	15.3	13.3	13.3	15.2	14.7	15.2	13.1	13.2	15.1	15.2
(ii) Excluding IMF transactions	14.2	12.0	11.7	13.3	13.1	14.2	12.0	11.7	13.3	13.1
4.2 As a percentage of 3 above										
(i) Overall ratio	12.7	11.0	11.0	12.4	12.2	12.6	10.8	10.9	12.4	12.6
(ii) Excluding IMF transactions	11.8	9.9	9.7	10.9	10.9	11.7	9.9	9.7	10.9	10.9
5. Government debt service payments										
5.1 Government debt service payments (e)	378.5	393.4	419.5	449.0	435.7	20,947	24,060	27,126	31,613	33,004
5.2 As a percentage of 1 above	50.7	53.7	55.3	53.1	45.7	51.1	56.4	55.6	53.3	44.2

Source: Central Bank of Sri Lanka

(a) From 1994 onwards Foreign Currency Banking Units (FCBUs) of commercial banks have been treated as a part of the domestic banking system in the compilation of balance of payments statistics. Accordingly, transactions involving FCBUs and non-residents are taken into account in the compilation of balance of payments statistics, while those involving FCBUs and residents are excluded.
(b) Provisional.
(c) Data since 1994 have been revised to incorporate additional information.
(d) Debt service ratios calculated in rupee values and US dollar values differ due to variations in exchange rates during the year.
(e) Excludes IMF transactions.

9.11 External Trade Environment and Policy

Import and Export Controls

The tariff regime was simplified in 2000. The external trade and tariff policy continued to converge towards a more liberal and less protective regime. The tariff structure was simplified and quantitative restrictions were further reduced. Other distortions in the tariff and non-tariff regime were also on the way out. These attempts were disturbed by adhoc policy decisions taken during the latter half of 2000 to protect domestic agriculture and some industries.

Some restrictions were relaxed, with effect from 29 February 2000 by removing licensing requirement on wheat, meslin, wheat flour, meslin flour, maize, meal of wheat and certain items of preparations of a kind used for animal feed. However, cut portions of motor vehicles and some selected items of preparations of a kind used for animal feed were brought under import licensing.

All varieties of rice and paddy were brought under licensing to protect domestic producers against lower prices. Furniture used in medical, surgical, dental or veterinary professions, metal, plastic and wooden furniture and mattress supports, articles of bedding and similar furniture such as quilts, cushions and pillows were other items brought under import and export control on 21 July 2000.

After these revisions, 329 items at the 6 digit level of Harmonised System Code (HSC) remained under import control at the end of 2000. Only four categories of exports (i.e., coral chank and conch shells, wood and articles of wood (ebony), ivory and ivory products and passenger motor vehicles first registered in Sri Lanka prior to 1945) continued to remain under licence for environmental protection and the preservation of antiques.

TABLE 9.11
Average Import Duty Collection Rate (a)

Item	1996	1997	1998	1999(b)	2000(c)
Consumer goods	10.3	11.8	12.7	12.8	11.5
Food and drink	9.1	11.5	12.6	13.6	11.7
Rice	0.3	6.3	2.4	16.4	30.0
Flour	2.3	...	...	-	6.2
Sugar	15.9	17.8	20.8	21.3	15.9
Wheat and meslin	...	...	...	0.3	
Milk and milk products	11.5	11.8	11.5	11.6	10.6
Dried fish	2.1	1.6	1.1	1.2	1.3
Other fish products	4.2	4.9	4.8	4.8	5.1
Other food items	19.0	17.9	20.5	19.9	18.7
Non-food consumer goods	12.6	12.2	12.8	12.0	11.3
Motor cars & cycles	24.3	24.5	23.6	20.1	16.6
Radio receivers-Television sets	12.1	11.5	12.4	11.9	6.8
Rubber tyres & tubes	32.5	33.5	32.0	28.4	23.5
Medicinal & pharmaceutical products	1.5	1.3	0.9	0.6	0.5
Other non-food items	10.6	9.4	10.1	9.1	11.1
Intermediate goods	8.0	5.9	4.7	4.0	2.9
Fertiliser	...	0.1	-	-	
Crude oil	33.6	21.7	25.8	15.8	7.4
Other petroleum products	24.6	18.7	16.7	16.1	6.3
Chemical elements and compounds	7.6	7.6	5.8	3.6	3.2
Dyeing, tanning and colouring	8.2	7.1	7.5	5.3	5.2
Paper and paper boards	6.9	6.0	6.0	5.7	5.0
Textiles & clothing	1.1	0.8	0.1	0.1	0.1
Other intermediate goods	5.7	5.2	4.8	4.1	3.5
Investment goods	7.6	7.0	6.0	4.4	4.0
Building materials	9.3	9.1	9.3	7.8	7.5
Transport equipment	18.9	17.3	11.8	7.4	7.4
Machinery and equipment	3.9	3.4	3.0	2.2	1.8
Other investment goods	6.7	6.3	4.4	3.4	3.2
Total	8.5	7.7	7.4	7.0	4.5

Sources: Sri Lanka Customs
Co-operative Wholesale Establishment
Ceylon Petroleum Corporation

(a) Actual import duty collection as a percentage of total adjusted import value (cif)
(b) Revised
(c) Provisional

Tariffs and Taxes on External Trade

In the Budget 2000, the tariff structure was further consolidated to a two-band structure of 10 and 25 per cent, keeping a few agricultural products under the 35 per cent rate. The concessionary rate of 5 per cent applied on industrial raw material and machinery not manufactured in Sri Lanka would be gradually eliminated. Import duty on crude oil was removed and an excise duty imposed on finished products to simplify taxation on petroleum products. Duty on cement was unified at 10 per cent to encourage local value addition. The duty waiver on edible oil was removed and brought under the tariff rate of 25 per cent. Maize, which had been exempted, was brought under a duty of 5 per cent with effect from 15 February 2000, later increased to 10 per cent. Tariff on paper and paper board was reduced from 25 per cent to 10 per cent with effect from 30 October 2000.

A few import items remained outside the two band system. Import duty on selected agricultural products such as rice, big onions, green gram and cowpea remained at the level of 35 per cent as a temporary measure to allow the domestic agricultural sector to adjust to a lower tariff regime over the medium term. Tariffs on items considered as essential for the maintenance of the minimum living standards are kept at zero. Potatoes, sugar, tobacco and liquor came under specific rates outside the two-band system.

With the addition of media equipment imported for state owned electronic media institutions to the list of exceptions, the number of items in the list grew to 40 with effect from 15 February 2000. The export sector continues

Box 8

Sri Lanka's Competitiveness in a Global Context

Competition is the striving for superiority or supremacy by populations that share a limited environmental resource. Competitiveness is the ability to maintain such superiority or supremacy. In international economics, competitiveness of a nation is described as the ability of a nation to maintain superiority or supremacy over other countries in accessing international markets and attracting capital.

