

Export Development in Sri Lanka Problems and Constraints

W.D.Lakshman and P.Athukorale

With the acceptance of a policy of export led growth as the most suitable means of achieving economic progress in the context of Sri Lanka's open economy, motivation of exports gathered momentum over the last decade with a view to making it the most attractive area of economic activity. The Export Development Board (EDB) which is the main promotional institution in the country's export drive sought the assistance for a critical analysis of two academics for an analytical review of export performance in recent years. In their review for 1985, Dr. W.D. Lakshman, Professor of Economics of the University of Colombo and Dr P. Athukorale of La Trobe University, Australia prepared a comprehensive report on export development policies; performance in commodity exports and other foreign export earnings activities; and problems, constraints and future prospects of the export sector. In this issue we reproduce their views on the problems and constraints that faced Sri Lanka's export sector.

Having been a country exporting a handful of primary commodities in the 1950's, Sri Lanka had gradually developed into a country whose basket of export commodities is quite varied. No doubt, commodity concentration of exports is still rather high, with 4 to 5 agricultural and industrial commodities bringing in about 75 per cent of total merchandise exports. Yet in terms of the variety of product categories exported, the country can be considered to have gone a long way forward towards diversification since the early post-independence period.

Being a small country, sustained growth and development in Sri Lanka requires, as an unavoidable condition, further growth and diversification of exports. This continues to be hampered by a variety of problems and constraints which are discussed in this chapter. These problems and constraints are clearly changing their character over time. Even at a point of time, different export activities are faced with different sets of problems and constraints. Though the focus is on currently important problems the discussion has to be conducted largely in general terms. Some attempt however, is made to touch on specific problem areas affecting certain important categories of commodity exports.

Merchandise exports and their

growth clearly involve a process with two distinct activities : domestic production activity and export activity. Problems affecting exports and export growth can thus be seen as problems affecting both these types of activities.

Inadequate Production Base

One of the most basic problems affecting Sri Lankan export development efforts is related to the inadequacy of the production base to produce for domestic or for export markets. Economically and sociologically this is basically a question of the character of the domestic entrepreneurial class, complicated further by other factors hampering production activity.

Development of the Sri Lankan capitalist class during the period of British colonial rule was connected in numerous ways with the plantation economy and related foreign trade and finance activities. Within various writings about the Sri Lankan capitalist class, reference has been made and is being made to its merchant character. This implies that there has been an inadequate accumulation of production capital by Sri Lankan business classes, except in plantation, mining and related production activities. The situation was still worse in respect of accumulation of industrial capital. It was during the period of import and exchange

controls from the late 1950's that some development of industrial capital took place. Open economic policies since 1977 had an adverse impact on the less efficient of the industrialists so developed during the period of control regime while also helping through easy availability of imported inputs, the more efficient ones among the existing industrialists. The opening up of the economy in 1977 and various other policies adopted simultaneously seem to have more favourably affected the entrepreneurs in non-tradeable sectors of the economy—trade, transport, finance, construction and so on. The fact that almost half of the GDP of the country is generated in service sectors is a clear indication of this problem of inadequate development of entrepreneurship in those sectors of the economy producing tradeable goods.

The development of the production base, whether for domestic or for foreign markets, thus requires a gradual diversion of private capital from non-tradeable to tradeable goods sectors. The provision of various investment incentives, infrastructural facilities, credit facilities and so on by the government to promote capital accumulation in general is thus quite understandable. In addition, various schemes of entrepreneurship development are in operation to gradually develop from small beginnings usually a viable entrepreneur class of people.

Due to various historical developments during the post-independence period in Sri Lanka, a substantial proportion of production capital has come to be concentrated in public enterprises. State ventures in agriculture, mining and manufacturing still control a large proportion of the production of tradeable goods. They contribute a large share of the country's exports too. It is quite understandable that State capital would come to play a significant role in a society characterised by inadequate development of private production capital. The problem here,

however, is concerned with how efficiently and productively these public enterprises are managed.

