

## Steep Acceleration in 1978

The introduction of the economic reforms in late 1977 were regarded as preconditions for an "outward looking" strategy geared towards economic growth, and following these measures a relatively more "open economy" has come into being in Sri Lanka. This policy also implied a liberalisation of trade and exchange restrictions which are mainly intended to stimulate the production activities in the economy. The immediate effects of the import and exchange liberalisation programmes were apparent in the steep acceleration of imports after November 1977. Naturally, the export sector generally experiences a greater time interval to adjust and respond to any policy change. The combined effect of these two trends therefore, was a massive deficit in Sri Lanka's external trade account in 1978.

For two consecutive years, Sri Lanka had enjoyed surpluses in her trade balance, but the sharp rise in imports together with a low rate of growth in exports has resulted in a considerable trade deficit in 1978. On the basis of Customs data, export earnings in 1978 increased by only 3 percent while imports rose by 23 percent. In rupee terms the value of exports stood at Rs. 13,206 million as against an import bill of Rs. 15,366 million registering a trade deficit of Rs. 1,457 million.

TABLE 2. FOREIGN TRADE INDICES 1968-78

Year	Index Number (1967-100)				
	Volume		Prices		Terms of Trade
	All Exports	All Imports	All Exports	All Imports	
1968	103	101	117	126	93
1969	98	108	117	134	88
1970	102	102	118	140	84
1971	99	90	117	150	78
1972	97	88	118	157	75
1973	98	79	137	209	65
1974	85	56	217	37	58
1975	102	69	199	433	46
1976	97	75	239	383	62
1977	89	97	382	471	81
1978	95	132	698	877	80

Source Central Bank of Ceylon

Compared with the corresponding figures for the previous years the rupee values recorded in 1978 appear excessively high. This is because the exchange rate reform in November, 1977 led to a depreciation of the rupee resulting in

TABLE 1. EXTERNAL TRADE ACCOUNT 1974-78

		1974	1975	(SDR values within brackets)		
				1976	1977	1978
<b>Exports:</b>						
Rs. Million	..	3,472 (432)	3,933 (466)	4,815 (495)	6,638 (659)	13,206 (676)
<b>Imports:</b>						
Rs. Million	..	4,554 (569)	5,251 (617)	4,645 (477)	6,007 (630)	14,663 (774)
<b>Trade Balance</b>	..	1,082	1,318	170	631	1,457
Rs. Million	..	(-137)	(-151)	(% 18)	(% 29)	(- 98)
<b>Terms of Trade</b>						
(1967-100)	..	58	46	62	81	80

Source Central Bank of Ceylon

much higher values for a given dollar or pound equivalent of exports or imports. The use of a more stable unit of accounting therefore, has been suggested by the Central Bank, for the analysis of trade data. This unit known as the Special Drawing Rights or SDRs is an accounting unit accepted universally by the member countries for the purpose of borrowing and transacting with the International Monetary Fund. The export and import data for 1978 compares more meaning-

fully and realistically with that of the previous years when this unit of accounting is used.

The SDR equivalent of the exports and imports in 1978 are shown within brackets in Table I. There has been a marginal increase in exports from SDR 659 million in 1977 to SDR 676 million in 1978. Imports on the other hand, have risen from SDR 630 million to SDR 774 million over the same period. Hence, the surplus situation

of the previous year has disappeared and a deficit of nearly SDR 100 million has emerged. Comparable data for the past five years are also given in Table I.

The annual Terms of Trade Index that takes into account the relative change in the import and export prices had indicated a generally favourable position in 1977, when it improved from its very low levels of the previous years. This trend continued in 1978 when the Terms of Trade Index was computed as 80 (1967-100), but was still quite unfavourable for Sri Lanka. An index of less than 100 indicated a deterioration in a country's terms of trade due to import values rising much faster than those of export values. In such cases, the quantity increase in exports may not be sufficient to arrest a worsening trade balance. In view of the low prices of exports and the relatively inelastic nature of the supply of export goods in the short run, the import liberalization programme (at a time when the import prices were rising) resulted in an enhanced trade deficit.

