

TRADE

Impact of liberalisation shows in accelerating level of imports

The full impact of the liberalisation of trade, introduced in November 1977, was beginning to be felt only during 1979. The original expectation was that when the controls on trade were removed the immediate result would be a 'flood' of imports and once pent up demand was met, imports would settle down at a reasonable level. But the anticipated 'flood' did not take place in 1978 mainly because on the supply side importers reacted slower than expected, with old importers taking time to re-establish their trade connections and new importers watching the situation before they came in fully; while, on the demand side consumers, apparently appeared to need time to decide that they could spend freely on the wide range of imports coming into the country.

The reaction to the liberalisation was belated; but when it did come in 1979 the result was an almost four-fold increase in the country's trade deficit last year over that of 1978. The trade balance was a surplus of Rs. 631 million in 1977, a deficit of Rs. 1,480 million in 1978 and a deficit of Rs. 7,288 in 1979, according to Customs data. In SDR terms the country's import expenditure rose from 774 million in 1978 to 1,121 million in 1979 or by 45 percent. On the other hand export earnings increased from SDR 674 million in 1978 to SDR 750 million in 1979 or by 13 percent. Imports were up from Rs. 6,007 million (SDR 630 mn) in 1977, to Rs. 14,687 million (SDR 774 mn) in 1978 and Rs. 22,560 million (SDR 1,121 mn) in 1979. The upward

trend in imports was gaining momentum through 1979 and continued apace into 1980 with import values exceeding Rs. 2,500 million in January 1980 as against imports valued at Rs. 1,593 million in January 1979 and Rs. 688 million in January 1978. The situation grew even more acute by the end of

during the first two months of 1979. The end result was an alarming deficit in the country's balance of trade which had reached Rs. 3,044 million by the end of February 1980; nearly half the total deficit of 1979. The deficit for the same period in 1979 was Rs. 1,268 million.

A disappointing feature in the country's pattern of trade was that while imports (in rupee terms) nearly quadrupled in 1979 the increase in earnings from exports were virtually negligible and failed to offset the impact of the rising import bill. The growing strain on

TABLE 2 FOREIGN TRADE INDICES 1970-1979

Year	Volume		Index Number (1978=100)		Terms of Trade
	All Exports	All Imports	All Exports	All Imports	
1970	107	77	17	16	106
1971	104	68	17	17	98
1972	102	67	17	18	94
1973	103	60	20	24	82
1974	89	42	31	42	72
1975	107	52	29	49	58
1976	102	57	34	44	78
1977	94	73	55	54	102
1978	100	100	100	100	100
1979	101	123	109	152	72

SOURCE: Central Bank of Ceylon

February when the import bill increased to Rs. 2,955 million. Total import values for the first two months of this year reached Rs. 5,504 million as against a total of Rs. 3,362 million in the first two months of 1979. The latest available import data therefore shows that in the first two months of this year the country's import bill had climbed 64 percent over that of the same period in 1979 and was 250 percent up over that of the first two months of 1978. More significant was the tardy pace of growth in export earnings during this period which went up to Rs. 2,460 million in 1980 over that of the Rs. 2,094

the country's foreign reserves to meet this import bill was cushioned by increasing recourse to foreign resources that have been made available under various aid programmes and investments, and partly from foreign remittances of nationals employed abroad; and this course was being justified as part of "Sri Lanka's medium-term economic stabilization programme".

In keeping with the new economic policies all controls were to be relaxed and imports allowed in freely with a view to resuscitating the economy. One result anticipated was an increase in productivity and a rapid export-oriented growth. But the latter objective has not materialised so far to the extent expected. The changing pattern is seen more clearly in the two tables on this page which reveal that for two consecutive years, Sri Lanka had enjoyed trade surpluses, but in the next two years with the sharp rise in imports and the accompanying low growth rate in exports, there has been a considerably increasing trade deficit. As seen in table 2 the volume of imports, as measured by the Import Volume Index (1978=100) rose by 23 per cent. Import prices as mea-

TABLE 1 EXTERNAL TRADE ACCOUNT 1975-1979

	1975	(SDR Million in brackets)			
		1976	1977	1978	1979
Exports:					
Rs. Millions	3,933 (466)	4,815 (495)	6,638 (659)	13,206 (676)	15,282 (759)
Imports					
Rs. Millions	5,251 (617)	4,646 (477)	6,007 (630)	14,663 (774)	22,570 (1121)
Trade Balance					
Rs. Millions	-1,318 (-151)	+170 (+18)	+631 (+29)	-1,457 (-98)	-7,288 (-362)
Terms of Trade (1978=100)	58	78	102	100	72

