

## 6. Industry

The industrial sector grew by 11 per cent in 2000 reflecting a robust growth in export oriented industries. The growth of the sector in 1999 was 4.5 per cent.

- ▲ Apparel, textiles, rubber based products, tea-processing industries, machinery, plastics, chemical products, activated carbon and processed diamonds registered a high growth in 2000.
- ▲ A healthy growth in the economies of the USA and EU countries, together with a rapid recovery in East Asian countries, stimulated the demand for Sri Lanka's export products.
- ▲ Industries catering to the domestic market showed a mixed performance with high growth in the output of soft drinks, milk products, processed meat, biscuits, hard liquor, petroleum, perfumes, chemicals, soap and detergent, building materials, fertiliser, fabrication of bus bodies and boats.
- ▲ The output of cement, sugar, batteries and metal products declined in 2000.
- ▲ The cost of production in the industrial sector increased due to higher freight rates to the USA and EU countries and increased interest rates, cost of imported raw material, fuel, electricity and port charges, particularly during the latter part of the year.
- ▲ Industrial sector output is expected to grow by 7.7 per cent in 2001. The moderation in the growth rate is mainly due to the high base in 2000 and the planned closure of the petroleum refinery for routine maintenance in early 2001.

**Growth of the Industrial Output**

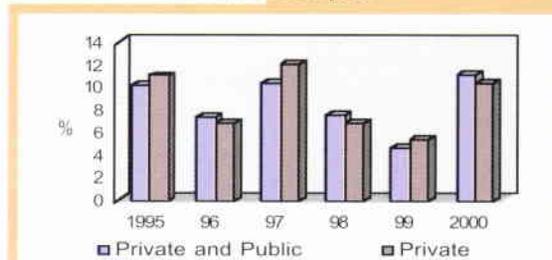


Chart 6.1

### **Performance of sub-sectors**

#### **Textiles, apparel and leather products**

- ▲ Growth in this sub-sector was 15.4 per cent reflecting higher growth in apparel and textile products.
- ▲ The output of apparel industries grew by 17 per cent in 2000. The international prices of apparel increased by 5.3 per cent in 2000.
- ▲ The major apparel manufacturers were able to consolidate their market position in the USA for leisurewear and winter clothes during the year.
- ▲ Non-quota exports to the EU market increased with timely delivery of the latest fashions, competitive prices in relation to the quality of products and penetration into new niche markets in the EU region.

- ▲ Better use of information technology helped expand the customer base in international markets and to obtain the latest fashion trends in the Western market enabling manufacturers to produce clothes with higher demand.
- ▲ The major apparel manufacturers introduced automated systems for designing and grading, centralised cutting plants, embroidery, machine smocking, pleating and screen printing.

### **Food, beverages and tobacco**

- ▲ This sub-sector grew by 5.5 per cent reflecting higher growth in soft drinks, milk products, wheat flour processing, biscuits, processed meat, hard liquor, chocolates and coconut products.
- ▲ Domestic demand for these increased due to a growing popularity of these products among the urban population, effective advertising and efficient distribution methods with the help of regional marketing agents.
- ▲ Major manufacturers have introduced a range of new products and improved product quality through continuous research carried out to assess customer needs.
- ▲ The soft drink industry recovered strongly by registering a 11.2 per cent growth in 2000, compared to a 7.5 per cent decline in the previous year.

### **Chemicals, rubber and plastics**

- ▲ Growth in this sub-sector was 13.6 per cent, reflecting higher output levels in rubber products, fertiliser, plastics, petroleum products, soap, cosmetics, detergent, weedicides, insecticides, PVC products, ayurvedic drugs, chemicals and paints.
- ▲ Rubber-based industry regained its international competitiveness with the appreciation of East Asian currencies and growing demand in the Western markets.
- ▲ The introduction of systems to minimise waste and emissions, re-cycle and re-use waste materials and the reduction of domestic raw material prices helped reduce cost of production in rubber based industries.
- ▲ Petroleum production increased sharply due to the uninterrupted operation of the refinery of the Ceylon Petroleum Corporation.
- ▲ Market segmentation through introduction of mini-sized packs with lower prices increased the demand for tooth paste, shampoo and perfumes especially among low-income consumers.
- ▲ Fertiliser production increased substantially to meet increased utilisation especially in the tea and paddy sectors.

**Performance in Major Industrial Sub Sectors**

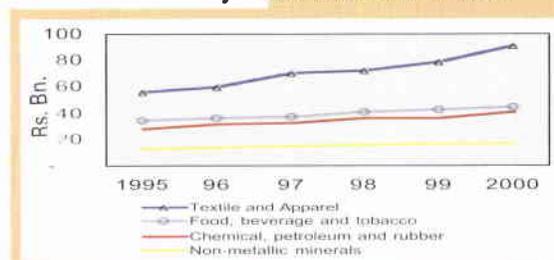


Chart 6.2

- ▲ The activated carbon industry recovered significantly with increased export orders received from the USA, improved coconut crops and larger supply of coconut shells from the improved desiccated coconut industry.

