Foreign Investments and Trade Unions in Sri Lanka

A CWF Pamphlet

Christian Workers Fellowship
Sri Lanka.

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Preface

This is a revised version of a presentation made on behalf of the Christian Workers Fellowship (CWF) at a Trade Union Study Meeting on Transnational Corporations held at the Social Sciences Institute in Ho Chi Minh City, Vietnam from October 29 to November 3 1991 sponsored by the Social Sciences Institute, Ho Chi Minh City and DAGA (Documentation for Action Groups in Asia) based in Hong Kong. This presentation prepared on the basis of the guide lines provided by the organisers, covered the field of Foreign Investment and Trade Unions in Sri Lanka

The subject of foreign investment has assumed a new significance in the light of the recent political and economic changes that are taking place in the former Soviet bloc and the countries influenced by and having relations with that bloc. This has become all the more important in the case of the Asian countries which were looking more towards socialist models of development. The role of foreign investment and of transnational corporations in particular assumed an even more important role in re-structuring the politico-economic policies of these countries in the wake of such changes.

The open invitation to foreign capital made by the Government of Sri Lanka from 1977 on its avowed policy of the 'open economy' and the response received thereto during the last 14 years and its impact on the country, was considered useful to the participants of the Vietnam Seminar already referred to in their study of foreign investment in Asia. The paucity of published data however was a serious constraint in making this study.

The paper published here is therefore more in the nature of a preliminary study which we hope will be followed up by more detailed studies with data from authentic sources. The economic data for this paper was obtained from sources such as the Central Bank of Sri Lanka, the GCEC publications and studies done at the Marga Institute. Information and comment on the impact of foreign investment on trade unions and *vice versa*, is our own.

It would appear from the data available so far that significant foreign investment either as Direct Foreign Investment or by Transnationals has not taken place in Sri Lanka due to the absence of a proper "Investment Climate" (In this connection please see Professor W.D.Lakshman's findings published in *Christian Worker* 2nd quarter 1992 titled 'Foreign Investment and Under-development').

Mere offer of lavish incentives, educated, trainable and cheap labour and minimum infra-structure do not appear in themselves to be adequate to attract Transnationals or significant Direct Foreign Investors. The lack of a dynamic native capitalist class capable of producing a sustainable process of accumulation with diversified sectoral interests with whom such foreign investors could collaborate together with a well developed technology, industrial environment and infrastructure, and a fairly developed industrial workforce, have thus far apparently acted as inhibiting factors even though the Government has also guaranteed the safety of foreign investments constitutionally and sought to assure investors of the country's socio-political stability as well.

The short experience of foreign investment in Sri Lanka under the 'open economy as seen in this presentation has had adverse effects on the masses in general and the working people in particular, in the form of lay-offs and retrenchment occasioned by the steps taken more recently to "peoplise"/privatise almost all State owned economic ventures at the behest of the IMF and IBRD (World Bank) and its subsidiaries which have shown themselves to be nothing but the apex organisations of the Transnational Corporations.

The measures taken by the Government to "peoplise"/privatise and re-structure management of plantations and State Banks, may at most attract some Asian interests particularly Indian to come in or collaborate with local interests and so subvert what little economic "independence" Sri Lanka enjoyed thus far. Such foreign interests whose chief aim is to earn the maximum profits within the shortest time and who would shift out whenever the climate becomes unfavourable, could hardly be expected to benefit Sri Lanka substantially either by way of economic development or advanced technology.

The full impact of the steps that are presently being taken by the Government will no doubt be more fully felt in the near future. We have focussed on some of the effects of foreign investment as already experienced in certain sectors of the economy in our presentation here. We hope therefore that this contribution will prove useful for further studies on this subject in the coming period, especially since this would also raise the crucial question of the type of development that should be pursued by Third World countries like our own. In fact our very failure to attract foreign investment of sufficient magnitude would inevitably pose the need for an alternative development strategy.

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Foreign Investments and Trade Unions in Sri Lanka

Historical Development

Sri Lanka is a small island comprising 25,332 square miles (65610 square km.) with a population of 17 million. It is a multi-racial and multi-religious country where members of three major ethnic groups and adherents of four major religions live together in appreciable numbers. According to the last Census statistics (1981) Sinhalese constitute 74% of the population, Sri Lankan Tamils 12.6%, Tamils of recent Indian origin 5.5%, Moors 7.1% and Others 0.8%. Composition by way of religion shows 69.3% as Buddhist, 15.5% Hindu, 7.6% Muslim, 7.5% Christian and Others as 0.1%.

