EXPORT DEVELOPMENT

Policies and Achievements

Premachandra Athukorale

Dr. Premachandra Athukorale who was awarded a PhD from La Trobe University for his work on International Trade, is a Lecturer at the Department of Commerce & Management Sri Jayawardenapura University.

HISTORICAL BACKGROUND

The economic structure Sri Lanka inherited from the colonial past at her political independence in 1948 was typical of a colonial "export economy". The growth momentum of the economy was heavily dependent on the fortunes of the three primary export products : tea, rubber and coconut. These three items together accounted for about 97 per cent of total export earnings. They directly contributed about 40 per cent of the Gross National Product (GNP) while their indirect contribution via associated supportive services was substantial. Nearly 50 per cent of Government revenue came from export taxes.

Ever since the end of the second World War, there were indications that unfavourable structural changes were taking place in world demand for traditional exports, notably tea and rubber, with possibilities of adverse repercussions on Sri Lanka's long-term growth prospects. For instance, the World Bank economic mission which visited the country in 1951 reported that, "the old momentum in the export sector is unlikely to be maintained". Hwowever, during the post-independence period upto about late 1960, no steps were taken towards diversifying the export structure and be ready with new products in order to face the future challenges. Throughout this period the emphasis of the development policy was on "import substitution" - the development of domestic agriculture and industry to meet domestic demand. The expectation was that the expansion of domestic agriculture and industry would enable the economy to maintain a satisfactory pace of growth despite adverse trends in export trade.

By the late 1960's, the import-substitution development strategy had reached a crisis point. Against the original expectation, the newly-established industrial sector had made the economy even more dependent on the traditional export sector. These industries showed an overwhelming reliance on imported machinery and raw materials while their added value and foreign exchange earnings were negligible. On the other hand earnings from traditional exports continued to stagnate and import savings through the expansion of domestic agriculture was still insignificant. The immediate outcome was continued widening of the balance of payments deficit which led to unanticipated import curtailments, with adverse repercussions on the growth momentum of the economy.

These circumstances generate a new emphasis on export diversification from the mid 1960's leading to a number of policy revisions within the existing import-substitution policy framework. The policy measures included the establishment of an import duty rebate scheme (a scheme to refund import duties paid on imported inputs used in export production) from December 1964, introduction of a Bonus Voucher Scheme (an import-entitlement scheme for selected non-traditional exports) in 1966, the devaluation of the rupee by 20 per cent in 1967, and the introduction of a Foreign Exchange Entitlement Scheme, FEECs, (a dual exchange rate system with a premium exchange rate for all non-traditional exports) in 1968.

Despite the shift in political power in May 1970, the policy emphasis on export promotion continued well into the 1970s. In fact, the onset of the oil price hikes in 1973 with their attendant balance of payments pressures, and the increasing debt-servicing burden due to continuous reliance on foreign financing in the late 1960s had made promotion of exports and foreign exchange earnings even more urgent in the 1970s than in the 1960s.

The creation and development of a "new export sector based on industrial production, and the promotion of minor agricultural exports" was among the key elements in the Five Year Plan (1972-77). To achieve these objectives, a number of steps were taken. An Export Promotion Secretariat was established in 1972 to function as the appex institute of directing and co-ordinating the export development effort of the country. The State Gem Corporation was set up in 1971 with the objectives of promoting gem exports and channelling illegal gem exports into institutional sources. A replanting and new planting subsidy scheme, compiled with provision of extension services, was introduced for selected minor agricultural export crops under the newly established Department of Minor Export Crops. These institutional arrangements apart, a new export incentive scheme – the Convertible Rupee Account (CRA) Scheme – (an import entitlement scheme under which non-traditional exporters were allowed to credit a certain percentage of export earnings to specific bank accounts the balances of which could be used for the importation of restricted imports) - was inaugurated in 1971. The FEEC scheme continued to be in operation with periodic upward adjustments in the premium rate. Added to these were a number of newly introduced tax incentives including an 8-year tax holiday on export profits of approved exporting ventures.

In line with the government's commitment to the export diversification drive, export-oriented direct foreign investment was accorded preferential treatment in the White Paper on Foreign Investment issued in August 1972. Another noteworthy feature of the foreign investment policy during the first half of the 1970's was the active interest shown by the government in establishing export-oriented joint-ventures (for example, Noritake and Wall-tiles factories) with capital participation between public corporations and foreign firms. Although action on those lines was not pursued the idea of establishing a Free Trade Zone was among the various policy suggestions in the area of export promotion embodied in the Five-Year Plan.

POLICY REFORMS SINCE 1977

Export promotion attempts pursued since the late 1960's in fact, brought about noteworthy results in the field of non-traditional exports (See Section on Overall Export Trends). However, the rate of export expansion achieved was highly inadequate when compared with the magnitude of the balance of payments disequilibrium brought about by escalating import prices and the poor performance of the traditional export sector. Therefore, strice import controls continued to be in force throughout the period with adveerse repercussions on the performance of the economy.

The new government which came into power in May 1970 was strongly convinced that piecemeal adjustments within the existing restrictive trade regime would not provide a lasting solution to Sri Lanka's economic crisis, and the solution must be found in a radical shift towards an outward looking strategy. The strengthening of the market mechanism and linking the economy with the world system were considered essential pre-conditions for enhancing economic growth and development. A far-reaching policy reform in this line of thinking was announced in the Budget Speech presented in November 1977, and further changes were affected subsequently.

As the experience of certain other developing countries has amply demonstrated, the attainment of satisfactory export expansion is the single most important factor which determines the viability of the outward-oriented development strategy. If foreign exchange receipts do not, at some point, start growing at a rate sufficiently higher than the rate of growth of demand for imports, the country might be forced to fall back on quantitative restrictions in order to contain foreign exchange expenditure at levels permitted by foreign exchange receipts. While private foreign capital inflows and aid receipts can offset a deficit in the trade balance, their rate of growth is closely related to how well export earnings are performing. Under the new policy reforms, export development has therefore been accorded the highest priority in the overall development programme.

The major elements of the policy mix such as the removal of quantitative controls on most imports (trade liberalisation), considerable relaxation of control on many types of exchange payments, replacement of the dual exchange rate system by, a unified floating exchange rate, and elimenation of various controls on the domestic economy are aimed, among other things, at generating an economic climate which is conducive for export expansion through private sector initiative. For instance, the abolition of import controls is expected to ensure the timely availability of imported inputs and machinery for export production at competive prices.

Also fair competition under liberalised trade may enhance quality consciousness of local producers enabling them to compete successfully in foreign markets. The relaxation of exchange control on business travel may promote market research and marketing efforts in foreign markets. The maintenance of a realistic external value for the Sri Lankan rupee through an exchange rate reform is expected to preserve and enhance price competitiveness of exports. However, in a country with hardly any tradition of exporting other than a handful of primary products and which still has a strong import substitution bias inherited from the past, the mere improvement of the general economic climate cannot by itself generate the desired export push. On these considerations a number of policy steps directly aimed at export development have been introduced as an integral part of the policy reform. These measures are briefly discussed below:

Institutional Resources

In order to establish a sound institutional background under which the commitments of the government to the export development drive at the highest political level could be ensured, the Export

Development Act No. 40 was enacted by the National State Assembly in 1979. The Act provided for the establishment of two pivotal institutions : the Export Development Council of Ministers, and the Sri Lanka Export Development Board (EDB).

The Export Development Council of Ministers, which functions under the Chairmanship of the President, has the assigned task of providing guidance and direction to the national export development effort. The EDB, which replaced the Export Promotion Secretariat, is the "Executive arm" of the Export Development Council of Ministers. Its functions include advising the Council on export development policies, formulating export development programmes and monitoring their implementation and the co-ordination of the activities of various government bodies responsible for various aspects of export development.

Export Oriented Direct Foreign Investment

The success of an export-led development strategy depends crucially on the ability of domestic industries to penetrate advanced-country markets. It is believed that product expertise and marketing skill gained through foreign collaboration has an important role to play in this connection. Guided by this belief, a number of policy steps, have been taken to provide an environment conducive to foreign investment. The setting up of the Greater Colombo Economic Commission (GCEC) in 1978 with the assigned task of establishing and operating Investment Promotion Zones, relaxation of traditional norms with respect to foreign participation in export-oriented projects, entering into Investment Protection Agreements and Double Taxation Relief Agreements with major investing countries and guaranteeing such agreements under Article 157 of the Constitution of Sri Lanka, and launching investor promotion campaigns abroad. Further details on policies of export-oriented direct foreign investment may be seen in Economic Review (Special Issue on the Katunayake IPZ - Vol. 8 No.3, July 1982).