During the last few decades the world has witnessed an acceleration of technological development, causing global competition to intensify. Advances in information technology have allowed countries to learn about new developments in foreign markets almost instantly. Technological innovations and developments in transportation have brought down transportation costs. These developments have enabled any small nation to advertise its products globally, access foreign markets and attract foreign investments at increasingly low costs, overcoming the barriers imposed by physical distance. As distance has become less significant for economic relations among nations, nations have been converging, though at different speeds, to one global village.

A nation is competitive if both its firms and its macroeconomy are competitive. A competitive firm needs to be moving away from state paternalism towards exploiting its own strengths: aggressively relying on advanced factors of production, enhancing knowledge about its competitors and global consumers, while engaging in strategic co-operation and forming alliances with other firms and industry clusters. The macroeconomy needs to be made more efficient by liberalising the economy (both factor and product markets), enhancing openness to the rest of the world, redefining the role of the government, rationalising government expenditure and deficits, maintaining an efficient network of financial and physical infrastructure, enhancing acquisition of technology, upgrading research and development efforts and establishing a facilitating legal framework.

The ever intensifying competition forces nations to make well-planned efforts to place themselves high in global competitiveness rankings. International organisations conduct surveys on macroeconomic competitiveness and publish those rankings worldwide. They use major macroeconomic features to assess macroeconomic competitiveness. As illustrated in Table 1, the major variables considered are openness, government, finance, infrastructure, technology, management, institutions, labour and human capital. In 2000, both the International Institute for Management Development (IMD) and the World Economic Forum (WEF) published their rankings of nations.[1] In the list published by IMD, the United States ranks first, followed by Singapore, Finland and the Netherlands. According to WEF, the top ranking country was Singapore, followed by Hong Kong, Luxembourg and the United States. Although rankings differ depending on the source, the top seven nations are identical in both sources (Table 2).

Many countries in the developing world are ranked low in the list of competitive nations. This is due to inherent problems across a wide frontier of issues. Many developing countries lack resources to provide an efficient macroeconomic environment and quality infrastructure facilities. Absence of measures to curb adverse selection and moral hazard problems has further weakened the macroeconomic efficiency of developing countries. With substantially large public sectors in developing economies, their governments have to rely on appointed agents to supply public goods and services efficiently. The weaknesses in the existing incentive mechanisms in many developing countries have allowed the public sector to remain unduly large, unaccountable, bureaucratic and non-transparent. Those features attract rent seeking individuals to the public sector, while able human capital flees developing countries. The exodus of human capital from developing countries causes a major problem in intelligent planning, and innovation. This leads to lackluster investor attitudes, creating a vicious spiral of low factor productivity and inadequate resources and low physical and human capital leading to low investment inflows, which in turn, lead to low physical and human capital and low productivity growth.

Developing countries must strive to break the vicious cycle. This could be done from two frontiers; firms must strive for greater productivity while the government must provide a favourable macroeconomic environment. The goal of a firm should be wealth creation and value addition. This is done by strategy formulation, product development, and enhancing productivity. The goal of a government should be to become a neutral facilitator and an efficient provider of public goods. This is done by encouraging the free market mechanism, maintaining a stable and sound macroeconomic environment, providing solutions to

1 www.imd.ch. and www.weforum.org

Box 8 (Contd,)

adverse selection and moral hazard problems and providing incentives for the public sector to make it accountable, non-bureaucratic and transparent.

Developing countries could learn from the experience of successful economies. For example, Singapore initiated a review of its economic competitiveness in 1996 for the next decade. A well qualified committee reviews the economic performance annually, and suggests strategies to navigate the economy successfully in future years. In 1996 Singapore had the following set of strategies; manufacturing and services as twin engines of growth, strengthening access to external markets, building world class companies, strengthening small and medium local enterprises, acquiring human and intellectual capital, leveraging on science, technology and innovation, optimising resource management, and reorienting the government as a business facilitator. The committee also ensures that Singapore procures a high ranking in competitiveness and it is correctly reported by international organisations.

Developing countries could also benefit from their development partners for advice and funds. For example, in Sri Lanka the United States Agency for International Development (USAID) provides funds for developing a competitive initiative. The Commonwealth Secretariat has undertaken awareness programmes on competitiveness among developing countries.

As a highly trade dependent small economy, strengthening Sri Lanka's competitiveness is crucial to achieving high and sustainable economic growth in an increasingly globalising economic environment. Successive governments since Independence have been pushing Sri Lanka's competitiveness frontier forward in view of global developments. Particularly, since the commencement of economic liberalisation in 1977, Sri Lanka's exposure to the global economy has been widening. In this environment, sustainable economic growth through competition has become a more feasible option than unsustainable economic growth through protection. This is consistent with the economic reality that protection cannot support an industry in the long run in a global environment when rapid technological developments force cost of production to fall sharply. There have been efforts to enhance productivity at the firm level, and various programmes to help firms develop competitive products. Macroeconomic efficiency has been enhanced through gradual, yet partial liberalisation of the internal market mechanism, opening of the economy to external trade, liberalising foreign exchange payments, liberalising the determination of the exchange rate, enhancing infrastructure facilities, simplifying procedures, and encouraging an investor and export friendly environment. However, further measures to enhance the overall efficiency are needed. In particular, although the literacy rate is high, tertiary education needs significant improvements to match market requirements. Industrialists complain about the rigidity of labour laws. The on going war has imposed a serious fiscal burden, with serious implications on macroeconomic efficiency and investor confidence.

Sri Lanka has not yet entered the global ranking process. The USAID assisted Competitiveness Initiative (CI) in Sri Lanka is progressing toward obtaining a rank for Sri Lanka, while assisting Sri Lanka's industries to enhance their global competitiveness. A trial survey conducted in 2000 has ranked Sri Lanka at 44 out of 60 countries surveyed as illustrated in Table 2[2]. The survey was conducted based on the factors considered by the WEF as outlined in Table 1. Sri Lanka ranks above the Philippines, Peru, Turkey, El Salvador, Poland, Argentina, Colombia, Brazil, Ukraine, India, Bolivia, Russia, Venezuela, Bulgaria, Ecuador and Zimbabwe. However, further improving macroeconomic stability, strengthening economic reforms, developing infrastructure facilities and improving political stability are crucial in further improving the competitiveness of Sri Lanka in the global market.

CI also helps Sri Lanka's industries to formulate a vision, long-term direction and a strategy. It provides support to formulate industry clusters, cluster meetings and conducts pilot projects to access niche global markets. Sri Lanka's industries must realise that competitiveness cannot be sustained through low wages, depreciating currency and continuing depletion of natural resources, but it should be sustained through exploiting their own strengths, enhancing knowledge and human capital, research and development, leading to innovations on all frontiers of production, raising and marketing value chain factor productivity.