TABLE 3. MAJOR ITEMS OF EXPORT IN 1976, 1977 and 1978

	Value Rs. Million			Percentage of Exports		
	1976	1977	1978	1976	1977	1978
Tea .. .. .	2,100	3,503	6,383	43.7	53.0	48.5
Rubber .. .. .	890	931	2,021	18.5	14.0	15.3
Coconut .. .. .	382	335	972	8.0	5.0	7.4
Textiles and Textile articles .. .. .	173	285	734	3.6	4.3	5.6
Gems & Jewellery .. .. .	264	302	536	5.5	4.6	4.1
Mineral Fuels .. .. .	140	149	376	2.9	2.2	2.9
Fish & Crustaceans .. .. .	75	95	233	1.5	1.4	1.8
Sub-Total .. .. .	4,024	5,600	11,255	83.8	84.7	85.6
Other Exports .. .. .	777	1,015	1,920	16.2	15.3	14.4
<b>Total Domestic Exports</b> .. .. .	<b>7,801</b>	<b>6,615</b>	<b>13,175</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Re-exports .. .. .	14	23	31			
<b>Total Exports</b> .. .. .	<b>4,815</b>	<b>6,638</b>	<b>13,206</b>			

Source Sri Lanka Customs Returns

### Exports

Export earnings in 1978 were low primarily because of poor tea prices which more than offset the contribution of the increased quantity of tea exported. In SDR terms, thus, tea export earnings fell by about 8 percent in 1978. Rubber exports, however, improved substantially by about 11 percent in SDR terms with the favourable world market prices which rose by about 14 per cent. A production recovery in coconut enabled a greater export volume in 1978, and the SDR value of exports from three major coconut products rose by more than 50 per cent in 1978, despite a reduction in the export prices of coconut. However, the poor performance of tea exports is a matter for concern as this commodity still accounts for almost half of Sri Lanka's export earnings.

Within the past decade, several non-traditional exports were encouraged with the idea of diversifying the export structure (Table 3) Minor Agricultural exports, industrial exports and gem exports together now contribute about 25 percent of the total export earnings of Sri Lanka. In 1978, the value of industrial exports (including petroleum products) amounted to Rs. 1,891 million or nearly SDR 100 million, reflecting about 14 percent of the total export earnings. While the industrial exports as a group registered an increase in earnings, gem exports fell by about 10 per cent, and the export value of minor agricultural crops also declined by about 13 percent, in

SDR terms. In rupee terms, all these exports would show higher earnings in 1978 due to the exchange rate adjustments, but it would not be realistic to evaluate the trade performance on the basis of rupee values anymore, as mentioned earlier.

### Imports

After several years of administrative controls, payments restrictions and exchange controls, the import trade began to operate free of restrictions with the introduction of the Government's new economic policy in November 1977. Most of the consumer goods, intermediate goods and capital goods (upto Rs. 700,000) were allowed without Government's prior approval. As a result of this liberalization of imports, the volume of imports

went up immensely and rapidly. The Import Volume Index (1967=100) calculated by the Central Bank indicated a 36 percent rise from the 1977 level, when the index level reached 132 in 1978. The value of imports went up due to both quantity increases and price increases. The level of imports at Rs. 14,663 million in 1978 was equivalent to SDR 774 million compared with SDR 630 million in 1977, reflecting a 23 percent rise.

The growth in imports, however, was accompanied by a shift in the shares of the major import sectors. The composition of imports clearly demonstrated an increase in the import of capital and investment goods. This can be seen from Table 4 which compares the percentage shares of types of imports. Over the period 1977 to 1978, the share of capital goods has risen, from 12 to 23 percent or by twofold, the main item in this category being machinery and equipment. The capital and intermediate goods imports in 1978 together accounted for over 70 per cent of the total import bill and this appears a satisfactory development, for the economy, arising from the import liberalization policy. The impact of this development will be seen in the medium and long-run as the capital goods and intermediate imports would after a time-lag, other factors being favourable, contribute to the enhancement in production.