Tax Concessions for Exporters

As already noted, an eight-year tax holiday for companies in the field of non-traditional exports was introduced in 1972. However, from 1976 this concession remained virtually inactive because of the decision to limit it only to "broad based" companies. As an element of the new tax reforms introduced in November 1978, all companies set up (on or after 15.111978) for the exportation of non-traditional exports were made eligible for a new five year tax holiday. As a further step, by the 1983 Budget the export sector was singled out for special treatment by announcing that the five-year tax holiday would be continued beyond 31.3.83 only for this sector. (Upto this date other companies involved in other activities such as the tourist industry, import substitution production and construction were also eligible for similar, or even more attractive tax concessions).By the 1984 Budget this concession was extended to cover individual entrepreneurs and partnerships too (in addition to companies).

With effect form the 1978/1979 tax year, the full cost of advertising and the sales promotion activities, and travelling expenses in connection with promotion of non-traditional exports have been made deductable in calculating taxable income. Under the Turnover Tax Rebate Scheme which came into force in April 1982, goods or material imported for export production are exempted from import turnover tax. In addition to these, over the past six years steps have been taken either to completely abolish or to reduce considerably export duties on non-traditional agricultural products.

Special Export Incentives and other Assistance to Selected Product Sectors

Various financial incentives and, assistance in product development and export marketing provided by the EDB, export financing facilities provided by the Central Bank, and various export insurance schemes of the Sri Lanka Export Credit Insurance Corporation come under this category.(See Box on Financial Incentives).

OVERALL EXPORT TRENDS

Table I presents data pertaining to the overall export performance of Sri Lanka over the period 1960-83. Throughout the period upto 1973 export earnings (in current SDR terms*) in all the years but 1964 and 1965 were below the level in 1960. (Column 2) Since then an upward trend was recorded with the onset of the recent world commodity boom. However, with the cessation of the boom, the growth momentum has slowed down. For instance, the average annual compound growth in 1978-1983 was 8.2 per cent compared with 18.5 per cent in 1972 - 1977. The analysis of growth in current terms is, in any case, misleading since the bulk of value increases in recent years reflects of constant, export volume column (4), the export behaviour indicates

* A rupee value export data series is inappropriate for an analysis because of drastic variations in the external value of the rupee in recent years. It is necessary therefore to covert this series into a stable foreign currency. The most stable currency unit one can use for this purpose is the SDR (Special Drawing Rights).

a rather erratic pattern. Since the middle of the 1960s, the real export index has been on the decline with only minor upward deviations in a few years. The overall conclusion is that there has been no steady acceleration as far as overall export performance is concerned.

From the point of view of the external payments position of a country, what is more important than the level (current or real) of export earnings is the import purchasing power of export earnings. The index constructed to indicate the behaviour of import purchasing power**of Sri Lankan export earnings is given in column 8 of the Table. The index has declined over most of the years under study, while the annual rate of decline has accelerated in recent years. Import purchasing power in 1983 was only 30 per cent of what prevailed in 1960.

** Import Purchasing Power $= \dfrac{\text{Export Value}}{\text{Import Price}}$

$$= \frac{\text{Export Volume x Export Price}}{\text{Import Price}}$$

(Where, $\dfrac{\text{Export Price}}{\text{Import Price}}$ is the Terms of Trade)

$$= \text{Export Volume x Terms of Trade}$$

Import purchasing power is the product of export volume and the terms of trade (the ratio of

Table 1

BASIC DATA ON SRI LANKA'S OVERALL EXPORT PERFORMANCE 1960-83

Year	Export Values in Current SDR: '000 SDR	Export Values in Current SDR: Index	Export Volume Index	Export Unit Value Index	Import Unit Value Index	Terms of Trade Index (a)	Purchasing Power of Exports (b)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1960	384,712	100	100	100	100	100	100
1961	368,923	95	103	94	100	94	95
1962	379,672	99	141	94	100	94	99
1963	363,503	94	107	94	111	85	85
1964	393,952	102	116	94	133	71	77
1965	409,454	106	121	94	122	77	87
1966	357,143	93	110	88	122	72	76
1967	355,042	92	114	81	131	62	70
1968	342,017	89	117	80	124	65	72
1969	322,017	84	112	80	133	60	63
1970	341,681	89	116	80	142	56	62
1971	327,227	85	113	80	154	53	56
1972	296.313	77	111	70	140	50	55
1973	342,988	89	112	73	166	44	54
1974	432,370	112	97	109	278	39	40
1975	466,047	122	116	97	308	31	39
1976	494,856	129	111	98	240	41	54
1977	637,021	166	102	148	274	54	61
1978	674,478	175	109	143	270	53	65
1979	758,697	197	110	153	402	38	49
1980	802,649	209	108	162	528	31	40
1981	891,001	232	111	159	657	24	35
1982	919,234	239	122	144	704	20	34
1983	997,456	259	118	199	854	23	30

Note : Unit value indexes are in terms of SDRs. The rupee indexes have been converted into SDR using annual average SDR- rupee exchange rates obtained from the Annual Report of the Central Bank of Ceylon. All indexes, which are on a 1978 base in the original source, have been transferred to a 1960 base.

(a) The ratio of export unit value index to import unit value index ((5)/(6) x 100)

(b) The ratio of the value of exports to the unit value of imports ((3)/(6) x 100)

Source ; *Sri Lanka Customs Returns (for export value) and Central Bank of Ceylon, Review ofthe Economy (for all trade indexes).*

average export price to average import price). Escalation of import prices (notably since the onset of the oil crisis in 1972) in the face of declining or slow moving export prices, resulted in a sharp deterioration in the terms of trade through out the period under study. On the other hand, export volume stagnated. The cumulative outcome of these movements was the sharp erosion of the import purchasing power of the economy. It is well known that Sri Lanka has almost no control over import prices, and almost none over export prices. But in the long run, she does have a considerable degree of control over export volume. Therefore it is not logical to place the blame for the decline in import purchasing power only on extraneous world market forces. A significant portion of the explanation for these adverse movements must be found in the nature of export policy pursued.

The essential corollary to the erosion of import purchasing power has been the decline in the percentage contribution of export earnings to total expenditure on the import bill. In the years 1970 - 77, on the average, earnings from merchandise exports contributed around 90 per cent of the country's total import outlay. This high percentage is, in fact, misleading in view of strict import controls prevalent during this period. With the liberalization of import trade in November 1977, the inadequacy of the degree of export expansion, compared with the country's import demand, has become obvious. For instance, in 1978 about 85 per cent of imports was financed through export earnings. Since then this percentage declined continuously reaching only 56 in 1983. The major portion of the remaining gap was filled through recourse to foreign financing which invariably has a negative impact on future import capacity of the economy by way of "debt servicing payments" (repayments of loans plus payment of interest thereon). The debt service ratio (the ratio of debt repayments and interest payments to total export earnings) increased from 12.4 in 1980 to 21.6 in 1982. The major portion of foreign finance (about 85 per cent on average) obtained during 1978- 83 was long-term debts the amortisation of most of which is due to commence in 3 to 5 years (Central Bank of Ceylon, Annual Report 1983, p. 92). Therefore the debt service

Table 2

SRI LANKA'S EXPORT PERFORMANCE IN A WORLD CONTEXT

Year	Merchandise Exports (US '000)			Sri Lanka's share in		Share in World Exports
	World	NO-DC	Sri Lanka	World Exports	Exports of NO-DC*	No-DC* share in world exports
1950	57,420	17,591	328	0.566	1.864	30.371
1955	85,520	21,380	407	0.476	1.903	25.000
1960	115,520	24,676	111	0.355	1.665	21.356
1965	168,000	32,027	409	0.243	1.277	19.063
1966	184,600	34,720	357	0.193	1.028	18,808
1967	197,700	35,239	348	0.176	0.987	11,824
1968	216,200	37,686	342	0.158	0.907	17.432
1969	247,800	42,275	322	0.129	0.761	17.060
1970	284,800	46,519	342	0.120	0.735	16.334
1971	319,700	48,777	344	0.107	0.705	15.257
1972	378.800	58,244	337	0.088	0.578	15.376
1973	527,400	84,672	410	0.077	0.484	16.055
1974	779,700	121,479	527	0.067	0.433	15.580
1975	804,600	118,568	566	0.070	0.477	14.736
1976	916,700	139,478	570	0.062	0.408	15.215
1977	1041,500	164,7272	753	0.072	0.457	15.816
1978	1199,800	188,084	845	0.070	0.449	15.676
1979	1524,100	245,095	981	0.064	0.400	16.081
1980	1868,300	312,021	1,074	0.057	0.344	16.701
1981	1837,200	323,832	1,065	0.057	0.328	17.626