2 Global Competitiveness Report Trial Survey, Sri Lanka 2000, J. E. Austin Associates, Inc., Sri Lanka

Box 8 (Contd,)

Table 1 - Competitiveness Input Factors Considered by IMD and WEF

A. Factors Considered by WEF (a)

Factor	Description	Sri Lanka's Trial Rank out of 60 Countries*(b)
Openness	This factor measures openness to foreign trade and investment, openness to foreign direct investment and financial flows, exchange rate policy and ease of exporting	50
Government	Government measures the role of the state in the economy. This includes the overall burden of government expenditures, fiscal deficits, rates of public saving, marginal tax rates and the overall competence of the civil service.	35
Finance	Finance measures how efficiently the financial intermediaries channel savings into productive investment, the level of competition in financial markets, the perceived stability and solvency of key financial institutions, levels of national saving and investment, and credit ratings given by outside observers.	39
Infrastructure	This factor measures quality of roads, railways, ports, telecommunication, cost of air transportation and overall infrastructure investment.	50
Technology	This factor measures computer usage, the spread of new technologies, the ability of the economy to absorb new technologies and the level and quality of research and development.	30
Management	Management measures overall management quality, marketing, staff training and motivating practices, efficiency of compensation schemes and the quality of internal financial control systems.	50
Labour	This factor measures the efficiency and the competitiveness of the domestic labour market. It combines a measure of the level of a country's labor costs relative to international norm, together with measures of labor market efficiency (e.g. obstacles to hiring and firing the workers), the level of basic education and skills and the extent of distortionary labor taxes.	24
Institutions	This factor measures the extent of business competition, the quality of legal institutions and practices, the extent of corruption and vulnerability to organised crime.	41

A. Factors Considered by IMD (c)

Factor	Description
Domestic Economy	Macro-economic evaluation of the domestic economy.
Internationalisation	Extent to which the country participates in international trade and investment.
Government	Extent to which government policies and practices are conducive to competitiveness.
Finance	Performance of capital markets and quality of financial services.
Infrastructure	Extent to which natural, technical and communication resources are adequate to serve the basic needs of businesses.
Management	Extent to which companies are managed in an innovative, profitable and responsible manner.
Science and Technology	Scientific and technological capacity.
People	Availability and qualifications of human resources.

Sources: (a) World Economic Forum
(b) Global Competitiveness Report Trial Survey, Sri Lanka 2000, J. E. Austin Associates, Inc., Sri Lanka
(c) Institute for Management Development

Box (Contd.)

Table 2 - Competitiveness Ranking in 1999 and 2000

Country	Ranking by World Economic Forum		Ranking by Institute for Management Development		Country	Ranking by World Economic Forum		Ranking by Institute for Management Development	
	2000	1999	2000	1999		2000	1999	2000	1999
Singapore	1	1	2	2	Mauritius	31	29		
Hong Kong	2	3	14	7	Hungary	32	38	27	26
Luxembourg	3	7	6	4	Czech Republic	33	39	37	41
United States	4	2	1	1	Italy	34	35	30	30
Netherlands	5	9	4	5	South Africa	35	47	38	42
Switzerland	6	6	5	6	Greece	36	41	32	31
Ireland	7	10	7	11	Costa Rica	37	34		
Finland	8	11	3	3	Indonesia	38	37	45	46
Australia	9	12	13	12	Jordan	39	40		
Canada	10	5	11	10	Mexico	40	31	36	36
Taiwan	11	4	22	18	Egypt	41	49		
UK	12	8	15	15	Vietnam	42	48		
New Zealand	13	13	21	20	Slovak Republic	43	45	35	40
Norway	14	15	16	13	Sri Lanka[(a)]	44	-		
Denmark	15	17	12	8	Philippines	45	33	39	32
Austria	16	20	18	19	Peru	46	36		
Japan	17	14	17	16	Turkey	47	44	42	37
Sweden	18	19	9	14	El Salvador	48	46		
Iceland	19	18	10	17	Poland	49	43	40	44
Germany	20	25	8	9	Argentina	50	42	41	33
Portugal	21	27	29	28	Colombia	51	54	44	43
Belgium	22	24	20	22	Brazil	52	51	34	35
Korea	23	22	28	38	Ukraine	53	58		
Malaysia	24	16	25	27	India	54	52	43	39
Israel	25	28	23	24	Bolivia	55	55		
Chile	26	21	26	25	Russia	56	59	47	47
Spain	27	26	24	23	Venezuela	57	50	46	45
France	28	23	19	21	Bulgaria	58	56		
Thailand	29	30	33	34	Ecuador	59	53		
China	30	32	31	29	Zimbabwe	60	57		

(a) Source: Global Competitiveness Report Trial Survey, Sri Lanka 2000, J. E. Austin Associates, Inc., Sri Lanka

to be free from all export and ad valorem sales taxes since late 1992, while export cesses and royalties on some items continued to remain. Except for steps taken to accelerate refunding, no major changes with regard to GST took place in 2000.

Very few duty waivers were granted in 2000. A full duty waiver of 10 per cent was granted on motor cycles imported by members of local authorities with effect from 10 March 2000. A full duty waiver of 25 per cent was granted on vehicles imported by foreign employment agencies. A partial duty waiver of 6 per cent for diesel-fuel vehicles and 19 per cent for petrol-fuel vehicles which was introduced on 22 February 1999 on imports made by public sector employees under a special scheme was revised to 1 per cent and 14 per cent, respectively, with effect from 14 February 2000. However, as the normal duty rate on motor cars was reduced from 30 per cent to 25 per cent on 15 February 2000, the duty rate applied for these vehicles remained unchanged at 24 per cent for diesel-fuel vehicles and 11 per cent for petrol-fuel vehicles. Under these categories 11,767 vehicles were imported and the revenue forgone amounted to Rs. 747 millions.

A partial duty waiver on copra and edible oil which had been effective from 13 January 1998 and 18 June 1998, respectively, was removed and brought under the tariff rate of 25 per cent from 15 February 2000. To provide protection to the local coconut oil industry, a surcharge of 25 percentage points was imposed on edible oil with effect from 17 July 2000 increasing the effective duty rate to 50 per cent. To protect local potato farmers a surcharge of 35 percentage points was applied on imports of potatoes for the period of 30 August to 8 December 2000.

The average import duty, i.e. the ratio of import duty collection to total adjusted imports, declined from 7.0 per cent in 1999 to 4.5 per cent in 2000, reflecting decreases in duty rates and dutiable imports. The share of dutiable imports in total imports declined from 34.0 per cent in 1999 to 29.3 per cent in 2000, reflecting the substantial increase in non-dutiable defence related imports and the reduction in dutiable imports of intermediate goods. In the intermediate goods category, dutiable imports declined from 24 per cent to 18.8 per cent. However, in the investment goods category, dutiable imports increased from 38.5 per cent to 39.7 per cent. The average duty rate on intermediate goods dropped from 3.9 per cent in 1999 to 2.9 per cent in 2000 partly reflecting the impact of the removal of duty on crude oil imports on 15 February 2000. Although dutiable imports of investment goods increased marginally, as a result of higher imports of machinery and equipment under duty concession facility, the average duty rate declined from 4.4 per cent in 1999 to 4.0 per cent in 2000 consequent on duty waivers.

Dutiable imports of consumer goods declined from 56.9 per cent to 56 per cent as a result of higher imports of pharmaceutical products and infant milk products which are exempt from import duty. The average import duty rate of both food and drink and non-food consumer goods categories declined further. The major contributor to the reduction in duty on non-food consumer goods were imports of motor cars which enjoyed partial duty waiver.