The history of foreign investment in Sri Lanka (Ceylon was the name by which the country was known under British rule) dates back to the development of plantations first in the middle of the 19th Century with coffee and later tea on which the country's economy depended in Colonial times. The beginning of the plantation economy in fact signifies the birth of capitalist system in Sri Lanka for it was essentially the plantations that constituted the very base of capitalism in Sri Lanka. Import-export trade and the banking system also emerged thereafter to support the plantation economy together with the communications and service systems giving rise also to the emergence of white collar workers.

Political and economic uncertainties especially after the first quarter of the 20th Century occasioned mainly by the effects of the October Revolution in Russia in 1917 and the economic depression of the early thirties followed by the outbreak of the Second World War, proved a brake on such investments and there was instead a trickle of foreign capital into industry. The Ceylon Tobacco Company (1935) and Lever Brothers (Ceylon) Ltd, (1940) were subsidaries of transnational companies of British-American Tobacco and Unilevers respectively which were the two noteworthy sources of foreign capital investment during the inter-war period.

Up to the time the country was granted Independence in 1948 most of the large holdings under tea and rubber along with the banking business and the petroleum trade were foreign owned.

The working class in Sri Lanka emerged as a result of the growth of plantations and the development of communications. In view of the unwillingness of the local peasant population to enter the workforce as the concept of wage labour was unknown, the plantations came to employ largely foreign labour brought down from South India. Indigenous labour began to grow with the development in the later half of the 19th Century of the transport services chiefly the Railway which was mainly a State concern. The changed economic and social conditions during this period and the security and prestige attached to employment in State services was a contributory factor in bringing about this situation. Today it is indigenous labour that mans our industries while labour of Indian origin continues to be the mainstay of the tea plantation, though even here village labour is beginning on work on them.

The working class of Sri Lanka as we find it today is thus divided communally into two main groups—the Sinhalese and the Tamils of more recent Indian origin both of whom have their own characteristics. Sri Lanka having mainly light industry has no vast concentration of workers in giant enterprises as in the more advanced industrial countries. The worker on the plantations works in a rural environment and his or her ancestors have been originally recruited through a form of regimented or indented Indian labour which exploited the family system and its patriarchal organisation by the adoption of the "kangany" system. These workers came closest to being propertyless workers or proletarians in our society but their isolation from the rest of the indigenous working people and their communal separateness and comparatively low cultural levels have posed problems. This section of the working class can neither integrate itself with the indigenous workers nor is it able to make an effective contribution to the working class movement in keeping with its importance and numerical strength in the country.

The indigenous worker on the other hand is much less a proletarian, living mostly in a sub-urban or rural environment and even having interests including shares of property however infinitesimal in size in his village. Even many a city dweller tends to visit his village seasonally.

According to more recent research the earliest instance of a workers' strike which led to the formation of union was the strike of printing workers in 1893. The 1912 Railway strike resulted in the formation of the Railway Workers Provident Association. These and other struggles were but preludes to the developments in the next decade when A.E. Goonesinha emerged as the first big trade union leader to organise the working class of Colombo which is the country's capital. He led two very massive and militant strike actions in the 1923 General Strike and later in the 1927 Tramways strike. Goonesinha was also responsible for organising the white collar workers employed in banks and mercantile firms. In fact Goonesinha and his Ceylon Labour Union dominated and led the urban working class until the inception in 1935 of the Lanka Sama Samaja Party (LSSP) Sri Lanka's first Marxist Party which sought to organise the workers as a class with the historic objective of gaining power and ushering in a socialist order with a takeover of the means of production, distribution and exchange. The LSSP came also to accept the ideas of Leon Trotsky and for the first time in the history of the world Marxist movement, the Stalinists were expelled as a splinter group from a Trotskyist party. It must be noted too that a Labour Government in Britain granted universal adult franchise to the country in 1931, a measure opposed by the Westernised political elite of the time though welcomed by Goonesinha and his Labour organisation. After 1931 the influence on Sri Lanka politics of the masses in general and the working class in particular grew steadily.

