

## Implications of Electrical Appliance Imports

The policy of trade and payments liberalisation introduced in November 1977 eliminated the bottle necks that existed in the previous system of trade controls; but it also enabled an unlimited flow of imports into the country, some of which have either affected local industrial production or cast a burden on existing services which are too heavy for them to bear. One of these groups of items is that of electrical appliances and equipment generally considered "consumer durables" though in certain cases categorised as "intermediate goods".

The full impact of the trade liberalisation was expected to be felt in 1979, but in 1980 the impact was felt even more sharply. The country's import bill (apart from food and petroleum imports which took up about Rs. 33.6 billion or 35 percent of a Rs. 33.6 billion import bill) for imports other than food and fuel equalled almost the entire Rs. 23 million import bill of 1979. Electrical machinery, equipment and parts which before 1977 was a negligible amount in the import bill had in 1980 taken up nearly 5 percent of a total import bill of Rs. 33.6 billion. When trade is liberalised after a prolonged period of restriction imports tend to rise sharply and almost immediately and then taper off in certain areas once demand is saturated. This has not happened in the case of electrical appliances.

As an immediate response to the new liberalised trade policy the domestic market was flooded with a variety of imported electrical goods, some of which were even found to be substandard products being dumped on the local market from neighbouring exporting countries. Protests from local manufacturers curbed such imports to some extent but electrical appliances and equipment continued to be imported at an ever increasing rate. These particular items attracted more attention of importers due to the very high profit margins that were possible from the sale of such appliances locally and the ready availability of credit for imports. In the initial

years of trade liberalisation, from 1978 to 1980, it appears that supply was well in advance of local requirements and had exceeded the estimated pent up demand. Immediate repercussions of this trend was the building up of heavy unsold stocks of electrical appliances in the local market.

Table 1 below gives some indication of the number of domestic electrical appliances imported in 1978, 1979 and 1980. An attempt is made to classify them into three groups, according to the order of importance, based on their utility. This table, however, does not include items brought in by individual passengers as part of their personal baggage. (According to some estimates almost 10 percent more could be added to recorded imports on this account). The items classified under category one have been regarded as essential electrical appliances for an urban middle class family, due to the recent price escalations of the alternative energy sources (kerosene oil, fire-wood, charcoal etc.) The second and third categories are confined to the items that are regarded as semi-luxuries and luxuries from the point of view of a middle class family.

The volume of electrical appliances as measured in terms of the number of imported items coming under the first category

constitutes approximately, 70 percent of the total imports. The number of items coming under the second and third categories amount to 204,406. This 30 percent of imported appliances, categorised as semi-luxury and luxury items imposed a considerable burden on the import bill as the prices of these appliances were very much higher than those of the first category.

The effects of these imports could be assessed from different angles. Firstly, the market preference for these imported appliances as against domestic products was reinforced by their superior trade marks and brands which posed a severe threat to the local substitutes. The tariff protection given to the local counterpart products (i.e. Refrigerators, Fans, Electric Irons etc.), were hardly sufficient and therefore the local manufacturers found it difficult to counter the challenges of the quality, brand names and the prices of the imported appliances.

Studies have revealed that the local electrical goods industries in developing countries cannot easily compete with imports, particularly those products of transnational firms. An UNCTAD study titled "A Case Study of the Electrical Goods Industry: Power of Transnational Corporations" has pointed out that (in this particular industry) besides making formal and informal agreements, leading transnational firms protect their spheres of influence when necessary with aggressive price-cutting. "If the threat of potential entry is ever present, leaders may price their goods below the entry-inducing level, but as high

Table 1 Number of Domestic Electrical Appliances Imported in 1978, 1979 and 1980

Item	Nos.
1. Electric Irons	168,142
2. Electric Cookers	147,829
3. Electric Hot Plates (single 2 double burners)	22,567
4. Immersion Heaters	93,236
Sub Total	431,774
5. Refrigerators, Deep Freezers & Cooking apparatus	13,452
6. Electric Fans	105,637
7. Other domestic appliances	16,029
8. Television Sets	69,076
Sub Total	198,794
9. Washing Machines	1,231
10. Window type airconditioners	5,061
11. Vacuum cleaners & floor polishers	5,780
12. Electric food mixers	8,887
13. Electric shavers	1,158
14. Electric hair dressing heaters	3,495
Sub Total	25,612
Total	656,180

above marginal costs as possible. If the threat is especially severe, pricing tactics may include selling below cost for short periods. Their subsidiaries may use the same tactics in overseas markets. The overall effect is to delay or to prevent the entry of domestically-owned firms in developing countries into the market for electrical products. In these ways, restrictive practices stunt the growth of an independent, nationally controlled industry in developing countries".

Secondly, the higher profit margins accruable from the imported electrical appliances at the initial stages, attracted many importers to the new trade, which diverted valuable foreign exchange towards imports of these items. This imposed an additional burden on the balance of payments situation of the country which deteriorated in 1979 and grew much worse in 1980. (The heavy demand for power caused partly by installation of these appliances and equipment led to the tapping of thermal power which also meant more petroleum imports).