Textiles and Garment Quota Allocation

Allocation of textiles and garment quotas under the system began in 1978 through the Ministry of Textile Industries. Since 1 July 1992, the administration of the quota system became the responsibility of the Textile Quota Board (TQB) which was initially established as an inter-agency adhoc committee. Later, in 1996, TQB was constituted as a statutory body by the Textile Quota Board Act. No.33 of 1996. However, quota restrictions are to be phased out completely by 2005 under the Uruguay Round Agreement on Textile and Clothing (Multi-Fibre Agreement (MFA)). Sri Lanka submitted lists of items that it would like to have freed from restrictions under Phase I and II of MFA phasing out procedures, to the Textile Monitoring Body of the World Trade Organisation (WTO) in 1996 and 1998, respectively.

The objective of TQB is to ensure that quotas allocated to the country are utilised fully and efficiently. To achieve this purpose, TQB allocates textile quotas (TQ) each year among garment manufacturers, primarily on the basis of past export performance. Allocation on the basis of past performances is referred to as 'Main Quota' or 'Performance Quota' allocation. To provide flexibility, exporters who hold Performance Quota are permitted to transfer unutilised quota to exporters through TQB on a permanent or temporary basis. However, the sale or purchase of quota is not permitted. The relevant serving agency (BOI and Textile Division of the Ministry of Industrial Development) can also authorise temporary transfers within a minimum period of two working days. Performance quota holders are encouraged to surrender the unutilised quota to TQB and credit for surrenders will be given in three phases depending on the time of surrendering. If un-utilised quota are surrendered before the period of acceptance of final quota allocation, 100 per cent of surrendered quantity will be allocated in the succeeding year. If the surrenders are made between end of the first phase to end of the fifth month (second phase) and from the six month to the eighth month (third phase), 75 per cent and 50 per cent of surrendered quota, respectively, will be credited in the following year. However, an exporter who transfers more than 40 per cent of his performance quota is liable to have his quota allocation reduced in the following year. This limit was increased from 40 per cent to 60 per cent of performance quota in 2000 and is expected to be increased to 100 per cent in 2001.

About three per cent of quota are allocated to small quota holders who export less than 4,000 dozen pieces in all categories on a pro-rata basis. About 50 per cent of the quota that will be available in a year on account of growth and flexibility provisions are earmarked for new investors and existing manufacturers who expand their capacity with investment in new machinery and equipment. Immediately after the allocation of performance quota, the remaining quota are allocated under the main pool quota scheme on a pro rata basis based on the number of employees. In the allocation, preference was given to exporters to non-quota countries and exporters of non-quota items to quota countries. The under-utilised categories in the previous year are declared as 'cold' categories and allocated on condition that shipment should be made within seven working days.

BOI and the Textile Division of the Ministry of Industrial Development service TQ by issuing export licences (export visas) against TQ. In a manner similar to visas issued in the case of travel by persons, the export of textiles and garments from Sri Lanka under quota system requires a legal permit of entry, or visa. Once export consignments are shipped under TQ, the exporters should obtain a visa from BOI or the Ministry, depending on whether the firm is a BOI or non-BOI entity. The visa is issued on the submission of shipping documents to the relevant authorities and is required by buyers to clear the export consignments from their customs authorities. Shipment of products against performance quota allocations is allowed only on proof of full payment of EPF and ETF contributions in respect of employees.

Approximately 33 quota categories were open to export to USA while 15 categories and 4 categories were available to Canada and EU countries, respectively, in 2000. Basic quota availability to USA, EU and Canada rose by 11 per cent, 16 per cent and 20 per cent, respectively. Accordingly, overall quota availability increased by 12 per cent in 2000. Under the flexibility provisions an additional 4.1 million pieces were made available to Sri Lanka in 2000. However, the overall quota utilisation rate in 2000 remained at 80 per cent as in the previous year. The utilisation of the US quota increased from 85 per cent in 1999 to 85.4 per cent in 2000. The utilisation of quota varied widely across different product categories and countries. The under utilisation was partly due to insufficient demand for particular items, and partly due to local producers using capacity to produce high value added garments under other quota categories or to produce non-quota garments. This was evident in increased exports of non-quota garment categories and full utilisation of some popular categories. Quota allocated for certain popular categories to USA and EU such as ladies' dresses, shirts and blouses, women's and girls' suits, men's and boys' shirts, men's and women's trousers and men's shorts and breeches, overalls and shorts were fully utilised.

Despite the increase in quota from EU and Canada, quota utilisation rates with respect to those countries was relatively lower than in US markets. Overall utilisation rate of EU country quota declined from 58 per cent in 1999 to 54 per cent in 2000 while the utilisation rate of quota permitted by Canada increased from 41 per cent to 49 per cent. The category 6 (men's and women's trousers and men's shorts and breeches) and category 7 (women's and girl's woven and knitted blouses) to EU and category 5 (trousers, overalls and shorts, women's shirts) and category 2 (winter outerwear) to Canada were among popular categories and utilisation rates were significantly higher than in less popular categories. Total exports of textiles and garments to USA, with a high proportion of garments, increased by 26 per cent in 2000. However, earnings from exports to EU increased by 16 per cent, despite the lower rate of quota utilisation, indicating a move towards non-quota markets in EU. Earnings from textile and garment exports to Canada increased by 44 per cent. Earnings from exports to non-quota countries too increased by 36 per cent in 2000 indicating signs of diversification of export markets and a shift from quota to non-quota categories.

In 2000, Sri Lanka signed a Memorandum of Understanding with EU to remove quota restrictions on textile and garment exports to EU countries. In reciprocity, Sri Lanka agreed to bind tariff rates at 0, 5,10 and 17.5 per cent for items (current rates are 0, 0, 25 and 10 per cent, respectively). However, exporters to EU have to obtain export visas from BOI or the Textile Division of the Ministry of Industrial Development for the purpose of monitoring exports while ensuring that the exported items are produced in Sri Lanka. In addition to 4 categories, which were under the quota, three new categories were brought under the visa requirement in 2000.

The Electronic Visa Information System (ELVIS), which was initiated in December 1999 to transmit key statistics on export of textiles and garments directly to the US Customs through electronic media, operated in 2000. Under the earlier system, exporters had to dispatch the documents manually to importers to enable them to clear the goods. This practice was vulnerable to counterfeiting, forging of signatures and illegal routing. The increasing number of visa forgeries that took place in recent years was identified by TQB, and Sri Lanka joined ELVIS to overcome those difficulties.

Incentives to Exporters

The government implemented various incentives proposed in the 2000 Budget targeting exporters as well as other industrialists to improve competitiveness and profitability in the sector. Venture capital companies were given an option to move out of the ten year tax holiday granted to them and make investments of their own choice, particularly in priority sectors and software industries. These companies accumulated large sums of investible funds since guidelines limited the risk ventures in which they could invest. This incentive was granted to invest these accumulated funds to diversify investment activities. Special incentives were granted to encourage the setting up of 50 information technology training institutes in major population centers covering all districts during the next two years. The initial expenditure in setting up such facilities, including the cost of training trainers, renovating and refurbishing premises and obtaining infrastructure will be met by BOI. A five year tax holiday was granted if they would be established outside the Colombo District, subject to a minimum requirement of 300 students being trained each year. Concessions made available in the 1998 Budget to promote software industries, will continue.