** NO–DC: Non-oil Developing Countries*

Source: *IMF, International Financial Statistics, Supplement on Internal Trade Date, 1982.*

Table 3

ANNUAL AVERAGE EXPORT GROWTH RATES AT CURRENT SDR PRICES, 1965-69, 1970-77 AND 1978-82

		Average annual growth rates 1965-69	1970-77	1978-82
1.	Primary Products	-5.95	12.43	0.68
1.1	Traditional Agricultural Products	-6.35	6.74	-1.46
	a. Tea	-4.62	10.08	-3.62
	b. Rubber	4.62	11.91	3.94
	c. Coconut Kernel Products	4.40	9.42	14.74
1.2	Non-Traditional Primary Products	0.32	13.81	16.02
	a. Coconut by-products	-4.35	10.43	9.84
	b. Spices	3.60	11.37	15.32
	c. Other Agricultural Products	9.37	7.32	65.23
	d. Minerals	-6.21	65.72	2.78
	Gems	-53.93	213.65	11.66
	Graphits	5.27	8.56	12.12
	Other	-	112.52	87.54
2.	Manufactured Goods (including petroleum products)	9.77	78.22	32.22
	Manufactured Goods (excluding petroleum products)	9.17	51.71	53.42
2.1	Food, Beverages and Tobacco	70.90	56.54	15.38
2.2	Textile, Wearing Apparel & Leather Industries	50.20	65.21	65.64
	a. Garments	58.18	62.75	65.98
	b. Leather products/footwear	0.23	0.09	0.02
2.3	Chemical, Rubber & Plastic Products	-3.17	26.81	12.78
	a. Chemicals	-3.17	25.23	9.14
	b. Rubber Goods	-	28.35	25.32
2.4	Petroleum Products	-	144.06	23.92
2.5	Non-Metalic Mineral Products (Ceramic-ware and wall-tiles)	-4.92	272.28	20.74
2.6	Machinery and Equipment	19.94	120.30	20.52
2.7	Other Manufacturing	5.15	39.07	110.53
3.	Unclassified exports	0.15	39.17	31.16
4.	Total domestic merchandise exports ('000 SDR)	-6.83	9.84	7.31

Notes : (a) Exclusing processed tea (tea bags and instant tea
(b) Including processed tea (tea bags and instant tea)
(c) Data series starts in 1968
(d) Data series starts in 1970.
(e) Data series starts in 1972

Source: *Compiled from Sri Lanka Customs Returns (Annual Issues, 1965-82).*

ratio is bound to increase at a rapid rate unless a major break through occurs in the export front. Given invariable institutional limitations on the availability of foreign finance and increasing debt sercive burden, it has now become obvious that "Sri Lanka cannot expect to achieve its development goals while maintaining a relatively liberalized system of trade, unless our exports increase rapidly. "(Budget Speech, 1983, p.35).

SRI LANKA'S SHARE IN WORLD TRADE

When Sri Lanka's exports are examined in the global context, the most striking feature one would note is the continuous decline in her export share both in world exports as well as in exports from "non-oil" developing countries (Table 2), while world exports (in dollar terms) grew by 146 per cent between 1960 and 1970, and by 475 per cent between 1970 and 1981, Sri Lanka's exports recorded a negative growth rate of 17 per cent in the former period and a less impressive growth rate of 210 per cent in the latter. As a result, Sri Lanka's share in world exports declined from 0.355 per cent in 1960 to 0.120 per cent in 1970 and to 0.057 per cent in 1981.

While world exports grew by 475 per cent between 1970 and 1981, exports of non-oil developing countries grew by 553 per cent. As a result the export share of the latter had increased from 15 per cent in 1971 to 18 per cent in 1981. The most striking feature to be noted is that, Sri Lanka has continued to lag behind the non-oil developing countries as a group. For instance, her share in total exports of this group declined from 1.864 per cent in 1950 to 0.735 per cent in 1970, and to 0.328 per cent in 1981. It is worth noting that Sri Lanka could not show any notable sign of improvement in her relative position even in the period 1974-77 when her two major export items - tea and rubber - experienced highly favourable market prices.

THE PATTERN OF EXPORT GROWTH

The unequivocal conclusion of the previous section is that Sri Lanka's aggregate export performance lagged behind both her own import requirements and the global export experience during the period under study. We now turn to a more detailed analysis of the export sturcture in an attempt to identify stagnant export items and growing items, and their relative contribution to the observed overall pattern.

The data required for the analysis are summarised in Tables 3 and 4. In compiling these tables the overall time period, 1965-81, has been divided into three subperiods, with a view to highlighting the impact (if any) of recent policy shifts on the export pattern. Table 3 is based on current SDR values. In a comparative analysis of this nature, current value figures might lead to distorted interpretations because the impact of world inflation has been considerably uneven across various commodities. Therefore the current price growth rates will be supplemented with constant price (real) growth rates as given in Table 4.

Table 4
ANNUAL AVERAGE EXPORT GROWTH RATES AT CONSTANT (1980) PRICES

Comodity Category	Annual Average Growth Rate % 1965-69	1970-77	1978-82
Traditional Primary Products	-1.14	1.50	1.88
Tea	-2.24	-0.28	-0.29
Rubber	9.69	4.94	-0.01
Coconut Kernel Products	-5.88	-3.50	28.43
Non-Traditional Primary Products	2.00	7.15	-6.22
Coconut By-products	0.53	3.69	1.36
Spices	3.56	18.23	3.44
Other Agricultural Products	15.42	16.71	32.28
Minerals	3.29	53.13	-20.55
Gems	4.14	62.14	-22.54
Others	5.10	-0.68	8.37
Manufactured Goods (Excluding Petroleum Products)	45.53	32.34	14.78
Food Beverages & Tobacco	67.53	50.15	1.43
Sea Foods	69.92	171.79	0.11
Others	170.00	156.38	13.94
Garments		32.59	58.08
Other Manufactured Giods	0.02	134.10	8.61
Total Export (Excluding Petroleum Products)	-0.75	2.25	-0.61

Source : *Compiled from Sri Lanka Customs Returns (Annual Issues, 1965-82).*

Method :
To obtian constant price estimates, current value series of each commodity category was deflated by a unit value index (with weights of the current year) constructed for that category. Compared with the based-weighted (Laspeyer) index, the current-weighted (Paasche) index has the added advantage of taking into account variations over time in the given commodity mix.

GROWTH OF INDIVIDUAL COMMODITIES

The most important aspect by both real and current price data is the highly unsatisfactory relative growth performance of the "traditional triple" - tea, rubber and coconut kernel products. Out of these three commodities, only rubber indicated a positive average growth rate (4.9%) during the period 1970-77 in real terms but this too was much lower than the average growth (9.7%) pertaining to the period 1965-69. This supports the view that the fairly high annual average growth recorded by the three products in current terms in the first half of the 1970s was mainly due to favourable world market conditions. In 1978-82, both constant and current price growth rates of tea and rubber were negative reflecting the adverse movements in both market price and export volume. The high positive average growth rate (28%) of constant price value of coconut exports in 1978-82 is highly misleading. It merely reflects sporadic export spurts in 1978, 1981 and 1982 over rather low levels in preceding years. Average annual real exports value of coconut products in 1978-82 was only 1.5 per cent higher than that in 1970-77.