### Industrial Investment

- ▲ The Board of Investment (BOI) approved 329 projects and signed agreements in respect of 201 projects in 2000.
- ▲ Investment commitment of approved projects in 2000 was Rs.88 billion.
- ▲ The foreign component of approved investments in 2000 was Rs.23 billion or 27 per cent of total approved investment.
- ▲ Employment generation in these projects is estimated at 59,375 persons.
- ▲ Investment commitment of contracted projects in 2000 was Rs.45 billion.
- ▲ The foreign component of the contracted investment was Rs.17 billion or 37 per cent of total contracted investments.
- ▲ The potential employment generation of these contracted projects is estimated at 43,267 persons.
- ▲ The construction of the Seetawaka Industrial Park was completed in 1999 at a cost of Rs. 3.6 billion.
- ▲ This park provides modern facilities to 71 factory lots including 10 standard factories. As at end 2000, 64 lots were allocated among investors and 22 factories were in commercial operation, providing direct employment to about 6,000 persons.
- ▲ 22 industrial estates/parks were in operation at the end of 2000.
- ▲ Eight land blocks are to be developed in the near future with an envisaged direct and indirect employment for about 23,000 persons.
- ▲ Under the new Garment Factory programme, 67 garment factories have been approved by end 2000. Of these, 50 factories were in commercial operation, while 9 factories were under construction, increasing the production capacity of the garment export sector.

### Industrial Policy

- ▲ Private sector led export-oriented policies adopted by government since 1977 have encouraged the diversification of the industrial sector substantially over the last two decades.

**Approved and Contracted BOI Enterprises**

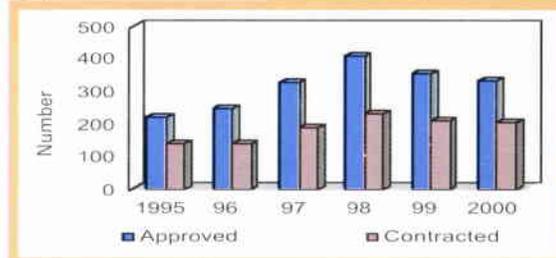


Chart 6.3

**Approved and Contracted BOI Investments**

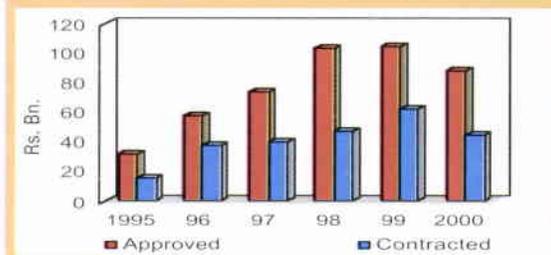


Chart 6.4

▲ With the promotion of export oriented industries, the apparel and textile sector has become the largest contributor to industrial production, reducing the share of the sub-sectors of food, beverages and tobacco and chemical and petroleum products.

▲ The government, in 2000, took initiatives to facilitate external trade by signing an agreement for quota free apparel and textile trade in EU countries and operationalising free trade agreement between India and Sri Lanka.

▲ In order to reshape the industrial strategy by exposing Sri Lankan manufacturers to regional and global competition, the government drafted a Master Plan for Industrialisation and Investment Promotion in collaboration with Japan International Corporation Agency (JICA) and United Nations Industrial Development Organisation. (UNIDO) in 2000.

▲ The need for rationalising of investment incentives was emphasised in the budget proposals for 2000.

▲ The Advanced Technology Incentives Scheme introduced in 1996 was further extended for two years in 2000. Approved investments under this programme at end 2000 was Rs.42 billion.

**Composition of Industry Production**

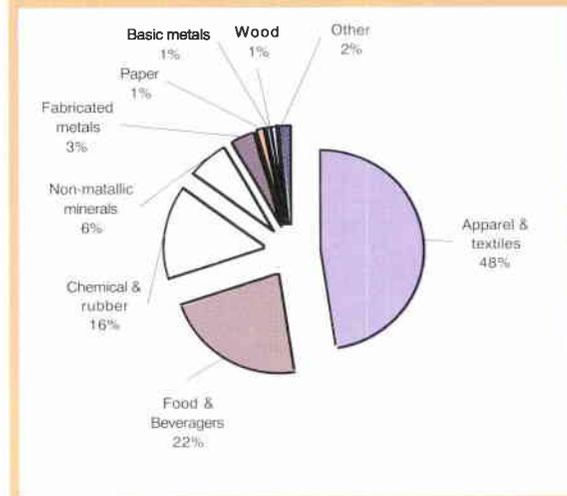


Chart 6.5

**Projects Approved under Advanced Technology Programme**

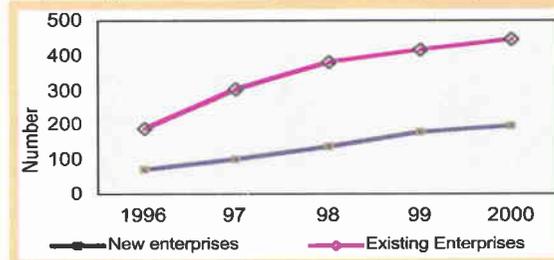


Chart 6.6