The LSSP successfully radicalised both the urban and rural masses to a considerable extent. It mobilised the working class both on the plantations and the urban areas and eventually displaced Goonesinha. The party was also able to win two seats in the State Council in 1936 after the grant of universal suffrage in 1931. It also led a wave of plantation strikes in the course of which a worker was shot dead by the police at Mooloya and where the workers of Wewessa disarmed a police party. As a result of its refusal to support the Allied War effort, the party was proscribed and its leaders imprisoned but they spectacularly broke jail and escaped to India where they engaged in underground political activity and even formed a new party, the Bolshevik Leninist Party of India. The plantation strikes which the party had led were, after the arrest of its leaders, ruthlessly suppressed by the British Government. During the war-time proscription of the LSSP, the plantation workers came under the communal leadership and influence of the Ceylon Indian Congress. The early attempt of the LSSP therefore to link these workers with the predominantly Sinhala labour elsewhere failed, though no doubt, factors such as the isolation of these workers (living in line rooms on the plantations) from village and urban life helped to accentuate their communal separateness and made them join the Ceylon Indian Congress Labour Union which now styles itself the Ceylon Workers Congress both as a political party and a trade union in the country. It was with the proscription of the LSSP that the Communist Party was able to also make some headway in the trade union field during the war years.

However after the end of the Second World War the LSSP leaders were able to emerge as popular heroes. After leading two general strikes in 1946 and 1947 respectively they had phenomenal success in the General Elections of 1947. In the era prior to the grant of Independence (also by a Labour Government) within the British Commonwealth, where the struggle had to be conducted directly against British Imperial rule, the LSSP provided the only uncompromising revolutionary leadership in the country as the vanguard of the working class movement.

After the Second World War, the rapid unionisation of workers and the growth of the Left movement reflected too in its fairly strong representation in Parliament (the Leader of the Opposition in Parliament was Dr. N.M.Perera of the LSSP who was also President of the strong Ceylon Federation of Labour) was perhaps a factor conditioning the reluctance of foreign capital to invest heavily in the country.

In the immediate post-Independence period, the representation of plantation labour in Parliament after the General Election of 1947 constituted a dual threat to the capitalist United National Party (UNP) in power, in that it resulted in a loss of parliamentary seats for itself in the upcountry plantation areas and also to a continued link up of the plantation workers with other sections of organised labour and with the LSSP in Parliament for whom the plantation workers voted in the absence of Ceylon Indian Congress nominees. Using the Indian origin of the workers and the fact that they were organised as an "Indian" Congress, the Government brought in citizenship legislation in 1948 and 1949 which effectively disenfranchised these workers and rendered them stateless. India too looked upon them as Sri Lankan citizens which in fact they had been until the passage of this discriminating anti-working class legislation. On the other hand capitalists of Indian origin resident in the country were granted "distinguished citizenship" if they needed it under the same Citizenship Acts. The effect of this Government action made these plantation workers of Indian origin politically powerless, driving them further into communal separateness with the Ceylon Indian Congress (now Ceylon Workers Congress) as their chief spokesman.

The alleged "Indianness" of the plantation workers was also cunningly utilised by the Government and other chauvinist right-wing politicians to drive a wedge between them and other sections of workers and from the rural population who also lived in the areas where the plantations were situated. Indeed villagers in some upcountry areas were made to feel that these "foreign" workers had even taken over land which once belonged to them, when in fact these lands had been expropriated by the British government under the Waste Lands and Crown Lands Ordinances as lands which for the most part no title could be shown by anyone. The fact that the "Indian" plantation workers and the Sinhalese villages were both victims of the same system created by the capitalist plantation economy in British times was either ignored of skillfully glossed over by these unscrupulous political elements to suit their own ends. The result has been the separate organisation of the plantation workers under the leadership of Mr. S. Thondaman (presently a Minister of the Government) into a formidable power *vis-a-vis* any government from whom concessions too could periodically be snatched.

The grant of citizenship later to these plantation workers under the Sirima-Shastri Pact of 1964 and the final grant of citizenship by agreement between India and President J.R. Jayewardene of Sri Lanka in 1986 to the balance whose status had not yet been determined, now once again gives the opportunity to these workers to re-enter the mainstream of politics from which they had been barred since 1948.

The Second World War resulted in a favourable balance of trade for Sri Lanka and the Korean War boom further augmented Sri Lanka's accumulated external resources. This enabled the first Post-Independence government to extend general welfare measures in the country (mainly introduced as a result of LSSP agitation) with the aim no doubt of also weaning the masses away from more radical or revolutionary methods of social transformation. With the end of the Korean boom however, the government felt compelled to cut down on subsidies or welfare. This was reflected in such government measures as the increase in the price of rice from 25 cts to 70 cts overnight, the abolition of the free midday meal for school children and the increase in transport fares. The increase in the price of rice led to a spontaneous reaction by the masses given organised form by the LSSP and other Left parties in the Hartal of August 1953 which culminated at first in a change of Prime Ministers and then led on to a change of Government with the electoral upheaval of 1956 which swept SWRD Bandaranaike (who had split away from the UNP to form the Sri Lanka Freedom Party (SLFP) in 1952) into power and the setting up of the Mahajana Eksath Peramuna Government headed by him.