TABLE 4. COMPOSITION OF IMPORTS BY CATEGORIES 1974-78

	(Percentage shares are given within brackets)			(Rs. Million)	
	1974	1975	1976	1977	1978
1. Consumer Goods .. .. .	(47)	(50)	(36)	(42)	(38)
a. Food & drink .. .. .	2,138	2,651	1,689	2,534	5,594
b. Textiles .. .. .	59	20	49	150	531
c. Consumer durables & other goods .. .. .	129	111	149	203	959
	(42)	(36)	(49)	(44)	(38)
2. Intermediate Goods .. .. .	1,920	1,888	2,259	2,648	5,591
a. Fertilizer .. .. .	221	208	99	51	252
b. Petroleum .. .. .	905	872	1,164	1,441	2,403
c. Other .. .. .	794	808	996	1,156	2,936
	(10)	(12)	(14)	(12)	(23)
3. Capital Goods .. .. .	457	653	641	746	3,367
a. Building materials .. .. .	147	169	104	129	150
b. Transport equipment .. .. .	91	116	175	232	988
c. Machinery & equipment .. .. .	183	322	364	286	1,846
	(1)	(2)	(1)	(2)	(1)
4. Unclassified .. .. .	39	59	54	79	110
<b>Total</b> .. .. .	<b>4,554</b>	<b>5,251</b>	<b>4,645</b>	<b>6,007</b>	<b>14,663</b>

Source Central Bank of Ceylon

TABLE 5. MAJOR ITEMS OF IMPORT IN 1976, 1977 and 1978

	Value Rs. million			Percentage of Imports		
	1976	1977	1978	1976	1977	1978
Petroleum ..	1,196	1,490	2,433.7	25.7	24.8	16.7
Rice & Cereals ..	743	1,061	841.6	16.0	17.7	5.8
Flour ..	686	930	—	14.8	15.5	14.4
Sugar ..	68	199	562.9	1.5	3.3	3.9
Textiles & Yarn ..	189	459	1,217.6	4.0	7.6	8.3
Fertilizers ..	76	18	251.6	1.6	0.3	1.7
Pharmaceuticals ..	59	87	156.8	1.3	1.4	1.1
Boilers, Machinery and Appliances ..	292	313	1,800.3	6.3	5.2	12.3
Iron and Steel ..	183	188	927.8	3.9	3.1	6.4
Motor Vehicles and parts ..	150	233	1,681.6	3.2	3.9	11.5
Sub-Total ..	3,642	4,978	11,979.8	78.4	82.9	82.1
Others ..	1,003	1,029	2,633.6	21.6	17.1	17.9
Total Imports ..	4,645	6,007	14,613.4	100.0	100.0	100.0

nomy arising from the import liberalization policy. The impact of this development will be seen in the medium and long-run as the capital goods and intermediate imports would after a time-lag other factors being favourable contribute to the enhancement in production.

Machinery and appliances, and motor vehicles and spare parts alone have taken up almost 25 percent of the total value of Sri Lanka's import bill in 1978; in 1976 these items did not take even 10 percent of the total import bill. Another item of importance was textiles and yarn which took up 8.3 percent of the import bill in 1978 as compared with only 3 percent in 1976.

#### Sources of Supply

It is significant that with the changing pattern of imports, following the liberalisation, that Japan should have ended up as the foremost supplier of our imports in 1979. Hitherto Saudi Arabia, our major petroleum supplier, had occupied the top position in 1976 and 1977 and was behind only China in 1975. For the first time, however, Japan which had not been within the first three suppliers over the past years, came to occupy the leading position as supplier of our foreign products. A notable feature in the pattern of imports has been the increasing concentration of sources of supply in recent years. The first five supplying countries accounting for nearly half the value of our imports and the first ten for almost 75 percent.

U.S.A., UK, India, Iran and Saudi Arabia have continued to be among the first six sources of supply in 1978 too. Of the nearly 90 suppliers of Sri Lanka's imports in 1978 the first 25 accounted for 93.3 percent of the total value. In 1978, however, imports from many leading supplier-countries more than doubled with

the very large volume of machinery, equipment, industrial manufactures and motor vehicles coming in from these sources.