Export earnings (current SDR) from non-traditional (minor) agricultural exports have recorded a noteworthy increase over the period under review. More disaggregated export figures (not reported here) show that for most of the commodities in this group, this up-turn commenced somewhere in the late 1960s or early 1970s. The other agricultural products category which comprises live trees and other plants (including cut-flowers), vegetables, betel leaves, oil seeds and edible fruits and unmanufactured tobacco has recorded above-average growth rates in 1970-77 and 1978-82. All these items are 'new-comers' to Sri Lanka's export list, with a continuous export history of only 6 to 10 years. Growth rates of coconut by-products, spices and essential oils, commodities which have a longer history of export performance, were slightly below the average growth rates for the whole group. Constant price growth rates of all these categories remained positive in all the three sub-periods. However, only the growth rate of "other agricultural products" indicated continuous increases. For coconut by-products and spices growth rates in 1978-82 were much lower than that in the 1970-77 period.

Export performance of mineral products has been rather disappointing in recent years. Current SDR export earnings of this commodity category indicated an impressive average growth rate of 65.7 per cent during 1970-77. This declined to about 2.8 per cent during 1978-82. The real growth rates for the two periods were 53.1% and -20.5%, respectively. The major contributory factor for this unfavourable trend was the sharp fall in export earnings from gems which contributes about 80 per cent of Sri Lanka's total value of mineral exports. Real export earnings from this commodity recorded an annual average decline of 22.5 per cent in 1978-82 compared with the impressive growth rate of 62.1 per cent in 1970-77

Total manufactured exports have indicated a higher degree of growth dynamism compared with non-traditional primary exports, since about the early 1970s. Current value of these exports increased from the average annual level of SDR 40.5 million in 1970-77, to SDR 233.5 million in 1978-82. The average annual growth rates in the two periods were 78.2 per cent and 32.2 per cent respectively. This overall picture is, in fact, misleading since part of the variation is due to the re-classification of export earnings from the sales of bunker oil as merchandise exports from 1972 onwards, in contrast to the previous practice of including such earnings in the category of service earnings. Since that year, this single item annually accounted for between 50 to 70 per cent of total manufactured exports until 1981 when wearing apparel became the dominant item. Therefore, a meaningful analysis of manufactured export expansion calls for the exclusion of this item from the aggregate figure. When this revision is done, average annual growth rates for the two periods, 1970-77 and 1978-82, turn out to be 51.7 per cent and 53.4 per cent respectively. In terms of absolute figures, the increase in the average annual level was from SDR 4.9 mn in 1970-77 to SDR 126.0 mn in 1978-80. In real terms, annual average growth of non-petroleum manufactured export earnings was 14.8 percent in 1978-82, compared with 32.3 per cent in 1970-77.

Among the non-petroleum manufactured exports, garments has indicated the most impressive steady growth record. Beginning from a low starting base of SDR 0.4 mn in 1968, apparel exports expansion at the average annual rate for the two periods were 32.6 per cont and 58.1 per cent respectively. SDR export value of this item increased from 1.3 mn in 1970 to 13.4 in 1977, and 149.9 mn in 1982. The next major item in the non-petroleum export category is sea foods. Export earnings of this item has increased from SDR 1.2 mn in 1970 to 11.3 mn in 1977 and to 26.8 mn in 1982. However, the real growth rate in recent years has been near zero (the average growth in 1978-82 was 0.11%) indicating that the observed nominal increase is mainly due to increase in export unit prices. From an overall point of view, average annual growth rates of the remaining manufactured export items given in Table 4 seems impressive. However, a close look at annual figures of individual commodities reveals that their growth has been rather sporadic. Only a few items, in particular manufactured rubber goods, articles made from coir fibre (mainly brooms and brushes) and ceramic-ware and wall-tiles have indicated continuous annual increases.

CHANGES IN COMMODITY COMPOSITION OF EXPORTS

Throughout the period under study, the aggregate share of the three traditional exports declined continously, and since the latter part of the 1970s the decline was more sharp. In 1982 this share was 46 per cent compared 72 per cent in 1978, and 89 per cent in the late 1960s. If the share is calculated for total exports, excluding petroleum products, the decline is much less marked; but still appears to be considerable. For instance, the revised figure for 1982 was 57 per cent compared with the average level of 85 per cent during the period 1970-77. In the late 1960s and the early 1970s, unfavourable price trends was the major reason (notably for tea and rubber) for the observed declined in the share of traditional exports. Since then, both continous stagnation of export volume of these products and higher growth rates of non-traditional.

The simplest way to shed light on these issues is to examine the behavioural pattern of Sri Lanka's export market shares of selected commodities. If external factors were the sole contributor to unsatisfactory export perfomance and if exporters exploited the existing market opportunities, the country would then, at least, have maintained its share in world exports of the given commodity. If this has not happened, then the explanation should lie in the country's own internal policies and various other supply bottlenecks.

Estimates of Sri Lanka's market shares in selected export products for the period 1976-1982 are given in Table 5. Let us examine this data starting with the traditional exports. For all the five commodities - tea, rubber, dessicated coconut, copra and coconut oil- the market share has slipped drastically throughout the period. For instance, the market share of tea in 1982 was 26 per cent compared with 34 per cent in 1976. This decline is even more striking if we use the share for 1965, the peak year of Sri Lankan tea production, as the base for comparison. Sri Lanka's share of the world tea market in that year was 52.5%. It is pertinent to compare Sri Lankan Experience with the other two traditional tea producers - India and Indonesia. During this period, India was able to maintain her export market share at the average level of 37 per cent, with only insignificant annual deviations, even in the face of increasing internal demand pressure. Indonesia's share increased from the average level of 7 per cent in 1970 - 72 to 10 per cent in 1979 - 81. (Data from FAO, Trade Year Book).

In the case of rubber, the decline in market share is less dramatic, However, the overall trend was on the decline. For instance, none of the years after 1976 could exceed the 1976 share of 4.4 per cent.

The three coconut kernel products indicate the most unfavourable relative growth record. The share of Desiccated Coconut declined from 35.3 per cent in 1976 to 22.5 per cent in 1982. Sri Lanka's position in the world copra market had reached an almost negligible level by 1982. Market share of Coconut oil has indicated a high degree of instability, but again the overall trends for the period showed a

Table 4 A **TOTAL EXPORTS, IMPORTS AND BALANCE OF TRADE IN MERCHANDISE (1953 - 1983) (Million U.S. $.)**

Year	Domestic Exports	Total Exports	Imports	Balance of Trade	U.S.$. Equivalent in Rs.
1953	312.9	329.3	337.6	- 8.3	(4.7619)
1954	361.0	379.9	293.4	+ 86.5	"
1955	393.1	407.4	306.5	+ 100.9	"
1956	347.0	364.3	342.2	+ 22.1	"
1957	333.5	353.1	378.9	- 25.8	"
1958	346.8	359.2	360.5	- 1.3	"
1959	355.3	368.3	421.0	- 52.7	"
1960	372.7	384.6	411.5	- 26.9	"
1961	352.9	363.9	357.7	+ 6.2	"
1962	370.9	379.3	348.5	+ 30.8	"
1963	357.9	363.4	315.0	+ 48.4	"
1964	386.7	393.9	414.6	- 20.7	"
1965	402.3	409.2	309.6	+ 99.6	"
1966	352.0	357.0	425.9	- 68.9	"
1967	333.3	345.4	355.3	- 9.9	(4.8924)
1968	331.8	341.9	365.1	- 23.2	(5.9524)
1969	315.0	321.9	427.3	- 105.4	"
1970	335.2	341.6	410.7	- 69.1	"
1971	337.3	340.2	356.0	- 15.8	"
1972	324.2	326.7	364.5	- 37.8	(6.1488)
1973	407.1	410.5	425.8	- 15.3	(6.3752)
1974	517.0	520.7	683.0	- 162.3	(6.6677)
1975	552.1	553.6	739.1	- 185.5	(7.1049)
1976	569.8	571.4	551.3	20.1	(8.4259)
1977	743.4	746.0	675.1	+ 70.9	(8.8982)
1978	844.6	846.6	941.4	- 94.8	(15.60)
1979	978.3	981.1	1448.0	- 466.9	(15.58)
1980	1046.2	1051.9	2034.9	- 983.0	(16.53)
1981	999.4	1026.8	1806.3	- 779.4	(19.67)
1982	996.6	1015.6	1772.9	- 757.3	(20.80)
1983	1056.3	1070.7	1786.6	- 715.9	(23.52)

sharp decline. This data shows that the world demand situation can hardly be blamed for the stagnation in export earnings from traditional exports. The explanation must be found in supply constraints which prevented Sri Lanka from maintaining her market position.