It has been necessary to promote direct foreign investments, among other things, to fill in the gaps created by lack of domestic private and State capital. Such investments have been promoted sometimes to start up production of tradeable goods on their own and sometimes in collaboration with domestic private or State capital. The progress achieved in direct investment flows from abroad has been quite satisfactory since 1977, but the contribution these foreign firms can make to export growth, GNP growth and progress in other macro variables like employment can be furthered by having a capable and widespread domestic entrepreneurial class. Often it is easier to attract foreign investments in the presence of collaborative domestic capital than in its absence. In addition, benefits to the national economy emanating from such direct foreign investments are also likely to be greater under collaborative arrangements than under arrangements of 100 per cent foreign ownership.

The problem created by inadequate development of an entrepreneurial class is more severely felt in the field of production for export than in the field of production for the domestic market, as the competition in the former usually is enormously more stiff than in the latter. To the problems due to inadequacy of the domestic entrepreneurial class should be added the problems emanating from the lack of a well-developed managerial class. This is a problem faced by both private and public sectors more so by the latter. All this renders the effort required to build up a production base for a vigorous expansion of exports an enormously difficult one.

The problems referred to above, namely the inadequacy in the development of the country's entrepreneurial and managerial class are, as already noted, the result of Sri Lanka's historical development. The factors which historically led to this situation are

considerably weakened over time through the natural process of socio-economic development and policy intervention. Yet there are certain contemporary factors contributing to a sluggishness in the growth of these classes of people. Topics discussed below include some of these contemporary constraints on the development of a sufficiently broad production base for a vigorous expansion of production of tradeable goods. This discussion of the following topics is undertaken with special reference to export development.

Finance and Working Capital Needs

According to the estimates of the National Export Development Plan the achievements of the rather modest export development targets set by the plan required a total investment of Rs10,280 million over the plan period of 1983-87. This was expected from sources as given in Table 6.1. This total envisaged investment has been divided into the five years in such a way as to require about Rs.2000 million per year from all four sources together.

Figures of actual investment over the 1983-1985 period in a comparable classification system is not available. Two sets of numbers are available in a very roughly comparable form pertaining to NEDP envisaged investments and actual investments. These two sets of numbers are presented in tables 6.2 and 6.3 the former dealing with envisaged investments in tea, rubber and coconut (NEDP) and actual investments in planting, replanting and land development * (Central Bank) and the latter dealing with envisaged investments in textiles and garments, gems and jewellery and other manufacturing (NEDP) and approved or contracted investments in projects with foreign collaboration - (GCEC and FIAC).

Comparison of envisaged and actual investment figures in table 6.2 indicated an extremely high shortfall of actual from the planned. Since planned investment volumes are in constant prices, the above shortfall can be seen * These are not in toto necessarily in tea, rubber and coconut alone.

to be even higher than indicated by the numbers in table 6.2. Actual figures given, moreover, are predominantly related to the three traditional export crops but they cover also investments unrelated to them. This would make the shortfall referred to still bigger.

If approved or contracted investments in GCEC and FIAC firms, as shown in table 6.3, can be assumed to have been actually carried out, even subject to a 75 per cent shortfall, and even leaving room for an adjustment for inflation, the NEDP investment targets in the sectors concerned can be assumed to have been reached during 1983 - 1985. This investment target achievement was perhaps particularly impressive in respect of the garments industry and this is quite well substantiated by the rapid growth achieved by garment exports over this period.

If the NEDP investment targets were adequate to achieve their export growth targets, the question of investment finance which may have prevailed thus seems to have been more a sectoral problem than an overall general problem. In sectors like garments, gems and jewellery and similar export industries which were able to attract foreign investments, capital scarcity was probably not a severe problem. In other sectors like tea, rubber, coconut, minor export crops, fisheries and other industries which did not have much to offer for foreign private capital, raising the required investment capital was probably a serious problem.