Japan, for instance, moved aggressively into the Sri Lanka's liberalised imports market. The value of Japan's exports to Sri Lanka moved up from Rs. 376 million in 1976 to Rs. 398 million in 1977 and increased almost fourfold to Rs. 1,159 million in 1978. Nearly 50 percent of these imports from Japan in 1978 were vehicles and other transport equipment (Rs. 405 million) and electronic equipment parts and machinery and mechanical appliances (Rs. 389 million). Another major area was base metals and articles of base metal (Rs. 252 million). Most recent Customs data indicates that Japan pursued its aggressive trade drive into 1979 and by March this year 15 percent of the value of Sri Lanka's imports were from Japan. India was following second, accounting for 9 percent of the value of our imports and third was Singapore accounting for 8 percent of imports.

TABLE 6. IMPORTS 1975, 1976, 1977 and 1978

#### SRI LANKA'S 25 MAIN SUPPLIERS OF FOREIGN PRODUCTS IN 1978

	1975		1976		1977		1978	
	Rs. m.	%	Rs. m.	%	Rs. m.	%	Rs. m.	%
1. Japan ..	447	8.5	376	8.0	398	6.6	1,590.4	11.0
2. Saudi Arabia ..	637	12.1	596	12.8	747	12.4	1,385.3	9.6
3. U.K. ..	223	4.3	275	5.9	327	5.	1,396.1	9.6
4. India ..	150	2.9	181	3.9	377	6.2	1,242.0	8.6
5. U.S.A. ..	337	6.4	379	8.2	538	8.9	1,104.6	7.6
6. Iran ..	218	4.2	499	10.7	586	9.7	858.3	5.9
7. Germany, F.R. ..	252	4.8	183	3.9	223	3.7	831.9	5.7
8. Australia ..	429	8.2	273	5.8	291	4.8	738.4	5.1
9. France ..	429	8.2	294	6.3	231	3.8	690.7	4.8
10. Burma ..	121	2.3	231	4.9	167	2.7	498.7	3.4
11. China ..	662	12.6	56	1.2	284	4.7	452.5	3.1
12. Singapore ..	104	2.0	79	1.7	126	2.1	405.0	2.8
13. Netherlands ..	46	0.8	70	1.5	107	1.7	380.3	2.6
14. Italy ..	38	0.7	52	1.1	139	2.3	275.2	1.9
15. Canada ..	62	1.2	106	2.3	71	1.1	264.4	1.8
16. Belgium ..	17	0.3	56	1.2	73	1.2	230.7	1.6
17. U.S.S.R. ..	112	2.1	72	1.5	131	2.1	237.5	1.6
18. Hong Kong ..	8	0.2	25	0.5	44	0.7	213.5	1.5
19. Pakistan ..	220	4.2	274	5.9	273	4.5	172.2	1.2
20. New Zealand ..	12.9	.3	15.3	.3	23.4	.4	134.3	0.9
21. South Africa ..	30.5	.6	5.3	.1	9.6	.2	100.4	0.7
22. Sweden ..	36	0.9	59	1.2	33	0.5	106	0.7
23. Switzerland ..	15.3	.3	14.0	.3	22.2	.4	100.7	0.7
24. Malaysia ..	15.5	.3	16.5	.4	29.0	.5	100.4	0.5
25. Denmark ..	30.2	.6	18.7	.4	8.8	.2	51.7	0.4
Sub-Total ..	4,653.0	87.1	4,206.0	88.70	5,259.0	85.30	13,561.2	93.3
Others ..	598.0	12.9	439.0	11.30	748.0	14.70	1,052.2	6.7
Total (all countries)	5,251.0	100.0	4,645.0	100.0	6,007.0	100.0	14,613.4	100.0