Among six minor agricultural commodities only in the case of cinnamon and to a lesser extent, in the case of cloves, did Sri Lanka occupy a significant position in the world market. Among all spices, cinnamon is considered to be the commodity which has least benefitted from the overall increase in the world consumption of spices. The high concentration of the major share (nearly 70 per cent) of world consumption of the commodity in a single country, Mexico, which has been confronted with severe balance of payment problems in recent years, and the rapid market penetration of Cassia, a cheaper but almost perfect substitute for Cinnamon, has led to a continous deterioration in market prospects of this commodity. Given the predominant postion of Sri Lanka in the world Cinnamon trade, the slow growth of her export earnings from this commodity in recent years can be described mainly to this adverse market situation. In the case of cloves, the high degree of volatility of market share reflects the relative importance of domestic supply factors in determining export earnings. The same comment applies for the other items too. Moreover, for these latter items Sri Lanka's market share remains rather small indicating possibilities for further expansion even under the existing level of world demand.

For mineral products, world market data is not available for a meaningful international comparison. However, there is some evidence which suggests that the world demand situation can hardly be blamed for unfavourable export growth of these commodities. In an interesting article that appeared in the Economic Review (Volume 8, Number 5, August 1982; pp. 17.18) N.U. Jayawardena has analysed reasons for unprecedented increase in "record" gem exports during 1972-77 and their drastic decline there after. The major reason for export increase in the former period was the incentives provided under the CRA scheme introduced in 1972. In a highly restricted import trade regime, CRA credits (first 25 per cent and later 20 per cent of exports) allowed to gem exporters for financing scarce imports fetched a premium of 150 per cent to 200 per cent in the market. The upshot was to bring more gems into the open market and to discourage smuggling. With the November 1977 liberalisation, the CRA scheme was abolished as this type of a scheme was no longer relevant under a liberalised trade regime. However, no new incentives were introduced to preserve the degree of profitability of "recorded" gem exports at the high level that existed in the CRA era. The result was the resumption of illicit exports. The introduction of a new 5 per cent BTT on gem exports in 1980 (this was abolished in 1983) and the lack of effective action to prevent the ingressof Thai nationals into the illicit gem trade further aggravated this situation.

A reecent ADB study (ADB 1981) Graphite Mining Project, Finland Report has reported useful evidence on Sri Lanka's performance in the world graphite market. According to this study, Sri Lanka's share in the USA graphite market declined from 7.5 per cent in 1978 to 3.4 per cent in 1980. The decline in the share of the Japanese market (the second largest market for Sri Lankan graphite, next to the USA) was from 6.5 per cent to 3.8 per cent between the same two years. Sharp price increases introduced without considering the level of prices from other competitive sources, and the wrong marketing strategy of attempting to promote higher grade graphite against buyers preferences are the two major reasons given in this study as explanations for this unfavourable market trend.

The degree of world market penetration by Sri Lanka in the field of manufactured exports still remains very low Out of the eight commodities given in

Table 5

IMPORT DEPENDENCE OF MANUFACTURED EXPORTS 1982

	Contribution to total manufactured exports (%)	Import content of exports (%)
Food, beverages and tobacco	8.25	17.91
Garments	46.57	71.23
Leather goods and footwear	0.70	48.71
Petroleum	39.10	85.88
Rubber goods	1.40	22.18
Ceramic and Wall-tiles	1.75	19.76
Machinery and equipment	1.52	43.20
Other manufactured goods	0.72	31.25
Total manufactured goods	100	68.78
Manufactured goods excluding petroleum	60.90	60.00

Source : *Column 1, Sri Lanka Customs Returns*
Column 2, EDB records.
Supplemented with data from the Department of Census and Statistics Survey of Manufacturing Industry, 1980.

the table, leather goods, foot wear and soap have indicated declines in their shares in total developing country exports during 1976-82. Shares of wall tiles, jewellery and fish products have shown erratic time patterns. Both these features support the view that these export items are not year established on a sound footing to exploit successfully the existing market opportunities.

Ceramic ware and garments are the only two commodities in the list which have recorded continous and note-worthy increases in market shares. The share of ceramic ware increased from 0.39 per cent in 1971 to 5.3 per cent in 1982, while the increase in the garments was from 0.14 per cent to 2.6 per cent between this same eleven year period. The country-wise data indicates that Sri Lanka's export experience in these commodities compares favourably with other Asian countries. For instance in the case of ceramic ware, Sri Lanka occupied the seventh position among these countries after South Korea, Hong Kong, Malaysia, India, Thailand and the Philippines. By 1981 she had been elevated to position 4 out-stripping Malaysia, India and Hong Kong. In the field of garment exports, Sri Lanka's overall performance seems to be relatively better than that of the "Asian new-comers", notably Malaysia, Thailand, Thailand and Indonesia. By 1982 she had out stripped Malaysia and Indonesia in the ranking of Asian exports. Philippines and Thailand still occupy higher positions in the ranking, but their annual rate of expansion seems to be relatively lower than that of Sri Lanka.

Quota restrictions enforced by the major importing countries within the Multi-Fibre Textile Arrangement (MFA) have begun the impinge on Sri Lanka's garment exports since the second half of the 1970s. The first quota agreement under MFA was signed with Norway in 1976, and by 1980 exports to all other major markets in the Western Europe and North America had come under similar agreements. At the initial stage, the coverage of quota restrictions was limited only to shirts and blouses, but gradually most of the "popular" garment items were included in the restricted list. It is difficult to tell how serious the impact of quota restrictions on exports is, without having recourse to data at individual exporter level. However, the growing concern of garment exporters on the issue of quota allocation, notably the agitation of exporters outside the IPZ for reducing quotas allocated to IPZ firms, indicates that the restrictive impact of the quota system is, in fact, real.

Apart from the immediate impact on export volume expansion, quotas might have adverse repercussions on the long-term viability of the garment industry in yet another way. The presence of quotas generate "export pessimism" among producers (and perhaps even among policy makers) preventing them from establishing sizeable export production capacity and/or undertaking necessary improvements in the production process. A minimum sales volume in one country is needed to bear the high cost of export marketing.

The mere existence of quota restrictions does not however imply that prospects for the future expansion of garment exports is bleak. One can even argue that these restrictions play a useful protective function in favour of "new-comers" against already established third world countries. Exporters in other countries have in fact benefitted from restrictions against East Asian countries in this sense. It is hard to imagine that Sri Lanka would have penetrated the Western European and North American markets at the rate she had recorded during the past four years had an open-competitive market environment prevailed. This view is supported by Sri Lanka's declining share in the Middle-East market, the only significant dynamic market where quota restrictions do not exist, in the face of increasing competition from the East Asia exporters.

Throughout the period since the early 1970s, quota limits on garment exports from Hongkong, Taiwan and Korea have been highly restrictive. Despite these restrictions, these three countries have managed to maintain their shares in total developing country exports at a steady level. The two major underlying reasons for this success are the successful exploitation of the scope for export increases left to them under the quota system, notably by increasing the unit value of exports and the diversification of exports to new markets, particularly to the capital surplus petroleum exporting countries.

Sri Lanka's garment exports still indicate a heavy dependence on items such as shirts, blouses, trousers and jackets which have already attracted quota restrictions. (See Economic Review, Vol. 9 No.10/11, 1983, pp. 28-33). Therefore, opportunities exist in the short-run to expand exports by shifting to other items. But with the expansion of export volume these items are also bound to come under quotas. Therefore, the long-term prospects are invariably dependent on the ability to increase unit values (by shifting to quality garments) within existing quota limits and to diversify exports to non-quota markets.

IMPORT DEPENDENCE OF MANUFACTURED EXPORTS

An important aspect to be taken into account in assessing the net benefit to the economy of manufactured exports is their import dependence or percentage of imported inputs embodied in FOB exports. The higher the import dependence the lower the contribution of the given export item towards the balance of payments position. On the other hand the essential corollary of high import dependence is low utilization of local raw materials which in turn limit the "spread effect" (trickle-down effect) of manufactured export expansion on the domestic economy.

Table 5 gives details of import content in FOB export earnings and contribution to local manufactured exports of selected products. According to the table the import co-efficient of total manufactured exports is about 69 per cent. Even when petroleum exports are excluded as an exceptional case, the co-efficient still remains as high as 60 per cent. This high degree of import dependence is the outcome of heavy concentration of exports in garment exports. Garments which account for nearly 78 per cent of non-petroleum exports has an import co-efficient of 71 per cent. The import co-efficients of most of the other products, notably that of resource based products such as food, beverages and tobacco, rubber goods, and ceramics and wall tiles, appear to be significantly lower. However, despite increased emphasis on export diversification, the relative positions of these products in the export mix still remains very low.