The fiscal incentive scheme, which was introduced in the 1996 Budget to encourage investment in advanced technology and to improve productivity, was extended for a further period of two years in the 2000 Budget. This scheme allowed duty free imports for new and existing companies to invest in advanced technology, while the limit on the minimum investment amount was eliminated in the 1999 Budget to benefit small industries.

Institutional Support to Exporters

Exporters continued to receive institutional support from the Ministry of Plantations Industry (MPI), EDB and the Sri Lanka Export Credit Insurance Corporation (SLECIC) and other related ministries and government institutions. MPI provided support for the development of traditional exports while EDB played the major role in the development and promotion of nontraditional exports. SLECIC provided credit insurance and guarantee services. Other relevant institutions, especially the Ministry of Foreign Affairs and the Ministry of Internal and International Trade and

Commerce, continued to educate exporters on facilities available through bilateral, regional and multilateral organisations and were instrumental in establishing contact between Sri Lankan entrepreneurs and foreign counterparts. Private sector institutions such as Chambers of Commerce, also provided institutional support to exporters.

The objectives of SLECIC is to issue insurance policies to exporters and guarantees to banks and financial institutions for the development of Sri Lanka's exports. For the year 2000 the number of policies and guarantees in force was 296, amounting to Rs.1,032 million compared to 244 policies in force, at end December 1999. There were 47 new insurance policies issued in 2000, amounting to Rs.561 million as against 37 policies in 1999. New guarantees in force at end 2000, amounted to 249 to the value Rs.471 million. A few insurance policies were in place for new and small scale exporters, totalling to Rs.11 million. A special insurance cover for tea exports to Iraq was launched by SLECIC in 2000. Sri Lankan private sector tea exporters under the 6th phase of the UN Oil for Food Programme were granted deferred payment credit facilities.

EDB conducted 93 programmes under its technical and skills development programme. It organised the participation of Sri Lankan exporters in 36 product specific and general international trade fairs. The total value of initial export orders received at these fairs was Rs.385 million. EDB continued to provide advice and assistance to exporters to resolve various operational problems relating to sea and airfreight and entrepot trade. In collaboration with the Customs and Ministry of Internal and International Trade and Commerce, meetings were held to solve problems of entrepot traders and to prepare a manual for entrepot traders. Awareness programmes and seminars were conducted to help develop small and medium scale enterprises. Such enterprises were assisted with providing information and advisory services. EDB has channelled its resources to provide multi-faceted services to the export sector ranging from computerised database facilities, Bulletin Board Service, advisory service and library facilities.

During 2000, the Chambers of Commerce held a number of seminars and discussions on various issues. Chambers also participated in monthly meetings with the Treasury, exporters and the Customs and settled several problems faced by their members.

Freight Rates

Freight rates are determined partly by the global demand and supply and the degree of competition among shipping lines. In Sri Lanka, local agents implement rates given to them by their principal shipping companies, which mostly operate abroad. Shipping lines covering destinations in Asia continued to adopt the Freight of All Kind (FAK) system while those covering UK, North Continent (Germany, Belgium, Switzerland, the Netherlands), the Mediterranean, France, USA and Canada adopted a commodity based freight system in 2000 as well.

During 2000, average freight rates for several destinations showed mixed changes. The overall average freight rate increased over that in 1999. The average rates to USA, Saudi Arabia and Dubai increased while those to UK, Kuwait, Australia, Japan and Singapore fell in 2000. The average freight rate for rubber to UK and the North Continent increased while rates for tea, rubber tyres, desiccated coconut, activated carbon and rubber gloves decreased. The freight rate for garments remained unchanged in 2000. The average freight rate for tea, coir fibre and activated carbon to USA increased in 2000. Those rates have had an adverse impact on exporters of commodities such as fibre which have a lower fob value. This will lead to out-pricing Sri Lankan fibre in the major fibre markets in USA.

Shipping lines increased the Terminal Handling Charge (THC) by 41 per cent in the first quarter of 1999. This rate is again to be increased by 33 per cent with effect from 01 January 2001. However, the decision to increase the THC is not expected to be operational for at least six months on a request made by the Minister of Shipping.

9.12 Trade Relations, Trading and Clearing Arrangements

Sri Lanka showed its continuing commitment to foster a freer trade regime in 2000 by entering into an agreement with the European Union and holding discussions on a possible free trade agreement with Pakistan. The IndoLanka Free Trade Agreement (FTA) signed with the government of India in December 1998 was made operational with effect from February 2000. Sri Lanka's tariff concessions became effective on 15 February 2000 while India implemented the agreement with effect from 1 March 2000. Exports of tea and garments under the agreement commenced in April 2000. Under this agreement the quota for 2000 for tea was limited to 11.25 million kg while the quota for garments was limited to 6.67 million pieces, of which a minimum of 5 million pieces were to be manufactured in Sri Lanka out of fabric of Indian origin. A single product category could not exceed the limit of 1.5 million pieces.

Utilisation of the tea quota in 2000, remained very low. Sri Lanka exported 459.2 metric tons of tea to India under FTA, 4 per cent of the total allocation. The major reasons for lower exports were restrictions of entry points for tea exported under FTA to Cochin and Calcutta, higher prices of Sri Lankan tea compared to Indian tea, severe competition from other well established brands and Rules of Origin criteria that prevented the export of blended tea under FTA. Garment exports in 2000 under FTA was not very encouraging either. Garment exports were limited to a few sample shipments carrying a few hundred pieces. Imposition of specific duty on garment items, restrictions on entry points to two ports, Rules of Origin restriction, lack of promotional efforts to popularise Sri Lanka's exported items in India were the main factors for lower exports.

Exports to India under FTA amounted to US dollars 9.2 million, which was 17.7 per cent of total exports to India from March to December 2000. Among those items, waste paper and copper scrap accounted for 46.5 per cent and 18 per cent, respectively, while tea accounted for 12 per cent. New items exported to India under FTA included memory modules, marble, rubber slippers, pharmaceutical products, processed food products, ice cream machines, plastics and mattresses.

Imports from India amounted to US dollars 600 million in 2000 an increase of 17 per cent. Imports of goods, which are on Sri Lanka's negative list, (i.e. imports for which no tariff concessions were granted) amounted to US dollar 180 million, an increase of 32 per cent, while items which are not included in the negative list, increased by 11 per cent to US dollars 331 million during March-December 2000.

TABLE 9.12
Export Performance under FTA-March-December 2000 (a)

Product	US Dollars mn.	Percentage Share (%)	
		Under FTA	Total
Total exports	52.0		100
Exports under FTA	9.21	100	17.7
o/w Paper and wastepaper	4.28	46.5	8.2
Scrap (steel/copper/aluminum,lead)	1.65	17.9	3.2
Tea	1.13	12.3	2.2
Memory Modules	0.62	6.7	1.2
Copra expeller cake/defatted	0.44	4.8	0.8
Ice cream machines	0.26	2.8	0.5
Goraka	0.22	2.4	0.4
Marble slabs and ceramic products	0.16	1.7	0.3
Pharmaceutical products	0.11	1.2	0.2

Source: Department of Commerce

(a) FTA- Indo Sri Lanka Free Trade Agreement

BOI approved 7 foreign investment projects and was expected to approve 3 more projects under FTA. Under two existing foreign investment projects there were plans to expand production lines to cater to the vast Indian market. Total investment in these projects amounted to US dollars 86 million.