In some of these sectors, the problem of the scarcity of investment capital was also a structural problem. In activities like minor export crops, coconut, fisheries and so on, the bulk of the production base consists of small producers scattered over a wide geographical area. The export of the products from these activities, however, is in the hands of perhaps a few large firms. Development of exports in such sectors basically requires the development of their production base. The small-scale producers, however, do not

usually have their own capital for investment in production growth and are not always in a position to gain from concessionary investment finance facilities available from government supported credit schemes. Moreover, it is not always clear whether the benefits of various export incentives provided trickle down to these producers. The

relatively poor performance of some of these sectors in terms of exports could largely be a reflection of these problems of investment finance caused by their peculiar structural characteristics.

Investment Finance

There have been various schemes of

investment finance operated by the government with the assistance of the Central Bank and various financial Institutions to provide investment credit under concessionary terms. Two major ones among these schemes are the EDB/Central Bank Medium and Long-term Credit Scheme and the Small and Medium Scale Loan Scheme jointly operated by the National Development Bank and a number of commercial and other banks under a Central Bank re-finance coverage. There is a large and varied institutional structure developed to provide the needed investment credit to prospective investors. A critical examination of the progress of available investment credit schemes and the operation of long and medium term credit institutions makes one feel that the existing problem of investment finance is something more than limited availability of funds for the purpose. It seems to be a problem caused partly by the inadequate development of an industrial entrepreneurial class in the society as noted in the foregoing section - a class of people who are willing to take risks in venturing into new production areas and in expanding available production facilities, capable of preparing saleable project proposals to security conscious banks and other financial institutions and also having some financial strength to back up credit funds that are available. It is also partly a problem caused by the overall incentive structure in the system.

Entrepreneurial activity, whether it is from private or public sources, depends on relative profitability conditions in the system. As the NEDP itself argues, there are elements in the market and the incentive structure which favour business activity in import and domestic trade, transport, construction and other contract work and similar non-tradeable sectors. These conditions are caused by a variety of policy and non-policy variables including exchange rate manipulations, tariff structure, cost of infrastructural facilities, interest rates, collateral based lending practices of security cons-

TABLE 6.1 NEDP Estimates of Required Investment in Export Activities and Their Sources, 1983-1987

	<i>Rs Million</i>	<i>% of Total</i>
Government Sector	4302.35	41.87
Private Sector	3050.42	29.68
EDB	125.18	1.23
Aid Donor Agencies	2797.21	27.22
	<u>10275.16</u>	<u>100.00</u>

Source: EDB

TABLE 6.2 Planned Investment in Tea, Rubber and Coconut and Actual Investment in Planting, Replanting and Land Development 1983-85

	<i>Rs. Million</i>		
	1983	1984	1985
Planned (NEDP)—Constant Prices :			
Tea	788	826	759
Rubber	378	536	640
Coconut	442	397	429

Actual—(Central Bank)

Gross Domestic Fixed Capital Formation on Planting, Replanting and Land Development (at current prices)	451	492	650
---	-----	-----	-----

Note : a Not only in tea, rubber and coconut.

Source : EDB Central Bank

TABLE 6.3 Planned Investments in Textiles and Garments, Gems and Jewellery and other Manufacturing Industries and Approved / Contracted GCEC and FIAC Investments 1983-85

	<i>Rs. Million</i>		
	1983	1984	1985
Planned (NEDP) :			
Textiles and Garments	297	71	64
Gems and Jewellery	30	6	17
Other Manufacturing	325	214	112
Approved or Contracted Total Investments :			
GCEC Firms—(contracted)	177	597	200
FIAC Firms—(approved)	1031	1283	476

Source : EDB and Central Bank

TABLE 6.4

**SHORT-TERM (PACKING) CREDIT REQUIREMENTS
FOR EXPORTS 1983, 1984 & 1985**

	1983 Rs. Million	1984 Rs. Million	1985 Rs. Million
I.—Value of Exports	29.096	37.347	36.207
II.—Working Capital Required to Finance Exports, per Quarter ^a	5.400	6.900	6.400
III.—Funds Available with Exporters ^b	1.080	1.380	1.280
IV.—Packing Credit Disbursed (outstanding at the end of the quarter) under the Central Bank Short-Term Refinancing Scheme	1.200	1.500	1.300
V.—Average Packing Credit Disbursed under the Refinance Scheme (iv), as a Percentage of Working Capital Requirements—(II)	22%	22%	20%
VI.—Shortfall in Refinancing (II - (III + IV))	3.120	4.020	3.820

Notes: a Method of Computation = Total Value of Exports Less (GCEC Exports + Petroleum Products 10% Profit Margin)
b 20% of Working Capital required. The figures are rounded off.