It is pertinent to mention here that estimates of import content do not portray the full story as to the balance of payments impact of manufactured exports. Over the period since 1977 foreign direct investment (DFI) has become increasingly important in this field (See Box). The share of non-petroleum manufactured exports handled by firms with DFI participation increased from 24 per cent in 1977 to 46 per cent in 1982; and nearly 57 per cent of the incremental exports between these two years originated in these firms. Therefore, other foreign exchange outflows such as profit and dividend repatriation, royalty payments and perhaps other "indirect drains" by way of price manipulations in intra-firm trade, related with the exports, might be substantial. The net balance of payments impact can be meaningfully assessed only through an indepth empirical investigation which takes into account all these aspects.

CONCLUSIONS

The above analysis of Sri Lanka's export performance over the period since the early sixties results in the following conclusions: while current export prices in terms of SDRs recorded an upward trend from about the first half of the 1970s, this expansion has not been adequate compared with the acceleration in import prices and expanding import demand of the economy. This has led to an increasing dependence of the economy on foreign sources for balance of payments financing, a trend which cannot possibly continue without adverse repercussions on the economy's long-term growth momentum. When examined in the global context, Sri Lanka's share in both world exports and exports from non-oil developing countries has continuously declined throughout the period.

The analysis of export performance of individual commodities and commodity categories compared with similar exports from other competitive sources suggests that, with the exception of few isolated cases (in particular, cinnamon and perhaps garments) for most of the commodities the causes of unsatisfactory export performance are of internal origin. The three traditional exports - tea, rubber and coconut have continued to lose their world market positions solely because of unsatisfactory expansion in export volume. From about the early 1970s non-traditional exports as a group have continued to record some expansion. However, at the disaggregated level a high degree of diversity as to growth rates may be observed. It is noteworthy that gem exports which constituted the most dynamic element in the export mix in the seventies upto 1977 have on the average recorded a negative trend thereafter.

The growth record of manufactured exports seems more impressive compared with other non-traditoional products. However, even in this field, Sri Lanka's export expansion does not, to a large extent, match that of her competitors. Among the main manufactured exports from Sri Lanka only garments and ceramic ware have shown satisfactory market penetration as indicated by their continuous increase in the world market share. Other items do not seem to have yet been established on a sound footing to exploit successfully the existing market opportunities.

When the manufactured export mix is taken as a whole, the most prominent feature is the high degree of commodity concentration. Garments account for about 80 per cent of non-petroleum manufactured exports. As an outcome of this heavy dependence on a single import-intensive item, total import content of manufactured exports remains at the level of 60 per cent (69 per cent when petroleum products are included). This heavy import dependence plus the fact that direct foreign investment has assumed an important role in this field suggests that the net balance of payments impact and the spread effect on the economy of export expansion is much less than that revealed by the growth rate in FOB exports.

Export Incentives and Other Assistance provided by the Export Development Board.

Over the past 4 years, since its inception in 1980, the EDB has developed and implemented a comprehensive policy package to help selected nascent export industries. This package includes specific export incentives as well as various measures to remove supply constraints and other related problems faced by exporters.

(1) Export Incentives

(a) Import Duty Rebate

In a country with a limited domestic resource base, one of the most important pre-conditions for the expansion of manufactured exports is access by producers to imported inputs at "world prices". At present, the EDB employs two policy devices to ensure this pre-condition: import duty rebate, and manufacture-in-bond

Import duty rebate implies the reimbursement of import duties paid on imported inputs after the final good is exported. This export promotion device was first introduced in Sri Lanka on June 15, 1964. This first scheme which was administed by the Customs Department was however virtually inoperative owing to the cumbersome administrative procedure involved. A revised scheme under the auspices of the Ministry of Industries was introduced in December 1969. It was with this revision that the duty rebate became an important element of the export incentive system of Sri Lanka. However, the documentary requirements were still so cumbersome, and fixing of rebate rates and processing of claims created considerable delays. In 1980, the scheme was revised and improved by the EDB under the guidance of an ITC expert, and the implementation of the revised scheme was placed under the more flexible and efficient administrative set up of the policy and planning division of the EDB.

The revised scheme shows a remarkable improvement over the previous scheme in terms of flexibility and rapidity of processing claims, and the new reimbursement procedure which operates through commercial banks. Under the latter procedure commercial banks issue bank guarantees on behalf of exporters to the Customs Department for the payment of duties on imported inputs. Such guarantees obviate the need by the exporter to tie up money in duty payments until the rebate claims are settled.

At the inception (1964), there were only 33 products in the eligibility list of the duty rebate scheme. At present almost all the manufactured exports which use imported inputs come under its commodity coverage. The latest improvement on the scheme has been the extention of the coverage to include sales by local producers to the IPZ (provided the sale proceeds are realised in foreign currency).

Annual disbursement under the scheme has shown a tremendous increase in recent years reflecting both the increased efficiency of the scheme and the expansion of manufactured exports. Total disbursement in 1983 was Rs.836 Mn. compared with Rs.783 Mn. in 1982 and Rs.500 Mn. in 1981. In 1983 about 88% of the disbursement was on garment exports followed by tea bags and tea packets (4%), sea foods(1.5%) and canned fruit and fruit juice (1%).

(b) Manufactured -in-bond

This scheme was introduced in 1982 by the Customs Department on the recommendations of the EDB to enable exporters the duty free importation of raw materials, components, packaging and publicity materials which are for 100 per cent re-exporting as a part of a finished good. During the initial two years, only a few exporters (altogether 44 exporters, by the end of 1983) who exported items such as tea bags, toys and sport goods availed themselves of this facility. With effect from 1984, the scheme has been extended to cover garment exports on an experimental basis.

"Manufactured-in-bond" is an improved version of "Bonded Warehouse". Under the latter facility the key of the store where imported inputs are kept should be left with the customs and the presence of Customs Officials is needed when items are removed from the store. Under the former, the bonded store is in sole custody of the exporter. The Customs exercises control over the bonded items only through periodic inventory control.

(c) Export Grants

The EDB operates a scheme to pay outright cash grants (which are free of tax) to exporters of designated export products with the aim of defraying at least part of the costs involved in export market research, product adaptation and training in the initial developmental stage. The first version of the scheme was announced in June 1981 under the title of Export Expansion Grants Scheme (EEGS). In October 1983, this was replaced by a modified version under the new title of Export Development Grant Scheme (EDGS).

All merchandise exports other than bulk tea, tea packets over 500 grams, raw rubber coconut oil, desiccated coconut (in bulk form), copra, gems, graphite, mineral sands, unprocessed spices, cocoa, coffee, and quota garments are entitled for assistance under the EDGS. The eligibility of an exporter for a grant is determined on the basis of two criteria: first the "net foreign exchange content" (FOB value of exports minus CIF value of imported inputs) should be more than 20 per cent of export earnings, second, export earnings (in terms of Special Drawing Right, SDR) in the grant year should be higher than the average export earnings in the three previous years. Once the eligibility is determined, the amount of the grant is estimated as a percentage of total export earnings. There are three alternatives grant rates applicable to each eligible commodity depending on the "net foreign exchange" content:

At present, the total grant is paid in cash. With effect from 1985 payment year (1984 grant year), only 25 per cent of the grant is to be paid in cash, and the balance is to be paid in Development Certificates issued by the Central Bank. These certificates will be valid for a period of five years (bearing no interest) and are encashable for investment in export-oriented projects approved by the EDB.

Total payments under the grant scheme in 1983 was Rs.129.0 Mn. compared with Rs.126.9 Mn. paid in 1982.

(d) Presidential Export Awards

The Presidential Export Awards Scheme was introduced in 1981 as a means of according national recognition to the contribution made by exporters to the national export expansion effort. The awards are made to exporters with the most credible export performance in selected product areas in each year, judged on the basis of criteria established by a committee appointed by the EDB and the Ceylon Chamber of Commerce, and headed by a retired Judge of the Supreme Court. Each award carries a cash prize of Rs.100,000, and the number of awards vary from year to year (for instance 3 in 1981 and 7 in 1983).