Sri Lanka signed a Memorandum of Understanding (MOU) on trade in textiles and clothing products with EU on 5 December 2000. This step will remove all quantitative restrictions currently on textile and garment exports from Sri Lanka to EU by January 2001. As existing quota restrictions on Sri Lanka's textile and garment items are expected to be removed fully by 2005, this will help exporters to build confidence and diversify and expand capacity to compete in a freer market.

Sri Lanka entered into several bilateral agreements in 2000. The agreement on Trade, Economic and Technical Co-operation ratified with Ukraine will grant 50 per cent reduction of import tariff on Sri Lanka's tea exports to Ukraine. Sri Lanka held bilateral discussions with Iran, in which issues relating to blending of Sri Lankan tea with Iranian tea aiming at CIS countries on a barter basis, extension of credit facilities on tea purchased by Iran, transfer of technology from Sri Lanka in the manufacture of tea, co-operation in oil, gas and petrochemical industries and establishment of a Trade Council were considered. Discussions covered other areas, including co-operation in tourism, health, education, and the finalisation of the draft Merchant Shipping Agreement that had been submitted to the Sri Lankan authorities in July 2000.

Sri Lanka had discussions on Joint Committees for Trade and Economic Co-operation with China and Thailand. Possibilities of bilateral trading arrangements were discussed with Norway, Egypt, Pakistan, Saudi Arabia, South Africa, Russia, Kazakhstan, Uzbekistan, Georgia, Moldova, Armenia and Belarus. In 2000, several delegations from Europe and Asia visited Sri Lanka while delegations from Sri Lanka visited Iran, Egypt and Thailand.

Regional economic co-operation was fostered further in 2000 with continuing discussions with SAARC, Bangkok Agreement, Bangladesh, India, Myanmar, Sri Lanka, Thailand-Economic Co-operation (BIMST-EC) and Indian Ocean Rim Association for Regional Co-operation (IOR-ARC)

The senior officers' meeting of the SAARC countries was held in Colombo during 13 –15 November 2000. Member countries of the South Asian Preferential Trade Agreement (SAPTA) brought down the limit of the domestic value addition requirement from 50 per cent to 40 per cent. Least developed country members in SAARC were given a further concession of 10 per cent. The European Union recognised SAARC as a regional grouping for the purpose of extending 'Cumulative Rules of Origin' to member countries of SAPTA. This decision was effective for the fulfilment of Rules of Origin Criteria under the Generalised System of Preferences (GSP) from 1 October 2000. This was an outcome of negotiations member countries of SAARC and SAARC Secretariat had with EU to obtain special concessions for its members on the local content requirement under the 'Cumulative Rules of Origin' criteria for the grouping. Under this criteria, material imported from SAARC member countries and used in production in any member country could be considered 'local material' in deciding the local content requirement. Sri Lanka continued to receive tariff concessions from the participating developed countries of GSP, without reciprocity. However the direction of exports under this scheme did not show any significant change in 2000.

The second meeting of BIMST-EC Trade and Economic Ministers Meeting was held on 27 April 2000. The ministers agreed to establish an expert group to prepare a concept paper on possible approaches towards a Preferential Trading Arrangement leading to a free trade area in the region.

An Extraordinary Meeting of IOR-ARC was held in Muscat, Oman in January 2000. Membership of IOR-ARC was increased to 19 with the inclusion of Bangladesh, Iran, Seychelles, Thailand and UAE. Japan and Egypt as dialogue partners, while applications of the People's Republic China and UK as dialogue partners were accepted. The working Group on Trade and Investment also met on this occasion. The Indian Ocean Rim Business Forum (IORBF) and Indian Ocean Rim Academic Group (IORAG) met in July 2000 in Maputo, Mozambique.

The 16th Session of the Standing Committee of the Bangkok Agreement was held in Bangkok, from 3 - 5 April 2000. At this meeting decisions were taken to revise the Bangkok Agreement in order to widen product coverage and deepen tariff cuts under the Agreement. The committee also accepted the accession of China to the Bangkok Agreement. Pakistan, Fiji, Mongolia and Vietnam also responded to the membership expansion programme.

The first South Summit of the Group of 77 was held in Havana, Cuba from 10-14 April 2000 with the participation of 133 developing countries. The fourth meeting of the Ministers of Trade and Economics of the Group of 15 (G-15) was held in Cairo, Egypt on 15 June 2000. The Trade Ministers of G-15 had discussions on the economic environment and trade development prospects and exchanged views on the Third World Trade Organisation (WTO) Ministers Conference and the 10th United Nations Conference on Trade and Development (UNCTAD –X). In the discussion on the matters on the Third WTO Ministerial Meeting, Trade Ministers expressed serious concerns about non-fulfilment of commitments undertaken by developed countries in the Uruguay Round Agreements and on decisions such as those on Special and Differential Treatment, provisions in favour of developing countries and technical assistance. Ministers also expressed concern on deliberate attempts to include labour standards and environmental issues in trade negotiations. Ministers agreed to increasingly co-operate in matters concerning WTO issues and to conduct regular consultations among themselves. G-15 members also discussed measures including a preferential trading arrangements for the promotion of intra-G15 trade. The Ministers emphasised the importance of concluding bilateral investment agreements and agreements for avoidance of double taxation among the G-15 countries in order to promote investment and the transfer of technology among G-15 countries.

Under Sri Lanka's commitments made to WTO, the Inter Ministerial Sub Committee made some progress. According to the decision of the General Council for Trade in Services, negotiations mandated by Article XIX of the General Agreement on Trade in Services (GATS) on services were launched in February 2000. In 2000, the sub committee on GATS engaged itself in a preliminary assessment of potential areas for liberalisation of services in Sri Lanka. The review of Article II Most Favoured Nations (MFN) Exemptions under the GATS Council for services was conducted successfully in respect of Sri Lanka. Sri Lanka's obligations under WTO in relation to the Telecom sector was closely monitored, to ensure conformity with specific commitments made in this sector.

Agricultural negotiations was launched in WTO. Hence, the Inter Ministerial Sub Committee on Agriculture worked on evaluating Sri Lanka's position and assessing implications of multilateral negotiations concerning agriculture in Sri Lanka, widening the membership of the sub-committee on agriculture and expediting the completion of notification obligations for 1998/1999.

The Technical Committee, appointed by the Inter Ministerial Sub-committee on Anti Dumping, Subsidies and Countervailing Duties and Safe-Guard Measures, to examine the proposed draft Anti Dumping and Countervailing Duties Bill, prepared a revised draft of the Bill. With the assistance of an expert from WTO, a final text of the draft bill was prepared and approved by the main Inter Ministerial Sub-Committee. It is being presented to the Cabinet of Ministers and to Parliament.