Source: Basic Data from the Central Bank Annual Reports and Monthly Bulletins.

rious commercial banks favouring trade credits and so on. These factors, operating within a system dominated by private capital looking for quick profits, have in fact, created a market environment going against the development of export-oriented business ventures.

In addition to the above problems related to long and medium term investment finance, there are also problems related to short-term finance for working capital requirements hampering export growth. Growth of exports creates an increasing need for such short-term finance and higher the cost

of such available finance, the lower will be the profitability of exporting. During the recent past, interest rates on short-term credit from commercial banks ranged between 11 and 30 per cent according to Central Bank data. The concessionary short-term credit facilities available to exporters under schemes like the short-term Credit Refinancing Schemes of the Central Bank do not seem to have covered even 30 per cent of requirements as the very approximate estimates in Table - 6.4 indicate.

The problem here is faced more acutely by exporters of non-traditional

products. Historical development of the banking habit in Sri Lanka is known to have favoured certain traditional exports. Exporters of new product lines, particularly if they are relatively new and small, are faced with more short-term financing problems than those of old and more stabilised exporters of traditional products. High market interest rates on pre-shipment credit in Sri Lanka are a particular constraint to export growth because exporters in competing countries like Korea, Indonesia, Malaysia and Singapore do enjoy very low interest rates on pre-shipment credit.

There are similar problems also in short-term credit facilities available to exporters. The automatic and speedy availability of unlimited amounts of pre-shipment credit for working capital at internationally competitive interest rates is a necessary central feature of any complete export-incentive system. A Sri Lankan exporter who has to pay up 19 per cent (in mid-1985 up to 27 per cent) in interest on an overdraft for working capital is at a clear disadvantage vis-a-vis his competitors from countries like Korea, Singapore, Malaysia, Indonesia and the Philippines where exporters are provided short-term credit facilities at very low interest rates. There are various reasons for this state of affairs - restrictions on the total quantum of refinancing that is available, inability to provide collateral required by banks, inability to wait until the request for credit is processed, misinterpretation of the scheme by commercial banks and so on. Whatever the reasons are the existing situation in respect of short-term export credit requires corrective action if the country's export drive is to succeed. There is a grave need to find ways and means of enhancing commercial banks willingness to lend more for export and of simplifying and streamlining the procedures and data requirements involved in the preparation of export credit applications. The export credit schemes, operated by various financial institutions in Sri Lanka are said to be subject to va-

rious constraints which limit their efficacy. It is said that there is some reluctance on the part of bankers to file applications with the Central Bank for refinance under the Medium and Long-term Credit Scheme in operation due to: insufficient margins of profits allowed to them for operating the scheme, security conscious traditional lending practices of commercial bankers and similar factors. Furthermore, exporters are heard as complaining of cumbersome administrative procedures when it comes to obtaining subsidised credit under available official export credit schemes. It is said that in carrying out lending activities under the Medium and Long-term Credit Scheme, the EDB, commercial banks and the Central Bank request information independently at three different times with regard to projects submitted by prospective investors. This clearly acts as an effective barrier to dissuade prospective export businesses from undertaking the investments for the purpose, due to unnecessary duplication, confusion frustration and delays this system creates.

The Exchange Rate

The exchange rate is a powerful instrument for stimulating export growth. The use of this as a policy instrument has been briefly discussed in chapter two above. However when Sri Lanka's experience during the few years 1982-1984 is considered the movements in the exchange rate seem to have acted as a constraint on rather than as a stimulant of exports. The overvalued exchange rate has been widely cited as one of the major constraints on Sri Lanka's export drive.