SOURCE: Central Bank of Ceylon

TABLE 3 MAJOR ITEMS OF EXPORT IN 1977, 1978 AND 1979

	Value Rs. Million			Percentage of Exports		
	1977	1978	1979	1977	1978	1979
Tea	3,503	6,383	5,699.7	53.0	48.5	37.4
Ruober	931	2,021	2,491.3	14.0	15.3	16.4
Textiles & Textile articles	285	734	1,430.8	4.3	5.6	9.4
Coconut (kernel)						
Rroducts	335	972	1,298.8	5.0	7.4	8.5
Mineral Products	149	376	700.4	2.2	2.9	4.6
Gems and Jewellery	302	536	4,95.5	4.6	4.1	3.3
Fish and Crustaceans	95	233	309.6	1.4	1.8	2.0
Sub-Total	5,600	11,255	12,426.1	84.7	85.6	81.6
Other Exports	1,015	1,920	2,802.	15.3	14.4	18.4
Total Domestic Exports	6,615	13,175	15,228.1	100.0	100.0	100.0
Re-exports	23	31	44.			
Total Exports	6,638	13,206	15,272.2			

SOURCE: Sri Lanka Customs Returns

sured by the Import Price Index (1978=100) indicated an increase of 52 percent. In comparison the export performance was rather disappointing. The volume of exports, as measured by the Export Volume Index (1978=100), increased by less than one per cent. However, export prices, except that of tea, have shown improvement in 1979. The Export Price Index (1978=100) showed a rise of 9 per cent. It may be observed that the terms of trade (1978=100) had reached down to 72 as compared with 102 in 1977. The lowest point, however, in this Central Bank Trade Index was reached in 1975 when it went down to 68. A significant feature of the trade situation in 1979 was the higher price ranges for both import and export items. Despite higher prices the demand for capital and intermediate goods in the country was stepped up with the general economic climate showing signs of improvement. By contrast the value of all major export commodities — tea, rubber and cocbnut as well as most of the minor agricultural crops - declined during the year due to the uneven production performance arising from adverse weather and problems in management and marketing.

minor agricultural exports, petroleum products and manufactured good exports increased. Tea exports suffered with declining prices and the incentives given by the exchange reform in 1977 were maintained through a reduction in export duty in July 1979. Coconut prices, however, were better during 1979 but the country was unable to reap the full benefits due to a shortfall in the volume available for export. Rubber, on the other hand benefitted from the buoyant prices though here too production could not keep pace with brighter demand prospects.

The value of tea exports amounted to Rs. 5,700 in 1979 as against an export value of Rs. 6,383 in 1978. In SDR terms the decline in export value amounted to 13 percent which was the result of decline in volume of exports by 3 percent, and a drop in prices by 8 percent. In these circumstances the tea industry appeared to be affected badly from a liquidity-cum-profit squeeze due to deteriorating prices and heavy taxation, and the Central Bank struck a warning note that "this major industry deserves urgent corrective measures if it is to lead the much desired export growth in a liberalized trade regime".

Exports

Export earnings in 1979 show only a small increase over that of 1978; in rupee terms it was a 16 percent increase and SDR terms a 13 percent increase. Earnings from tea and gems declined, while those of rubber, coconut products

TABLE 4. COMPOSITION OF IMPORTS BY CATEGORIES 1975—1979 (Percentage shares are given within brackets)

	(Rs. Million)				
	1975	1976	1977	1978	1979
	(50)	(36)		(38)	(35)
1. Consumer Goods	2,651	1,689	2,534	5,618	7,824
a. Food & drink	2,520	1,491	2,181	4,127	4,807
b. Textiles	20	49	150	531	1,536
c. Consumer durables & other goods	111	149	203	959	1,481
		(49)	(44)	(38)	(41)
2. Intermediate Goods	1,888	2,359	2,648	5,591	9,143
a. Fertilizer	208	99	51	252	673
b. Petroleum	872	1,164	1,441	2,403	3,912
c. Other	808	996	120	446	502
	(12)	(14)	(12)	(23)	(24)
3. Capital Goods		641	746	3,367	5,459
a. Building materials	169	104	129	150	368
b. Transport equipment	116	175	232	988	1,615
c. Machinery & equipment	322	1,364	286	1,846	2,900
	(2)	(1)	(1)	(1)	(1)
4. Unclassified	59	54	79	110	134
Total	5,251	4,645	6,007	14,687	22,560

SOURCE: Central Bank of Ceylon

TABLE 5. MAJOR ITEMS OF IMPORT IN 1977, 1978 AND 1979.

