

LOCAL INDUSTRIES AND IMPORT LIBERALISATION

A survey on the impact of liberalisation of imports on local industries conducted by us in mid 1978 showed that immediately after liberalisation most industrialists were making use of the relaxation of controls either to step up production heavily or move into direct trade where returns seemed to come in quicker. Our survey showed that capacity utilisation and raw material consumption had gone up in major industrial sectors particularly in the textiles and chemical sectors where over 100 percent increases were recorded. New machinery and spare parts were also freely flowing in to meet a long pent up demand. There were also beneficial effects with regard to employment. There were signs however that certain sectors, particularly the small and medium-scale industrialists in these sectors, were adversely affected. Our survey, however, covered only the first half year period of 1978 when the full impact of the liberalisation had probably not been felt as yet and industrialists were still adjusting to the various fiscal and policy changes.

The Minister of Industries presenting his Ministry's viewpoint on this situation, when the Ministry votes were discussed during the Committee stage of the Budget, in November, also drew conclusions which showed that after over one year of operation of the liberalised imports scheme that there were both beneficial and adverse effects on our industries. He said liberal policies implemented from November 1977 freed the industrial sector from the stifling constraints which had seriously affected them in the past. But the performance of some of the bigger private industrialists, particularly with regard to exports, has proved to be disappointing. The Minister remarked in this connection "with the greatly increased flexibility of operation and the ability to maximise capacity utilisation an achievement of only 4 percent overall growth rate of exports in 1978 was below expectations. It is unfortunate that some firms have in 1978 showed a quantitywise reduction of their ex-

ports in comparison to their achievements in 1977 and previous years".

It appears that with the freeplay of market forces being encouraged the bigger industrialists were taking advantage of the situation at the expense of the smaller producer. The Ministry has also followed the concept that adequate protection should be afforded to industrialists to enable the local product to be competitive both in price and quality with imported goods. In several cases, however, there were complaints from industrialists either with regard to imported products or duty rates and a special Tariff Review Committee appointed for this purpose went into all appeals and made the necessary recommendations in the interest of the economy, the local manufacturers and consumers.

The Ministry while taking account of the eroding effects of inflation on the pricing of products of local manufacturers, has warned that care must be taken that inflation accounting does not ultimately result in over-protection of investments and unreasonably high prices of goods to consumers.

The Minister has also emphasised the need for a degree of statutory control covering matters of industrial development. He has pointed out that unlike in many neighbouring developing countries and also developed countries, there are yet no laws in Sri Lanka governing the establishment and operation of industries, or laws for the regulation of monopolies in the field of industrial production, or to prevent dumping of goods by foreign exporters to the detriment of local industries. The development of a statutory base for industrial development he says appears to be "an ungent need".

There was also room for improvement in many directions with regard to capacity utilisation in our industrial sector. Despite the increased availability of raw materials after the liberalisation of November, 1977 capa-

city utilisation in the manufacturing sector was only 70 percent in 1978. This was a significant improvement from the level of 61 percent in 1977, but there was still room for major improvement, states the Minister. He adds that there has been a tendency towards creation of excess capacities in the local manufacturing sector as a result of many industrialists trying to achieve almost complete vertical integration within each factory. He suggests that the time has now come "for greater efforts towards horizontal integration of industries so that capacities already established could be utilised to the maximum. It is very important, he emphasises, that the larger industrial units should not seek to manufacture all the numerous components required, but should sub-contract out to smaller units the manufacture of various components subject to conformity with prescribed specifications.

Among the other observations the Minister makes on liberalisation are the following:

- * the heavy dependence of local manufacturing industries on imported raw materials is a serious defect in our industrial development.
- * The response of entrepreneurs has been satisfactory and in 1978 the Ministry approved the establishment of 1,070 new industrial units involving a total investment of Rs. 606 million and with a potential of generating 23,191 new jobs, when in full operation.
- * There has also been a substantial flow of foreign investment into the country, even in areas outside the GCEC, and several public sector corporations were conducting negotiations with foreign firms.
- * Most of the public sector institutions under the Ministry achieved, in 1978, significant improvements in their levels of utilisation of installed capacity; the most noteworthy achievement being that of cement production which went up from 333,463 metric tons in 1977 to 554,654 metric tons in 1978.

Employment in public sector institutions increased from 38,821

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in 1977 to 44,293 by the end of 1978—an increase of 14 percent. Employment in the organised private industrial sector, coming under the Ministry, is estimated to have increased 12.5 percent—from 84,768 in 1977 to 95,345 in 1978.

- * The number of unemployed persons in the labour force is estimated at approximately 800,000 while approximately 125,000 new entrants will be joining the labour force in the period 1980-83. A total of 1.3 million new jobs will have to be created in all sectors over the next 4 years, with the industrial manufacturing sector contributing at least 125,000 of these new jobs.

The future growth and development of the manufacturing industry in this country will be guided towards the following broad objectives: Establishment of industries which will maximise the local value added content of our primary export products, establishment of import substitution industries which will be viable with reasonable marginal levels of protection and the surplus production of which, if available, could be exported, and establishment of industries to produce for export, items in respect of which this country has a comparative advantage.