An overvalued exchange rate has two main adverse implications of which one is domestic and the other international. Domestically as a result of such overvaluation of the domestic currency every dollar earned from exports yields less rupees to the exporter than under a realistic exchange rate. This would naturally act as a disincentive to expand export activities. Internationally, currency overvaluation re-

duces the competitiveness of domestic exports as the exports of a country whose currency is overvalued become relatively more expensive to foreign buyers.

In nominal terms the rupee had depreciated from Rs.15.61 per US dollar in 1977 to Rs.26.29 per US dollar at the end of 1984 and Rs.27.41 at the end of 1985. However, this depreciation has been offset by higher rates of relative domestic inflation during this period, particularly up to 1984. Over the years domestic inflationary pressure has increased the cost of production while the rupee earnings from exports have not increased at a rate as high as the rate of inflation. The overall effect of this real appreciation of the rupee has not been favourable for exports. In 1984, the complaint was widely heard that exporting has become significantly less profitable and unattractive to the investors in Sri Lanka due to overvaluation of the rupee. Recent studies have shown that investors do not favour exports unless the return on investment is significantly high in view of the greater economic risks and higher costs (e.g. in documentation and procedures) involved in exporting as against domestic market oriented activities. In 1984, a number of exporters indicated that they were exporting at a loss in order to hold on to their markets in the hope of better times to come. In addition to making the export activities unprofitable to local investors, the overvalued exchange rate has made Sri Lanka exports uncompetitive in the international market.

Problems created for exporters by the real appreciation of the international value of the rupee in 1983 and 1984 have been resolved to some extent in 1985. As a result of partly a higher rate of depreciation of the rupee in nominal terms during this year and partly the substantial reduction in the domestic inflation rate, the real exchange value of the rupee depreciated in 1985 vis-avis currencies of most major competitors and trading partners of the country. Yet the conditions of

the existing world exchange rate scene impose serious difficulties in respect of export development of a country like Sri Lanka with a weak and insignificant currency. It is usually very difficult to orchestrate the behaviour of the real value of a currency like the Sri Lankan rupee in line with the volatility found in major foreign exchange markets.

Exporters desirous of receiving increasing amounts of rupees for a dollar they earn would naturally like to see some continuous depreciation of the rupee in foreign exchange markets. Orthodox economic opinion, represented at a global level by international institutions like the International Monetary Fund and the World Bank, would also argue for currency depreciation with a view to attaining a realistic value for the rupee, as a very effective export promotion measure. It must be mentioned however that there is no consensus of opinion on this issue. Neither is there any consensus, as far as Sri Lanka is concerned even among the major policy institutions involved in the management of the behaviour of the exchange rate.

What ultimately matters is the real rather than the nominal exchange rate. Depreciation of the rupee in nominal terms may lead to its depreciation in real terms too, but not at the same rate as nominal depreciation, since the latter invariably leads to some rise in the rate of domestic inflation. Furthermore, official institutions looking after policy from a very broad national perspective, like the Central Bank and the Planning Ministry might consider also the cost of living implications of exchange rate variations. Empirical researchers might also argue that the connection between currency depreciation and export growth, at least as far as Sri Lankan historical data are concerned, is not firmly established one way or the other.

None of the above points, however, changes the fact that when there is an appreciation of the currency in real terms, the exporters find themselves receiving less real (purchasing power)

rupees from the dollars they earn. They would also realise that here they would be coming up against more stiff competition from their competitors in world markets. Thus from their own sectoral interest an overvalued real exchange rate would be a significant constraint on export growth. It is the task of the official institutions, which operate with an eye on broader social and economic issues than the exporters do to strike a balance between what is beneficial to the latter and what would be tolerated by the rest of the society. The 1985 developments, combining nominal rupee depreciation with a low rate of inflation would be the best possible compromise authorities would wish to see being achieved on this count although it is clearly too optimistic to see such a harmonious combination of events on this front every year.