	Value Rs. million			Percentage of Imports		
	1977	1978	1979	1977	1978	1979
Petroleum	1,490	2,433.7	3,960.5	24.8	16.7	17.6
Boilers, Machinery and Appliances	313	1,800.3	2,089.0	5.2	12.3	9.3
Motor vehicles and parts	233	1,681.6	2,075.5	3.9	11.5	9.2
Flour	930	2,203	1,703.9	15.5	14.4	7.6
Rice & Cereals	1,061	841.6	1,183.4	17.7	5.8	5.3
Iron & Steel	188	927.8	1,159.5	31.	6.4	5.1
Textiles & Yarn	459	1,217.6	924.1	7.6	8.3	4.1
Sugar	199	562.9	890.7	3.3	3.9	3.9
Fertilizers	18	251.6	673.8	0.3	1.7	3.1
Pharmaceuticals	87	156.8	232.1	1.4	1.1	1.0
Sub Total	4,987	11,979.8	14,892.5	82.9	82.1	66.1
Others	1,029	2,633.6	7,667.9	17.1	17.9	33.9
Total Imports	6,007	14,613.4	22,560.4	100.0	100.0	100.0

SOURCE: Department of Commerce. Sri Lanka Customs Returns

In the case of rubber, however, value of exports rose by as much as 25 percent which was due entirely to a rise in prices by 33 percent. The quantity of rubber exported in 1979 fell by 7 percent when compared with that of 1978. Earnings from coconut too recorded a sharp increase of 34 percent and this too was due entirely to world price increases of coconut products in 1979. The volume of coconut kernel products exported in 1979 dropped by 10 percent.

A significant feature of the country's export picture was that earnings from gems dropped for the first time in seven years. Despite the tax reliefs granted to the industry the fall in value terms in 1979 over that of 1978 amounted to 8 percent.

Exports from the Industrial Processing Zone at Katunayake are expected to make a major contribution to the country's export ef-

TABLE 6

**IMPORTS 1976, 1977, 1978 AND 1979
SRI LANKA'S 25 MAIN SUPPLIERS OF FOREIGN PRODUCTS IN 1979**

	1976		1977		1978		1979	
	Rs.m.	%	Rs.m.	%	Rs.m.	%	Rs.m.	%
1. Japan	376	8.0	398	6.6	1,590.4	11.0	3,005.3	13.3
2. India	181	3.9	377	6.2	1,242.0	8.8	2,334.4	10.4
3. U.K.	275	5.9	327	5.	1,396.1	9.6	2,014.9	8.9
4. Saudi Arabia	596	12.8	747	12.4	1,385.3	9.6	1,569.7	7.1
5. Singapore	79	1.7	126	2.1	405.0	2.8	1,358.8	6.0
6. Germany F.R.	183	3.9	223	3.7	831.9	5.7	1,222.1	5.4
7. U.S.A.	379	5.8	538	8.9	1,104.6	7.6	1,211.0	5.4
8. Australia	273	5.8	291	4.8	738.4	5.1	1,077.9	4.8
9. China	56	1.2	284	4.7	452.5	3.1	1,039.2	4.6
10. Iran	499	10.7	586	9.7	858.3		704.0	3.1
11. Iraq	4	0.1	—	—	20.5	1.5	517.3	2.3
12. Hong Kong	25	0.5	44	0.7	213.5	1.2	491.9	2.2
13. Pakistan	274	5.9	273	4.5	172.2	4.8	481.7	2.1
14. France	294	6.3	231	3.8	690.7	2.6	477.0	2.1
15. Netherlands	70	1.5	107	1.7	380.3	0.7	354.2	1.6
16. Union of South Africa	5.	.1	10	.2	100.4			
17. Sweden	59	1.2	33	0.5	106	0.7	352.3	1.6
18. Switzerland	14.	.3	22	.4	100.7	0.7	295.6	1.3
19. Canada	106	2.3	71	1.1	264.4	1.8	291.3	1.3
20. Burma	231	4.9	167	2.7	498.7	3.4	196.1	.9
21. U.S.S.R.	72	1.5	131	2.1	237.5	1.6	167.8	.7
22. Thailand	171	3.7	287	4.8	47.7	0.3	167.0	.7
23. Belgium	56	1.2	73	1.2	230.7	1.6	141.9	.6
24. Malaysia	18.	.4	29.	.5	100.4	0.5	140.3	.6
25. New Zealand	15.	.3	23.	.4	134.3	0.9	106.8	.5
Sub-Total	430	92.8	5398	89.9	13,302.5	91.0	20,458.3	90.7
Others	335	7.2	609	10.1	1,310.9	9.0	2,102.1	9.3
Total	4,645	100.0	6007	100.0	14,613.4	100.0	22,560.4	100.0