9.13 Internal Trade and Institutional Arrangements

Internal trade was conducted in a relatively free market environment with minimum state intervention in 2000. Major controls and interventions were limited to trade regulations while state intervention in price determination was limited to a few essential items. Interventions were justified as preventing harmful effects arising from anti competitive practices such as collusive price fixing, dumping, predatory pricing and formation of monopolies consequent upon large mergers. Government made a few attempts to eliminate drastic changes in prices in response to supply fluctuations. Those interventions were carried out by the Ministry of Internal and International Trade and Commerce and Ministry of Food and Marketing Development and its marketing organisations, the Co-operative Wholesale Establishment (CWE), Lanka Salu Sala

Limited and the Ministry of Co-operative Development (MCD) and the Co-operative Development Department, the General Treasury, and the State Pharmaceutical Corporation of Sri Lanka (SPCSL). The two regulatory bodies attached to the Ministry of Internal and International Trade and Commerce, viz., the Department of Internal Trade (DIT) and Fair Trading Commission (FTC), maintained price controls on pharmaceutical products and probed unfair trading practices.

Government intervention in the supply of petroleum fuel and wheat flour continued in 2000. Throughout 2000, Ceylon Petroleum Corporation was the sole authority to produce and supply petroleum fuel, except lubricants and LP gas, which latter was monopolistically supplied by Shell Gas Lanka Ltd. The monopoly power enjoyed by Shell Gas Lanka Ltd. expired in December 2000 allowing other competitors to enter the market. Until February 2000, the Food Commissioner's Department (FCD) of the Ministry of Food and Marketing Development acted as the sole authority in the purchase and distribution of wheat flour, milled by Prima Ceylon Ltd. Only large-scale manufacturers of biscuits and other flour-based products were allowed to import wheat flour to meet their raw material requirements. In February 2000, the licensing requirement on the import of wheat and meslin and wheat and meslin flour was removed and the private sector was allowed to import them without any restrictions. With this development, the private sector imported 34,706 metric tons of flour but wheat was imported only by CWE. FCD conducted its operations in collaboration with CWE and MCD outlets. FCD also ensured that adequate quantities of rice and sugar were released to the market to avoid any supply shortages.

On many occasions, CWE functioned to ensure fair prices to both producers and consumers while attempting to achieve the dual objectives of market stability and its own financial viability. To ensure supply and price stability, CWE continued to purchase essential consumer goods in bulk quantities locally as well as import them in times of shortage. CWE intervened in the paddy market by purchasing 88,629 metric tons of paddy during the year when there was a surplus of rice in the market due to high imports of rice in the last quarter of 1999 and the bumper harvest in Maha. Furthermore, when potato production increased from 27,200 metric tons in 1999 to 48,400 metric tons, local purchases of potatoes by CWE increased from 203 metric tons in 1999 to 1,687 metric tons in 2000. CWE limited its imports of potatoes to 450 metric tons.

After the removal of licensing requirements on essential food items in 1996, CWE's share in essential food imports declined further in 2000. CWE abstained from importing dried chillies while reducing the import of other products as the private sector imported sufficient quantities to meet the demand. When the harvest of big onions and chillies declined by 26,100 metric tons and 1,000 metric tons respectively in 2000, CWE limited its domestic purchases of big onions to 2,166 metric tons when compared with 2,625 metric tons in 1999, while its purchase of dried chillies was reduced to 146 metric tons from 299 metric tons. The import of big onions also declined from 6,280 metric tons in 1999 to 4,887 metric tons in 2000. As a result, CWE' s share in big onion imports declined from 7 per cent to 4 per cent, while the share of potato imports declined from 0.6 per cent to 0.4 between 1999 and 2000. However, CWE imported 10,500 metric tons of wheat flour in 2000, to build up depleted buffer stocks.

CWE continued to distribute essential food items at reasonable prices through 152 retail shops and 42 wholesale shops, which included 3 new retail shops in 2000. The total turnover was Rs. 8,090 million, an increase of 18 per cent from Rs. 6,836 million reported in 1999. Franchise shops recorded a turnover of Rs. 2,282 million in 2000, a 35 per cent increase over 1999. This increase was a result of mobile sales introduced in 1998 where goods are supplied to the franchisee's doorstep. In 2000, mobile sales accounted for 49 per cent of total franchise shop turnover. The franchise network was expanded with the appointment of 193 new franchise dealers.

Other marketing institutions such as Lanka Salu Sala Ltd. and Lanka General Trading Company Ltd. also engaged in providing standards for quality and prices of important consumer goods. They played an effective role in ensuring fair competition. The co-operative societies also intervened in the market through the purchase of paddy during the harvesting period and through retail sales. They purchased 9,000 metric tons of paddy using the 1,032 co-operative society network to stabilise domestic prices, while 601 metric tons of various other food items such as big onions, dried chillies, gram, cowpea, vegetables and fruits were purchased during the year. To ensure providing quality milk products to the consumer, 284 co-operative societies maintained 97 outlets to sell milk products, while engaging in purchasing milk production from 66,880 farmers. Government influenced the supply of essential goods by granting duty waivers and making tariff changes.

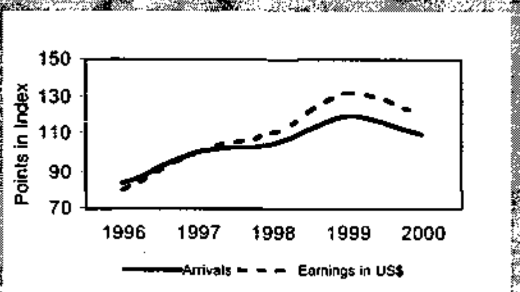
SPCSL continued to be the sole supplier of pharmaceutical products to government health care institutions and a major supplier to the market. SPCSL supplied pharmaceuticals at prices fixed by FTC. All private sector imports of pharmaceuticals were subject to licensing and price controls. This is an area where government intervention is necessary to ensure the quality of the products. At the same time it is necessary to eliminate government monopoly to improve efficiency in this trade and to reduce the high costs of health care. DIT and FTC were engaged in ensuring the orderly conduct of trade in a free market environment. Those two institutions made considerable efforts to enhance consumer awareness of their rights, promote the formation of consumer groups to protect consumers, establish fair trading practices, regulate internal trade and maintain price controls when required.

DIT acts under the provisions of the Consumer Protection Act (CPA), Fair Trading Commission Act (FTCA), Price Controls Act (PCA) and directions issued under CPA. It also implements the provisions under the Fertilizer Regulations Act No.68 of 1988. Imported pharmaceuticals were subject to price controls with the maximum retail price of imported drugs fixed at cif value plus 75 per cent, for the private sector and cif value plus 54 per cent, for SPCSL. These mark ups include the National Security Levy, profit margins for wholesalers, retailers and SPCSL and overheads charges. In 2000, DIT carried out 1,539 raids and 1,003 offenders were prosecuted. The DIT also received and investigated consumer complaints on the irregular imposition of GST. The Fair Trading Commission Act No. 01 of 1987 granted powers to FTC to make inquiries. Since there was a duplication of functions between FTC and DIT, and in order to create a stronger institution to probe trading practices, a proposal was made in 1997 to amalgamate the two institutions. The Bill for the establishment of a Consumer Protection Authority by amalgamating the two institutions is yet to be presented to the Parliament.