Tariffs and Tariff Structure

Import duties on imported raw materials and intermediate products used in the production of exports, particularly the industrial exports, push up production costs and therefore reduce the competitiveness of such exports in foreign markets. Two schemes, discussed in chapter two are in operation namely the Import Duty Rebate Scheme and the Manufacture-in-Bond System, to enable exporters to have access to imported inputs at world prices. There are however, certain practical problems preventing these schemes from achieving their objectives emanating from various difficulties connected with the administration of the schemes. An in-depth study of the subject has shown that during 1977-1982 less than 50 per cent of the eligible exporters availed themselves of the benefits of the duty rebate scheme. The study revealed that some exporters were under the impression that the duty rebate is given only on directly imported raw-materials, whereas it could be claimed on the import content of locally purchased inputs too. There is, in addition, the possibility that the exporters consider the procedures invol-

ved in claiming the rebate as too cumbersome and complicated or that small rebate payments are not worth the cost and time involved in the processing of claims.

Export duties levied on, whatever export products on which such levies are made lead generally to lower profitability and stand as a factor discouraging growth of exports. In respect of export duties the conflict between their traditional revenue raising role and the overall export growth objective is quite well known. In an economy with a substantial export sector, it would be generally very difficult to free that sector from Customs tariff entirely since the government requiring revenues to carry out its responsibilities is bound to consider the export sector a convenient source of revenue. But in a country which is a price-taker for the bulk of its exports in foreign markets the export duties are usually paid by exporters from their revenues (and through duty shifts by producers of export products from the prices they ought to otherwise receive). This naturally leads to a drop in profitability and creates disincentives in respect of production for export. The problem becomes even more acute when these exporters have to compete in international markets with exporters from countries which do not change export duties or in fact subsidise exports.

A tariff structure problem which affects relative attractiveness of exporting has been widely discussed recently, namely the higher degree of effective protection afforded to import substitution activities vis-a-vis export activities. When import duties on inputs used in the local production of a particular product are lower than the duties on the import of that final product the domestic producers of substitutes for that imported final product are said to be enjoying a higher degree of "effective" protection than the "nominal" duty on the imported final product implies. In effective terms domestic producers of import substitutes are still known to be substantially pro-

tected in certain product areas. This distorts the incentive structure and makes import-substitution production continue to be more attractive than production for export.

Constraints on Ability to Penetrate Foreign Markets

Lack of an effective organisation for marketing and the lack of marketing know-how is one of the constraints in the long-term development of exports. Poor market information and lack of continued and regular contacts with markets abroad is a severe drawback here. Sri Lanka has no private sector organization in the major markets for any kind of promotion and feed back to producers. At present certain governmental entities, like the Department of Commerce and the country's Diplomatic Missions abroad are expected to perform the task of such market promotion but they are unlikely to be as effective as a private sector organization developed solely for the purpose.

Outside the traditional exports of tea, rubber and coconut Sri Lanka has had hardly any tradition of exporting and has not developed an export organizational capacity. There is nothing of the nature of the trading houses of Japan or South Korea or even the more rigid organization systems that India had developed in the major markets. Thus, knowledge of markets and constant market contact and information are rather scarce. Even where markets are known, the organization of a regular supply from a large number of small producers in sufficient quantity and quality has often failed.

Poor market information and know-how along with lack of capital and technical know-how has been a constraint on Sri Lanka's ability to develop new products and gain access to new markets. The present system of government officials performing the trade promotion activities through foreign embassies (except in the case of tea), with very little links with the private sector producers and exporters,

is most unsatisfactory. There is an urgent need for government to extend incentives to the private sector to build up organisational capabilities along the lines of the Japanese and South Korean trading houses.

Marketing difficulties are particularly harsh, as should be expected in respect of non-traditional, relatively new exports. The increasing promotion of direct foreign investors into new export activities was partly motivated by these market problems. While official agencies can do a lot in promoting Sri Lankan products abroad, they cannot be a substitute to an efficient set of private organizations dealing with the task of promoting the "Made in Sri Lanka" label abroad.