SOURCE: Sri Lanka Customs Returns

fort. In the second year since manufacturing units went in to production there the gross value of exports was Rs. 115 million for 1979; of this ready-made garments alone accounted for Rs. 107 million. The overall value of garments exported from Sri Lanka is reported to have risen in 1979 by about Rs. 1,100 million; an increase of nearly 125 percent over that of 1978.

Imports

Import expenditure rose considerably, as was noted earlier. The increase in the volume of imports during 1979 has been estimated at 23 percent while import prices were up by 52 percent. One significant feature of the import pattern appears to be the increasing percentage of intermediate and investment goods and the gradual decline in the share of consumer goods coming in to the country.

As seen in the table 4 the overall share of consumer goods imported has kept coming down from about 50 per cent in 1975 to 35 percent by 1979. The value of consumer goods imported, however, increased by Rs. 2,206 million or by

39 percent during 1979. Food and drink represented nearly 61 percent of the Rs. 7,800 million of consumer goods imported; while textiles took up another 20 percent and other consumer durables the balance 19 percent. The increasing levels of capital and intermediate goods were an indication of an improving investment climate as nearly 53 percent of the capital goods imported constituted machinery and equipment, while 30 percent was transport equipment and 7 percent building materials.

In the case of expenditure on intermediate goods which rose to Rs. 9,143 million from Rs. 5,591 million in 1978, nearly two-third of the increase was a result of higher prices for petroleum and fertilizer as seen in table 5. The proportion of flour and rice imports in the total import bill recorded a drop in 1979. Together rice, flour and sugar constituted about 17 percent of the total value of imports in 1979 as against about 24.5 percent in 1978. However, the total expenditure on these three commodities together increased marginally in 1979 as the value of

sugar imports went up by 50 percent and rice imports by 28 percent, though the value of flour imports declined by nearly 25 percent. The largest item in the country's import bill continued to be petroleum. The next most important items were machinery and appliances; and motor vehicles and parts. Electric machinery and equipment were also a significant item of import in 1979, taking up 4 percent of the total import bill. An added incentive for the import of intermediate and capital goods during 1979 was the reduction of import duties on several items such as mammothies, liquid transporters, lorries and vans, cement, sanitaryware, articles of iron and steel, aluminium ware, radio parts and television equipment.

Sources of Supply

Japan ended up as the most important supplier of Sri Lanka's imports for the second successive year. This was one of the significant changes that had taken place following the liberalisation of the country's trade; Japanese agencies have made the most of the situation. In the three years upto 1977 Saudi Arabia had been the foremost supplier of the country's imports, mainly through its exports of petroleum; but in 1979 the sources of supply of this item were more diversified with Iran and Iraq also providing fair quantities of oil. Japan in the meantime, which exported less than Rs. 400 million annually to Sri Lanka in the years upto 1977, exported goods to the value of Rs. 1,590 million in 1978 and Rs. 3,005 million in 1979. India has also moved in as a major source of supply almost doubling the value of her exports from Rs. 1,242 million in 1978 to Rs. 2,334 million and pushing UK into third position. UK's exports to Sri Lanka were up from Rs. 1,396 million in 1978 to Rs. 2,015 million in 1979.

The other major sources of supply were Saudi Arabia, Singapore, West Germany and U.S.A. Together these first seven sources supplied nearly 57 percent of Sri Lanka's imports. The emergence of Singapore among the first five main suppliers is worthy of note. Upto 1978 the value of imports from Singapore ranged between 1 and 3 percent of the country's total import bill but in 1979 as much as 6 percent of the value of imports was accounted for by Singapore. The value of supplies from Iran and their proportion in the total import bill recorded a marked drop

