Outward Looking Economic Policies

It is quite commonly said that in most developing countries the scope for import substitution has now been virtually exhausted and that these countries should now concentrate on export-oriented industrial development. In short, the 'inward-looking' (import-substituting) economic policies should now give way to 'outward-looking' (export-oriented) policies. The import-substitution policies followed by the developing countries during the last two decades or so have been the subject of much criticism in recent years. It has been pointed out that such policies have led to the creation of high-cost industries confined to sheltered domestic markets, unable to reap economies of scale; being high-cost, they are unable to achieve a break-through into export markets. The so-called 'foreign exchange constraint' on development has continued to be a major problem under such a policy and the problem has in fact worsened owing to the continued existence of a high import content in the final products turned out by these industries. Their employment generation has been low and frequently the technology used is imported and inappropriate to the conditions of a developing economy. Monopolies and monopolistic practices have grown up in domestic markets fully sheltered from foreign competition. In short, the nature and magnitude of economic growth that has resulted from import-substitution has been disappointing and fallen far short of original expectations.

There is undoubtedly some truth in these assertions particularly insofar as some of our manufacturing industries are concerned. The growth of manufacturing industries, particularly under the private sector, was a by-product of balance of payments problems and took place in an ad hoc manner rather than in accordance with a conscious industrial development programme. Under the import restrictions imposed since the early sixties (for balance of payments reasons) manufacturing industries of all kinds grew up to exploit a sheltered market, and many of them suffer from the shortcomings listed above. Despite the liberal fiscal and other incentives available for non-traditional exports, many of the import-substituting industries have not faired well in the export field. The narrow domestic market coupled with limited foreign exchange allocations available for raw material imports have led to the growth of considerable under-utilization of capacity. The capacity utilization in the manufacturing industrial sector as a whole has been less than 50% in recent years. The most recent Industries Survey, the Central Bank's half yearly survey of industrial production, also shows (as in the table at bottom left) that overall industrial capacity utilisation, as a percentage of the total installed capacity, which amounted to 40.2 percent in 1974, with the heavy increase in Groups 5 and 9, is likely to rise to 54.7 percent in 1975. Still in the region of 50 per cent.

"Inward-looking" for Agriculture and Primary Production

While the criticisms levelled against an 'inward-looking' policy contain a high degree of validity in the case of many manufacturing industries, they lose much of their validity and relevance when it comes to import substitution in the field of agriculture and primary production. In fact, the problem in many developing countries such as Sri Lanka is that the policy of import substitution has not been carried far enough in the field of agriculture and primary production. Only limited progress has been made in the exploitation of the considerable growth prospects available from the import-substitution in this sphere. The potential scope for growth available from such a policy cannot be matched by any other policy in the short and medium term at least. A glance at the import statistics in the table above, will readily show the available potential.

As seen in the above table during the five year period 1970-74, the average annual import bill on selected goods with a high import-substitution potential has been Rs. 906 million or about one-third of the average annual import bill. This figure calculated at the official exchange rate grossly under-

IMPORTS OF SELECTED ITEMS OF HIGH IMPORT SUBSTITUTION POTENTIAL
(Rs. millions)

	1970	1971	1972	1973	1974	Average 1970-74
1. Rice	318	195	161	270	720	333
2. Sugar	170	243	248	321	190	234
3. Milk and milk products ...	55	47	57	70	70	60
4. Fish Products	68	72	83	52	50	65
5. Grams and Pulses	63	45	98	31	17	51
6. Yarn and Thread	41	40	61	21	65	46
7. Fertilizer	81	59	63	111	221	107
8. Total	796	701	771	876	1333	906
9. (8) as % of total import bill ...	34.4	35.3	37.4	32.3	29.3	33.2

Source: *Customs Statistics*

Industrial Group	Capacity Utilization Rate (%) 1974	1975
1. Manufacture of Food, Beverages and Tobacco ...	65.1	66.3
2. Textiles, Wearing Apparel and Leather Industries ...	45.6	56.3
3. Manufacture of Wood and Wood Products including Furniture	32.5	57.6
4. Manufacture of Paper and Paper Products	45.9	42.2
5. Manufacture of Chemicals, Petroleum, Coal, Rubber and Plastic Products	8.9	63.4
6. Manufacture of Non-Metallic Mineral Products except Petroleum and Coal	78.0	66.7
7. Basic Metal Products	44.3	53.0
8. Manufacture of Fabricated Metal Products, Machinery and Transport Equipment	33.0	45.6
9. Manufactured Products (not elsewhere specified) ...	6.9	38.4
Total	40.2	54.7

states the real value of these imports in terms of scarce foreign exchange resources. When these imports are valued at the FEEC rate of exchange, the figure rises to nearly Rs. 1500 million. Moreover, these figures do not reveal the actual extent of the country's requirements of (or the import demand for) these goods. They only reveal what the country could afford to import with the restricted foreign exchange availabilities. Hence the scope for possible substitution by local production goes beyond what these figures suggest.

The foreign exchange saving that is available from import substitution in these goods is of a magnitude that cannot be easily matched by the foreign exchange earnings that even the best of export-oriented industrial development plans can promise. Moreover, import substitution in this sphere is also attractive from the point of view of employment generation and income distribution. A considerable portion of the benefits of such policies is likely to flow into the rural sector of the economy. One development strategy envisages concentration of effort on those sectors or point of the economy which promises high growth potential, the so-called 'growth poles'. In the case of Sri Lanka, for the next few years at least, the development efforts must concentrate on the following key areas: (a) principal foodstuffs e.g. rice, sugar, grams and pulses (b) animal husbandry (c) fisheries (d) principal raw materials for industry, e.g. cotton and (e) agricultural inputs e.g. fertilizer. In the current economic context of Sri Lanka an 'inward-looking' policy in the above mentioned fields presents immense scope for rapid economic development. While the export-development envisaged in an 'outward-looking' policy should undoubtedly receive emphasis in the short and medium term at least, a concentration of the nation's development efforts should centre on import substitution in primary production and selected agricultural inputs such as fertilizer.