Some other Problem Areas and an Optimistic Note

This discussion of export development constraints may be concluded by referring to two other frequently cited export growth constraints. One of these refers to numerous shortcomings in infrastructure facilities required for successful export performances, particularly those in communications, shipping and air freight facilities. Good conditions in these infrastructural facilities are indispensable for success in export business. After the recent improvements in overseas telecommunications, harbour and airport facilities the conditions in this respect are very much better today than a decade ago. Yet one comes across numerous complaints about continuing inadequacies.

Another area in which complaints are heard involves various procedural delays exporters have to undergo at various institutional points a subject already referred to.

It is perhaps unfair to conclude this chapter by only emphasizing difficulties and constraints. The Sri Lankan exporter has gone a long way forward since about the early 1970's in promoting non-traditional exports. As noted in the NEDP the potential Sri Lanka has for growth of exports of certain types of products is quite large and is yet to eliminate many constraints on what

could be achieved. The existing environment is quite adequate as a base from which export growth could be accelerated to set the country on an export-led growth path on a sustainable basis. The environment created and the production base developed in the recent past largely due to the efforts of the EDB should ensure sustained growth of exports within a symbiotic partnership between the public and the private sectors of the economy. When the export growth speeds up the existing constraints may gradually cease to operate as serious obstacles, some in a natural process of development and some through deliberate policy action which may be brought about through growing exporters lobbies. In fact new problems not so far encountered are bound to crop up in the way and ought to be sorted out while the process of export growth is in its gear. No country in the world which attained rapid and sustained export growth in the past had achieved that success by waiting for a complete elimination of the constraints beforehand.

Exports and Balance of Payments

Some of the issues that have to be discussed under this section heading have already been addressed.

We could be therefore rather brief here. Since the relative opening up of the economy of Sri Lanka in 1977 the country continued to have a critical balance of payments position. The "Open Economy" raised foreign payments to extremely high levels. Although there was some levelling off subsequently resulting from the saturation of the pent-up demand which existed, foreign payments remained at a high level throughout the period from 1978. By 1985 large interest and amortization payments falling due on account of external loans obtained in the immediately preceding period have come to add their share to the high level of external payments.

These remittances are described as "transfers" indicating that they are not "earnings" through productive activity. But unlike other foreign receipts like borrowing abroad, these remittances are received in the country without any significant repayment obligation.

Over this period as a whole, the trade balance, the balance on goods and services and the current account balance all remained in deficit. There was a large and continuing external resource gap, financed largely with external borrowing. The government depended on three main items to obtain the necessary foreign earnings to bridge these growing external payments gaps: export of goods, tourism, and remittances from Sri Lankan workers abroad. Tourism was seriously and adversely affected by the violence in the country after 1982. As most job opportunities abroad for Sri Lankans came from the Middle East Countries, where the buoyancy in foreign exchange earnings which existed after 1973 is threatened by the post-1983 drop in world oil prices the degree of dependence the country could place on these emigrant remittances as a balance of payments corrective is also becoming more and more fragile, to say the least. In these circumstances, the urgent need for growth of merchandise exports cannot be overemphasised. The urgency of the need for export growth is enhanced further by the country's current security which has its direct impact both on the government budget and the balance of payments.

The drive towards growth of merchandise exports has to be thus relentlessly pursued by those engaged in such activities. Following from what was discussed in the foregoing section, there is one more point worth stressing here—namely the need to promote export lines dependent more and more on domestic inputs. The greater the import intensity of production for export the less will be the benefit of any growth of exports to the country's balance of payments. The basic balance of payments problem Sri Lanka is faced with is the faster growth of imports over exports if the atypical year of 1984 is excluded from the more recent data. A not unimportant part of the required solution of this problem is to encourage greater use of locally available materials in export production. There are incentives provided by the State to promote such an increasing use of local raw materials by exporting firms. The progress achieved in this direction ought to be constantly monitored.