(2) Other Measures

(a) The Exporters Forum

The Exporters Forum is a monthly meeting organized by the EDB under the chairmanship of the Minister of Trade and Shipping, which is attended by exporters, and officials of Government institutions concerned and the commercial banks. It provides a common platform for discussion of specific problems related to export activities. Over the past four years the Forum has been instrumental in successfully resolving a number of issues relating to credit facilities for export purposes, turnover tax rates, freight rates, import duty rebate etc.

(b) Trade Facilitation

A major problem faced by exporters (notably the"newcomers") is the various complexities involved in the export procedures and export documentation. In order to make recommendations for revisions and improvements in this connection, a special advisory committee with the participation of both private sector and related government bodies has been set up under the auspices of the EDB.

(c). National Packaging Centre

Poor quality of packaging is a major barrier faced by Sri Lankan exporters in their attempts to penetrate competitive markets. In recognition of this problem, in 1983 the EDB set up a National Packaging Centre as a private limited liability company with the participation of the Ceylon Institute of Scientific and Industrial Research (CISIR), National Engineering Research Development Centre (NERDC), the Bureau of Ceylon Standards (BCS), and the Sri Lanka Institute of Packaging(SLIP). The task of the centre is to undertake research and trainning in design development, and to provide information and laboratory facilities in the field of packaging.

(d) Production Subsidies

Provision of compensatory production subsidies to exporters who face specific cost disadvantages is among the export development policy measures implemented by the EDB. For instance, in 1982 the Board introduced an input cost subsidy scheme for the producers of rubber goods in order to cushion them against high cost of locally available centriduged latex. There is also a scheme to subsidise air-transport costs of vegetable exporters.

(e) Export Production Village Programme

The Export Production Village Programme is an experiment in extending the export development drive to the village level with a view to attaining the objectives of export development and the upliftment of the rural economy. The first export production village (EPV) was set up on 11-07-81 at Paranagama in Dambadeniya electorate to produce reed packs for tea. By the end of July 1984 as many as 21 EPVs had been established.

Dambadeniya (reed packs for tea), Yatinuwara (spices), Nawa Horana (wooden handicrafts) Katana (flowers), Chavakacheri (palmyrah products), Pulloly - Point Pedro (palmyrah products), Katugampola (pineapple, betel leaves), Battalagoda (sesame seed, black gram), Palakuda (green chillies), Katuwana (coir fibre and yarn), Kalawewa (green chilies), Vavuniya (black gram), Bingiriya (green chillies), Ratmalana - Attidiya (unbrellas). Saliya - Asokapura (green chillies) Balangoda (beans), Alhugalpura (innala), Denipitiya (while fibre), Gampaha - Aluthgama (white firbre), Homagama (electronic assembly),Rathdoluwa (cashew).

Each EPV is managed by a people's company incorporated under the Companies Act (1982) with share holding by the village producers. The EDB supports the operation of EPVs by providing seed capital in the form of non-cumulative preference shares, and marketing, technical and other assistance. The EPVs have been provided with the following incentives :

i Excemption of BTT on sales to exporting firms.

ii A five-year tax holiday on export profit.

iii A cash grant, paid by the EDB, of 2% on export sales.

(f) Product and Market Development

The EDB, over the past three years, has been implementing a series of programmes on product and market development in selected product areas with technical and financial assistance from international organizations such as the ITC, the IDA and the Commonwealth Secretariat. Training facilities for technical personnel, technical assistance in product designing, setting up of quality control facilities, provision of market information, and providing financial and organisational support in trade promotion campaigns are among the major services provided to selected manufacturers under these programmes.

(g) Export Financing

The EDB operates two financial schemes to provide easy finance to selected exporters (see the Box on export financing). These schemes come either under the Central Bank's re-financing facilities or the financial facilities provided directly by the EDB.

Export Financing and Export Credit Insurance

(1) Export Financing

The existing schemes to provide finance to exporters on easy terms can be divided into two groups:

(i) The Central Bank's re-financing facilities.

(ii) Financial facilities directly provided by the EDB

(a) Central Bank's Re-financing Facilities

Export credit re-financing facilities provided by the Central Bank are of three types: pre-shipment credit re-financing scheme, supplementary financing facility, and the medium and long term re-financing scheme.

The pre-shipment re-financing scheme for non-traditional exports was introduced in December 1977, and became operational from about the second half of 1978. Under this scheme the Central Bank provides re-finance at a concessionary rate in respect of loans granted by them to exporters at or below a pre-determined concessionary rate At the inception, the re-financing rate and the maximum rate allowed for banks were 10% and 14% respectively. These were increased to 12% and 16% in January 1980, and then reduced to 10% and 13% in January 1983. Each re finance loan is granted in the first instance for a period of 90 days, with a possible extention of upto a maximum of 180 days.

The end of year outstanding balance under the scheme has increased dramatically from Rs 71.2 million in 1978 to Rs 188.4 million in 1980, and to Rs 458.0 -million in 1982. By 31st September 1983 the balance had increased to Rs 1,234.1 million.

With effect from 6 March 1983, the Central Bank provides, in addition to the above facility, a supplementary financing facility in the form of re-discounting Promissory Notes discounted by commercial banks for exporters at a rate not exceeding 12 per cent. The new-pre-shipment re-financing scheme is meant only for meeting expenses connected with the exportation of commodities other than tea, rubber, coconut and products derived from these three products, garments, gems, marine products, and petroleum products. At the end of the sixth months, (September) of its operation the total outstanding credit under this scheme was Rs 190 million (Data from Central Bank).

The midium and long term re-financing scheme for export oriented projects was initiated in 1981. Under this scheme the Central Bank provides finance to commercial banks, the National Development Bank and the Development Finance Corporation, to provide concessionary loans to export projects approved by the EDB, for periods ranging from 3 to 15 years. The interest rate charged by the Central Bank is 10 per cent while the above lending institutions are allowed to charge a maximum interest of 13 per cent. At the initial stage, finance provided by the Central Bank covered only 80 per cent of total lending to a project. Exporting projects which undertake to export at least 25 per cent of total output in the first year of commercial production are eligible for obtaining finance under this scheme, with maximum credit limit of Rs 30 million.

By the end of 1981, the EDB had approved refinance for 31 projects involving a total lending of Rs 160 million. However, out of them, the Central Bank had provided re-finance only for 10 projects amounting to Rs 35 million reflecting the reluctance on the part of the commercial banks largely due to the enforced low return on their own funds committed to finance these projects. In January 1982, the Central Bank therefore increased the extent of re-finance to 100 per cent By the end of 1982, the EDB had evaluated and approved 159 projects (total investment, Rs.890 Mn), and out of them 45 projects had received Central Bank acceptence for refinancing.

(b) EDB's Financing Scheme

Financial Assistance provided by the EDB to selected export oriented projects takes two forms: equity participation, and the provision of short-term finance to projects with potential for expansion of exports in the short run.

The EDB participates in equity capital of selected export projects by investing in redeemable preference shares carrying an interest of 13 per cent. The basic objective of this scheme is to promote private sector activities in the field of export production by providing only 'seed' capital leaving the management of the project in the hands of the investor. By the end of 1982, the Board had invested Rs. 17.0 Mn in ten projects involved in product areas such as rubber gloves, resin, rubber soling sheets, and medical aid.

The short-run credit scheme for industrial exports was introduced in 1983 to help existing export ventures to expand production and to improve product quality. Under the scheme the EDB finances upto 50% of total expen-

PERFORMANCE OF SLECIC. 1979 - 1983

Year	GUARANTEES ISSUED						VALUE OF BANK ADVANCES GIVEN UNDER GUARANTEES	EXPORT INSURANCE POLICIES ISSUED		
	Preshipment Guarantees		Postshipment Guarantees		Export Performance Guarantees			(Rs. Million)		Value of Shipments Covered
	No.	Value	No.	Value	No.	Value		No.	Value	
1979*	126	220.8	17	18.2	2	8.0	826.0	62	120.6	121.0
1980	212	423.3	37	32.2	14	80.7	1,274.0	128	184.3	270.0
1981	287	588.8	51	68.8	19	91.1	1,270.0	188	284.8	271.0
1982	334	792.6	61	78.2	22	92.0	NA	209	363.2	NA
1983**	338	785.0	65	89.4	22	92.0	NA	215	390.2	NA

NOTE: * For the four months, August to December
** For the first quarter NA Not Available.