9.14 Tourism

Despite strong economic growth in countries which are major sources of tourists to Sri Lanka, frequent and more flights between Colombo and major sources of tourist traffic to the country and promotion campaigns carried out by the government and the private sector, the tourism sector suffered a major setback in 2000. Tourist arrivals continued to slowdown throughout the year, except in February 2000. Tourist arrivals at 400,414 in 2000 were 8 per cent lower than 1999. Reflecting the impact of lower tourist arrivals, gross earnings from tourism declined from US dollars 274 million in 1999 to US dollars 252 million in 2000.

Chart 9.10
Tourism Statistics
(1997=100)



Western Europe continued to be the major source of tourists to the country, accounting for 65 per cent of arrivals. The number of arrivals from this region dropped by 5 per cent in 2000. Lower arrivals from France, Germany, Italy and the Netherlands contributed to this fall significantly. More tourists arrived from Belgium, Finland, UK, Sweden and Switzerland. UK continued to lead the number of tourists for the second consecutive year, surpassing Germany, which was the largest source of tourists in 1998. Arrivals from Asia decreased by 20 per cent with a low turnover from both East and South Asia. Arrivals from East Asia dropped by 22 per cent with a 37 per cent decline in tourists arriving from Japan. Tourists from South Asia declined by 18 per cent with a 25 per cent drop in the arrivals from India. Tourists arrivals from Australasia and Eastern Europe grew by 20 per cent and 10 per cent, respectively while arrivals from North America declined by 6 per cent.

The average duration of stay (ADS) of tourists in the country dropped marginally from 10.3 days in 1999 to 10.1 days in 2000. However, the impact of reduced ADS on earnings was more than offset by an increase in the average spending of a tourist per day from US dollars 61 to US dollars 62.50 in 2000. The slight drop in ADS was mainly due to a decline in the ADS of German tourists. The average stay of tourists from Finland was 13.4 days followed by tourists from Austria (12.5days), the Netherlands (12.4 days) and Germany (12.0 days).

Of total arrivals, 74 per cent travelled on regular inter-regional flights, 19 per cent arrived in regular intra-regional flights and 7 per cent on charter flights. SriLankan Airlines brought in 51 per cent of the total number of tourists in 2000 compared to 47 per cent in 1999. The addition of three new aircraft to the fleet each year in 1999 and 2000 contributed to the increased share of SriLankan Airlines, especially during the peak season.

Vacation continued to be the main purpose of arrivals in 2000, accounting for more than 90 per cent of total arrivals. The remainder was for business, visiting friends and relatives and religious and cultural purposes. Confirming Sri Lanka's potential for developing new tourism products such as eco-tourism and culture tourism, revenue from tourists visiting wild life parks, botanical gardens, zoological gardens and the cultural triangle continued to increase in 2000. The Sri Lanka Convention Bureau continued to promote meetings, incentive travel, conventions and exhibitions (MICE) tourism in 2000. The Bureau sponsored 21 conferences and exhibitions in 2000. The Bureau participated in several international campaigns, promoting Sri Lanka as a destination for MICE tourism.

Following the drop in arrivals, foreign guest nights in hotels decreased by 10 per cent while the occupancy rate

TABLE 9.13
Tourism Statistics 1998-2000

Item	1998	1999 (a)	2000(b)	Percentage Change	
				1999	2000
1. Tourist arrivals	381,063	436,440	400,414	14.5	-8.3
2. Tourist guest nights ('000)	3,944	4,479	4,029	13.6	-10.0
3. Room occupancy rate (%)	52.8	57.6	52.3	9.1	-9.2
4. Gross tourist receipts (Rs.mn)	14,873	19,286	19,024	29.7	-1.4
5. Per capita tourist receipts (Rs.)	39,030	44,194	47,511	13.2	7.5
6. Total employment (no.)	83,472	87,744	91,063	5.1	3.8
Direct	34,780	36,560	37,943	5.1	3.8
Indirect	48,692	51,184	53,120	5.1	3.8

(a) Revised
(b) Provisional

Sources: Ceylon Tourist Board
Central Bank of Sri Lanka

decreased by 9 per cent. Occupancy rates in all major regions fell.

The number of hotel units in the graded accommodation sector increased from 173 to 207 in all regions. The increases were in Colombo City (19 to 23), Greater Colombo (33 to 40), South Coast (72 to 83), East Coast (2 to 4), Hill Country (10 to 14) and Ancient Cities (37 to 43). With the increased number of hotel units, room capacity grew from 12,918 to 13,311. A new tourist hotels code was introduced in 1999, replacing the Hotels Code of 1973, with the main objective of ensuring and maintaining standards required by the industry. Under the new code it became compulsory for all tourists hotels to register with the Ceylon Tourist Board (CTB). However, star classification of hotels remains optional.

Direct employment increased by 4 per cent to 37,943 while indirect employment increased from 51,184 in 1999 to 53,120 in 2000. Direct employment is employment in hotels and restaurants, travel agencies, airlines providing recreational facilities, tourist shops and the Tourist Board. Indirect employment is generated by domestic producers and suppliers of inputs, manufacturers and suppliers of handicrafts and others.

The Ministry of Tourism and Civil Aviation (MTCA) signed seven bilateral agreements on Air Traffic Rights with UK, Indonesia, Australia, the Netherlands, India, Bangladesh and Yemen to increase flying frequency per week in 2000. The number of charters operated in 2000 remained unchanged at 8 as in 1999.

International and regional associations play a vital role in promoting tourism. There were five conferences in Sri Lanka in 2000: Universal Federation of Travel Agents Association (UFTAA) World Conference 2000, Pacific Asia Travel Association (PATA) Board Meeting 2000, Indian Association of Tour Operators Annual Convention 2000, Association of Independent Tour Operators – UK Annual Overseas Conference 2000 and World Tourism Organisation Executive Council Meeting.

Tourism was taken as one of the key areas for bilateral and regional co-operation in many forums recently. Sri Lanka was selected as the lead country in tourism in the BIMST-EC in 1998. Possible regional co-operation in tourism was one of the prominent areas discussed at the second meeting of BIMST-EC Trade and Economic Ministers held in New Delhi, on 27 April 2000. Encouraging intra-regional travel, investigating tourism promotion opportunities, developing new tourism products and developing projects for environmental management and cultural preservation were the areas earmarked for improvement by BIMST-EC group. At the first session of the Sri Lanka–Thailand Joint Commission for Economic and Technical Co-operation held in Bangkok from 2 - 4 June 2000, expansion of joint tourist promotional efforts on Buddhist tourism, health tourism and cultural tourism were considered as some of the key areas for co-operation and collaboration between the two countries. At the sixth session of the Sri Lanka–Iran Joint Commission held in Tehran from 22 - 25 July 2000, co-operation in tourism was among the major areas of importance to both parties.