Thirdly, the favourable conditions and attractiveness of the internal market for these imported appliances could not be maintained indefinitely. Market expansion was possible but to a limited extent; once that sector of the market with a high propensity to spend has been saturated new layers of spenders have to emerge. But these new spenders have not materialised as anticipated and importers have thus been left holding stocks. Local agents for the products of many well known American, British and Japanese transnational firms are now attempting to create this new group of spenders through very aggressive promotion and publicity campaigns in press and cinema.

Although pent up demand could have been met by 1978 and 1979, imports have continued to keep coming into the local market. Meanwhile, the local manufacturers of items such as fans and refrigerators have also been able to step up their levels of production with the liberalised import policy. It is therefore no wonder that stocks have built up. A significant point in this regard is that importers have made use of freely accessible, though expensive, banking facilities to finance their imports. Tight market conditions, however, appear to have restricted the possibilities of these importers making the quick profits

Table II—ELECTRICITY SUPPLY AND CONSUMPTION 1970-1980

Period	Installed Capacity (MW)	Units Generated (Mn. kWh)	Domestic	Sales (Mn. kWh)					Total
				Industrial	Commercial	Local Authorities	Other		
1970	262	785.8	62.0	331.0	87.0	165.0	11.0	656.0	
1971	262	849.2	65.0	373.0	93.0	180.0	1.1	712.1	
1972	262	944.3	72.0	447.0	99.0	193.0	1.3	812.3	
1973	268	979.5	80.5	436.7	107.7	198.4	44.7	868.0	
1974	368	1,011.4	80.9	463.6	117.3	201.9	16.1	879.8	
1975	361	1,078.8	86.4	519.2	123.6	230.3	—	959.5	
1976	401	1,132.8	93.0	513.5	134.5	237.3	18.7	997.0	
1977	401	1,216.6	105.7	526.4	153.8	254.6	20.8	1,061.3	
1978	401	1,385.1	115.7	589.2	162.0	275.6	6.1	1,148.3	
1979	401	1,525.5	149.4	634.6	201.3	296.3	4.7	1,286.3	
1980	403	1,668.0	181.0	617.0	216.0	332.0	18.9	1,364.9	

\*Provisional

Source: Ceylon Electricity Board

they aimed at. Some were even compelled to dispose of stocks at cost or below to meet obligations to the financial institutions they had borrowed from.

Perhaps the most important problem created by the heavy flow of these imports into the local market was the strain it has placed on local power supplies and this in turn is reverberating over the entire economy. There is a view that consumption of electricity is an indicator of the socio-economic development of a country. But in considering how more electrical power, or any other form of energy, aids development it is necessary to specify that by directing power to "consumption" as much could not be achieved as when it is directed into "productive" purposes.

The demand for electricity has grown by nearly 75 percent more than what it was between 1972 and 1977. In 1976 1,333 Mn. kWh units were generated while by 1980 as much as 1,668 Mn. kWh had to be generated. Daily demand which was only 2.9 million between 1972 and 1977 had increased to 3.79 million in 1978 and 4.73 million units in 1980. By mid February 1981 average daily demand had reached 5.20 million units with a mid-week figure of 5.72 million. Sales in Mn. kWh had risen from 997 in 1976 to 1,364 in 1980. The largest increase in demand as seen from Table II was in domestic supply, which is closely tied to the heavy use of electrical appliances. In 1978 domestic consumption increased almost 10 percent from 105.7 Mn. kWh to 115.7 Mn. kWh. In 1979 the increase was even more dramatic going up almost 30 percent to 149.4 Mn. kWh; while the increase

in 1980 has been 21 per cent. In the meantime, overall sales of electricity have increased by 8 percent in 1978, 12 percent in 1979 and 6 percent in 1980. The increase of consumption in the industrial sector has been on the decline since 1978 when an almost 12 percent increase was recorded. The increase in 1979 was 8 percent and in 1980 only 3 percent.

The electricity supply position has increased from a modest surplus to a gradually expanding deficit. Until the hydro-capacity is enhanced with the commissioning of schemes in the pipe-line the deficit will have to be met by resorting to more expensive thermal plants, powered by imported oil. By the end of January this year's peak demand reached the record figure of 380 megawatts (in 1977 peak demand was only 261 megawatts). Meanwhile, the present generating facilities of the CEB (both hydro and thermal) have a total capability of only about 385 megawatts. This is the current situation, which the CEB authorities say is strained to its utmost especially at peak demand hours (between 6.30 p.m. and 9.30 p.m.)

Meanwhile, large quantities of electrical appliances await disposal while electrically operated equipment is being installed at an accelerated pace. One reason that prompted the government's recent decision to discourage any further high rise buildings was the intention to curb the growing use of imported electrical equipment and appliances which has proved a burden, particularly on the foreign reserves and power situations of the country.