SOURCE: *CBC, Bulletine, April 1983, Table 20, Supplemented by various issues of CBC, Review of the Economy.*

diture involved. Export market potential, expected net foreign exchange gain, and the period of payback are the major criteria used in selecting projects for financing. Under this scheme, during the period upto the end of 1983, 11 ventures have been assisted with a financial commitment of Rs.90 Mn.

(2) Export Credit Insurance

The first attempt in the field of export credit insurance in Sri Lanka was the "Packing Credit Guarantee Scheme which came into operation in January 1977 under the auspices of the Development Finance Department of the Central Bank. Under the Schem certain categories of risks were guarante ed in respect of pre-shipment credit granted to the exporters by commercial banks. In 1977 and 1978 the total permitted credit limit under such guarantees were Rupees 23 and 96 million respectively (CBC, Annual Report, 1979 : 87).

On 8 February 1979, the Sri Lanka Export Credit Insurance Corporation (SLECIC) was established (under Act no. 15 of 1978). With its opening, the Central Bank ceased to operate the packing credit guarantee scheme and transferred its assets and liabilities to SLECIC. At present SLECIC operates a full-scale export credit insurance package which provides for, (a) issuing bank guarantees on behalf of exporters and, (b) issuing insurance policies to exporters to cover the risk of non-payment (default) or delayed payment by the buyer abroad. Bank guarantees are of three types : preshipment credit guarantees, post-shipment credit guarantees, and Export Performance credit guarantees. These guarantees help exporters obtain credit from commercial banks on liberal terms. The protection given by insurance policies encourages exporters to export to new markets and new buyers, as well as to increase exports to existing clients on easy credit terms without being disuaded by the attended risks. The exporters can also use these guarantees as collateral in obtaining post-shipment credit from banks.

During the past four years the SLECIC has shown a notewothty performance record in terms of both the number of guarantees and insurance policies issued and total volume of transaction. Related data is summarised in the Table at left.

Foreign Direct Investment and Manufactured Exports

The first signs of foreign capital inflow into export-oriented labour intensive manufacturing industries in Sri Lanka could be seen by the middle of 1970s. According to records of the Ministry of Industries during the period 1974-77, there were 13 instances of establishing manufacturing joint ventures (garments - 9, diamond cutting - 1, gem-cutting - 1, ceramic - ware - 1, wall-tiles - 1) to produce for the export market.

There has been a rapid upsurge in foreign investment following the policy reforms initiated in November 1977. The number of manufacturing units in production in the KIPZ had increased upto 56 by the end of 1983. Of these, 51 firms had foreign capital participation. As at 30 June, 1983, the number of manufacturing firms set up outside KIPZ (under the approval of the Foreign Investment Advisory Committee FIAC was 114. A comparison of the list of these firms with exporter-wise, Customs Returns shows that at least 50 per cent of these latter firms export at least a portion of their tot ' output. For both KIPZ and FIAC investors, garments has been the major industry of attraction; about 70 per cent of export-oriented joint-ventures belong to this industry. Rubber goods (14%), lapidary and jewellery (6%), toys and sports goods (4%) and other low-skilled labour intensive goods such as footwear and brooms and brushes are the other areas of investment. To date, the attraction of foreign capital to high-skilled labour intensive export industries such as electrical and electronic goods has not indicated noteworthy trend.

Estimates of the relative contribution of firms with foreign capital participation (henceforth, "foreign firms" for short) for the three years 1977, 1979 and 1982 are summarised in the table below. The percentage share of foreign firms in total manufactured exports was 24 in 1977. This increased to 31 in 1979, and to 46 in 1982. Their share in total merchandize exports in These three years were 2%, 4% and 14% respectively.

Out of the six two-digit SITC commodity categories in the Table, in all the cases, except food beverages and tobacco (SITC 31), the foreign share of exports has indicated a noticable increase over the period under study. At a more disaggregated level, rubber goods, ceramics and wall-tiles, footware, and toys and sport goods indicate the highest level of foreign investment. In the case of garments, the major manufactured export from Sri Lanka, the foreign share indicated about 60 per cent increase between 1979 and 1982, (from 30% to 48%).

This pattern of an increasing importance of foreign involvement in manufactured exports is closely related to the expansion of production in the KIPZ. It is noteworthy that the relative share of non-KIPZ foreign firms in total manufactured exports declined from 27 per cent in 1979 to 14 per cent in 1982. On the other hand, the share of KIPZ firms increased from 4 percent to 31 per cent between these two years. This increase was dominated by the rapid expansion of garment exports from the zone.

It is pertinent here to examine why non-KIPZ foreign firms have indicated a relatively unsatisfactory growth trend. One obvious reason seems to be the closing down (due to internal managerial problems) in 1981 of two leading foreign garment producing firms which upto then accounted for about 15 per cent of garment exports from Sri Lanka. The indifferent attitude of "import-substitution type" foreign firms towards exporting under the liberalized import regime appears to be another reason. The highly restricted import control regime that prevailed prior to November 1977, had an inbuilt compulsion for these firms to export a portion of their output as an effective way of ensuring for themselves the availablity of foreign exchange to meet their import requirements. A close examination of firm-level export data reveals that during this period a significant portion of manufactured exports, notably in the categories of processed food, chemicals and foot-ware was propelled by this motive. Under the liberalized import regime, there is no such compulsion since foreign exchange required for imports is easily available. A high-ranking official of a local subsidiary of a big multinational , when interviewed by the present writer, fully confirmed this view. Prior to the liberalization this companys' export surpassed its import requirements in 1982, according to Customs Returns, its exports covered only 20 per cent of the import bill).

PERCENTAGE CONTRIBUTION OF FOREIGN FIRMS TO DOMESTIC MERCHANDISE EXPORTS BY SECTOR OF ORIGIN 1979 AND 1982 (EXPORT VALUES ARE IN THOUSAND SDRs)

	1977				1979				1982	
Total	Export share of Foreign Firms		Total	Export share of Foreign Firms			Total	Export share of Foreign Firms		
Exports SITC Division (1)	KIPZ (2)	Non-% (3)	Total KIPZ% (4)=(2+3)	Exports % (1)	KIPZ (2)	Non-% (3)	Total KIPZ% (4)=(2+3)	Exports % (1)	KIPZ (2)	Non-% (3)
31. Food, beverages, and Tobacco	12535	-	10.29	10.29	19822	-	18.78	18.78	30159	2.04
Fish products	9075	-	6.42	6.41	15279	-	11.61	11.61	18872	-
Processed tea	1228	-	-	-	1118	-	-	-	3332	9.36
Other	2232	-	30.52	30.52	3425	-	56.86	56.86	7955	3.81
32. Textiles, wearing apparel and Leather industries	14495	-	31.70	31.70	56308	5.70	25.29	30.99	153967	36.73
Wearing apparel	13737	-	29.49	29.49	55599	5.76	24.58	30.34	151699	36.38
Leather products/footware	758	-	71.69	71.69	709	3.99	80.34	80.34	2268	60.56
35. Chemicals, rubber & plastic products	1923	-	1.51	1.51	2676	2.24	7.74	9.98	6669	65.70
Chemicals	1642	-	0.50	0.50	2251	-	4.35	4.35	2098	-
Rubber goods	281	-	7.48	7.48	425	14.11	25.68	39.79	4571	95.86
36. Non-metalic mineral products (ceremic-ware and walltiles)	2991	-	61.50	61.50	4801	-	85.51	85.51	5695	0.36
38. Mechinery and equipment	2383	-	8.12	8.12	3889	-	2.28	2.28	4962	21.83
39. Other manufacturing	1389	-	35.89	35.89	2402	0.01	29.33	29.34	7628	37.51
Articles made from coir	132	-	-	-	609	-	-	-	2255	26.01
Jewellery	36	-	-	-	180	1.13	-	1.13	996	11.63
Toys & sport goods	43	-	-	-	150	-	-	-	1182	83.61
Other	1178	-	42.30	42.30	1464	-	-	48.31	3195	36.63
Total manufactured goods	35718	-	23.64	23.64	99898	3.64	27.16	30.80	209080	31.34
Total merchandise exports	34846	-	1.90	1.90	756,486	0.43	3.76	4.19	902023	8.49

Notes:- - Indicates zero values
a. Tea bags and instant tea
b. Excluding petroleum products

Source:- *Compiled from unpublished firm-wise export records, Customs Department*