Source Sri Lanka Customs Returns

## Foreign Markets

UK emerged as the leading market for Sri Lanka's products in 1978, accounting for almost 8 percent of Sri Lanka's export earnings. China which in 1975 occupied top position as both importer and exporter had, in 1978, moved into second position as a buyer of Sri Lanka's products. Pakistan which was the chief importer of Sri Lanka produce in 1977, mainly because of her heavy imports of tea, had fallen into fifth position last year. USA retained third position as a market for Sri Lanka products while Japan moved up from sixth position in 1976 to fourth position last year. Other important markets for Sri Lanka were the Middle Eastern countries of Saudi Arabia, Iran, UAR, Iraq and Syria which took in a large volume of Sri Lanka

tea. Among the other leading Western European markets were West Germany, Italy and the Netherlands while Poland and USSR were the only East European countries among the leading 25 buyers of Sri Lanka produce. Among the major 25 buyers and suppliers the country that recorded the most significant trade gap was India which imported products valued at only Rs. 110 million in 1978 but supplied Sri Lanka with goods to the value of Rs. 1,396 million.

During the first three months of this year USA was the chief market for Sri Lanka's exports accounting for 9.5 percent of the value of total exports, followed by Japan and U.K which had both taken 7.9 percent each of the value of our exports during this period.

**TABLE 7. EXPORTS 1975, 1976, 1977 and 1978  
THE 25 MAIN BUYERS OF SRI LANKA'S PRODUCTS IN 1978**

	1975		1976		1977		1978	
	Rs. m.	%	Rs. m.	%	Rs. m.	%	Rs. m.	%
1. U.K. .. ..	311	7.9	465	9.7	528	8.0	1,038.5	7.9
2. China .. ..	460	11.7	481	10.0	434	6.5	955.6	7.3
3. U.S.A. .. ..	219	5.6	335	6.7	500	7.5	924.9	7.0
4. Japan .. ..	178	4.5	213	4.4	321	4.3	766.3	5.8
5. Pakistan .. ..	345	8.8	363	7.6	534	8.0	689.4	5.2
6. Saudi Arabia	94	2.4	122	2.5	175	2.6	626.9	4.8
7. Germany, F.R.	118	3.0	163	3.4	261	3.9	564.9	4.3
8. Iran .. ..	117	3.0	100	2.0	123	1.8	568.4	4.3
9. U.A.R. .. ..	121	3.1	101	2.1	304	4.6	559.6	4.2
10. Iraq .. ..	190	4.8	145	3.0	356	5.4	457.7	3.5
11. Italy .. ..	68	1.7	131	2.7	110	1.6	307.7	3.0
12. Netherlands ..	69	1.8	116	2.4	186	2.8	367.3	2.8
13. Syria .. ..	65	1.7	79	1.6	168	2.5	362.4	2.8
14. Canada .. ..	95	2.4	117	2.4	127	1.9	291.1	2.2
15. Singapore .. ..	50	1.3	143	3.0	98	1.5	278.0	2.1
16. Australia .. ..	110	2.8	129	2.7	199	3.0	254.8	1.9
17. Hong Kong .. ..	59	1.5	121	2.5	153	2.3	198.3	1.5
18. South Africa	121	3.1	141	2.9	201	3.0	201.4	1.5
19. U.S.S.R. .. ..	103	2.6	153	3.1	125	1.9	197.0	1.5
20. Poland .. ..	39	0.9	42	0.8	69	1.0	165.1	1.3
21. France .. ..	44	1.1	56	1.2	94	1.4	172.2	1.3
22. Switzerland ..	30	0.8	25	0.5	55	0.8	151.5	1.2
23. New Zealand	34	0.9	42	0.8	68	1.0	127.8	1.0
24. India .. ..	2	.1	2	.1	10	.2	110.2	0.8
25. Belgium .. ..	13	.3	10	.2	29	.4	72.1	0.5
Sub-Total .. ..	3,055	76.72	3,795	78.30	5,228	76.64	10,409.1	79.70
Others .. ..	868	23.28	1,006	21.70	1,387	23.36	2,765.9	20.33
<b>Total (all countries)</b>	<b>*3,923</b>	<b>100.0</b>	<b>4,801</b>	<b>100.0</b>	<b>6,615</b>	<b>100.0</b>	<b>13,175.0</b>	<b>100.0</b>

\*Re-export of Rs. 31.2 mn. in 1978. Rs. 22.7 mn. in 1977. Rs. 13.7 mn. in 1976 and Rs. 10.5 mn. in 1975 are excluded.

Source Sri Lanka Customs Returns