TABLE 7 EXPORTS 1976, 1977, 1978 AND 1979
THE 25 MAIN BUYERS OF SRI LANKA'S PRODUCTS IN 1979

	1979		1976		1977		1977		1978		1979	
	Rs.m.	%	Rs.m.	%	Rs.m.	%	Rs.m.	%	Rs.m.	%	Rs.m.	%
1. U.S.A.	335	6.7	52	7.5	924.9	78.6	11,524.5	8.1				
2. U.K.	465	9.7	42	8.0	1038.5	7.0	1,585.2	6.8				
3. Japan	213	4.4	55	4.3	765.3	7.9	1,230.8	5.9				
4. Germany F.R.	163	3.4	68	3.9	564.9	5.8	1,037.1	5.6				
5. China	481	10.0	98	6.5	955.6	7.3	902.4	4.5				
6. Pakistan	363	7.6	153	8.0	689.4	4.3	256.8	3.2				
7. Netherlands	116	2.4	127	2.8	367.3	5.2	686.2	3.1				
8. U.S.S.R.	153	3.1	199	1.9	197.0	2.8	484.6	3.1				
9. Iraq	145	3.0	69	5.4	457.7	1.5	477.0	2.9				
10. Saudi Arabia	122	2.5	94	2.6	626.9	3.5	464.6	2.8				
11. U.A.R.	101	2.1	201	4.6	559.6	4.8	448.6	2.8				
12. Italy	131	2.7	168	1.6	307.7	4.2	432.3	2.2				
13. Iran	100	2.0	123	1.8	568.4	3.0	426.9	1.9				
14. Syria	79	1.6	110	2.5	362.4	4.3	326.7	1.7				
15. Union of South Africa	141	2.9	304	3.0	201.4	2.8	298.2	1.6				
16. France	56	1.2	175	1.4	172.2	1.5	259.9	1.5				
17. Poland	42	0.8	356	1.0	165.1	1.3	252.7	1.5				
18. Australia	129	2.7	125	3.0	254.8	1.3	241.1	1.5				
19. Canada	117	2.4	186	1.9	291.1	1.9	228.1	1.1				
20. Hong Kong	121	2.5	534	2.3	198.3	2.2	226.3	0.8				
21. Singapore	143	3.0	434	1.5	278.0	1.5	159.5	.5				
22. New Zealand	143	3.0	261	1.0	127.8	2.1	125.6	.5				
23. Switzerland	25	0.5	321	.8	151.5	1.2	79.5	.4				
24. Yugoslavia	20	0.4	528	.6	60.5	.5	76.7	75.7				
25. Sweden	24	0.5	500	.7	67.1	.5	60.5	10.4				
Sub-total	3,827	79.7	5,283	79.9	10,357.4	21.4	3,703.6	24.3				
Others	974	20.3	1,332	20.1	2817.6	100	15,228.1	100.0				
Total	4,801	100.0	6,615	100	13,175.0	1000	22,560.4	100.0				

SOURCE: Sri Lanka Customs Returns

in 1979. Australia and China also continued to be among the main suppliers of Sri Lanka's imports. The 25 main supplying countries, which accounted for over 90 percent of Sri Lanka's imports, are listed in table 6. The balance 9.3 percent of the country's imports came in from nearly 60 other countries around the world.

Foreign Markets

For the first time USA emerged as the leading market for Sri Lanka when it took Rs. 1,585 million worth of goods or accounted for as much as 10.4 percent of the value of the country's total exports in 1979. Largely responsible for this situation were the increasing quantities of tea and industrial products finding their way into the US market. UK which was the country's main export market in 1978 occupied second position last year, accounting for 8.1 percent of the total value of Sri Lanka's exports. Japan has taken third position moving up from fourth place in 1978 and seventh place in 1977, which proves that overall Sri Lanka-Japan trade relations have strengthened considerably during the last two years. West Germany has also moved up as an important trade partner of Sri Lanka, occupying fourth position as a buyer of Sri Lanka's products and sixth position as a source of supply of the country's imports. This is the first time that the FRG has come within Sri Lanka's five principal markets. China, largely as a result of her rubber purchases, has taken fifth place as a market for Sri Lanka's products.

The other major markets in 1979 were Pakistan, Netherlands, U.S.S.R. Iraq, Saudi Arabia, UAR, Italy and Iran. Together the first thirteen markets accounted for 61.4 percent of the total value of the country's exports. The main markets listed in table 7 accounted for about 76 percent of the total value of exports in 1979. The balance 24 percent went out to nearly a hundred other countries.

Of the East European countries, Poland and Yugoslavia continued to be among the first 25 of Sri Lanka's markets: while among the Asian nations were Pakistan, India, Singapore and Hongkong. and the main Middle Eastern markets were Saudi Arabia, UAR, and Syria.