The period between the two World Wars had seen the growth of a native bourgeoisie mainly coconut plantation based, whose interests began to be reflected politically in the legislature. In the Post-Independence period, the United National Party (UNP) formed on the eve of the 1947 General Elections represented this class in Parliament. After its victory at the polls, and the grant of Independence in 1948, it became the responsibility of the native bourgeoisie based UNP Government to enunciate economic policies for the future development of the country. However, this native bourgeoisie was economically weak and incapable of independent existence without recourse to foreign assistance.

The very first Post-Independence budget speech of 1949-50 echoed the thinking of the government of the day when it acknowledged the need for foreign capital for the development of industry. The government however did not favour the setting up of large-scale industry on account of the restricted local market and the lack of raw materials. The budget speech referred to, affirmed that "the major interests in the ownership and effective control of an undertaking should be in Ceylonese (Sri Lankan) hands". The inflow of foreign investment into trade and industry was restricted because it was the avowed policy of the UNP government at the time to enable more Sri Lankan capitalists to enter these fields. This policy together with the policy of subsidising consumption in order to appease the militant trade unions and rural masses was however not conducive to providing a suitable climate for foreign investment. Significantly, the Finance Minister at that time was J.R. Jayewardene, later Executive President.

In order to attract foreign investment which was considered inevitably necessary, a White Paper on foreign investment was issued in 1955 which acknowledged that the reason for non-investment of foreign capital in Sri Lanka was the uncertainty in the minds of the foreign investor about the official policy of the government on specific matters such as the partnership between the local and foreign investors, the employment of nationals, restrictions on the movement of funds, taxation, the allocation of raw materials and labour and the possibility of future nationalisation. The White Paper addressing itself to these matters therefore revised the Government policy, stating that local capital participation was only desired though not required, that training and employment of Sri Lankans was not compulsory, that remittance of profits, dividends and interest as well as the withdrawal of foreign capital was to be permitted and in the event of nationalisation, foreign investors were declared entitled to full compensation. Despite this promise of generous terms to foreign investors in this White Paper, the response was still very poor, mainly because of the uncertain political climate both global and local.

Consequently investments between 1949 and 1955 totalled about Rs. 41 million, but in the period immediately following the issue of the first White Paper, investments totalled Rs. 31 million of which the foreign component was only Rs. 7.4 million. The foreign investment in this period went into the fields of footwear, glassware, bicycle tyres and tubes and infant food.

With the coming into power of the Mahajana Eksath Peramuna (MEP) in 1956, —which was an alliance of three parties namely the Sri Lanka Freedom Party (SLFP) which split away from the UNP in 1951, Viplavakari LSSP (VLSSP) which had splintered from the LSSP and the chauvinist and communalist Bhasha Peramuna, —a new polarisation of social, political and economic forces took place. As against the pro-imperialist UNP this new alliance manifested the aspirations of the non-English speaking petit–bourgeoisie and a nascent bourgeoisie which was linguistically, culturally and economically different from the UNP. The socio-economic and cultural composition of this new political alliance was described as the "Panchamahabalavegaya" of sangha, veda, guru, govi, kamkaru (five great forces of Buddhist monks, native physicians, teachers, peasants and workers). Economically, the needs and aspirations of these social groups were essentially petit-bourgeois in character. These forces prevailed upon the government to adopt a protective policy towards nascent industries. Hence a great emphasis was placed on a policy of strict import substitution. This heterogeneous alliance of contending forces pressurised the Government to take various steps from time to time, beneficial to each of these forces. Rising unemployment, cost of living and low wages etc. coupled with a resurgence of linguistic and cultural aspirations of the chauvinistic petit-bourgeoisie and nascent industrialists compelled the Government to swing towards the demands of each of these contending forces at different times, leaving hardly any time for positive thinking and planning towards economic development. However the Government, being sensitive and responsive to the needs and aspirations of these contending socio-economic forces formulated a "Ten Year Plan" which postulated the economic thinking of the Government.

The Ten Year Plan of 1959 expressed a preference for Foreign Direct Investment rather than loans. This investment was stated to be in the nature of a "management contract" system by which the foreign investor after recovering the initial investment and "enjoying a reasonable share of returns" faded out, giving the total ownership into local hands. The Plan promised that for the next 10 years (or the currency of the "management contract") there would be no nationalisation.

The four year period of the MEP Government witnessed several socio-economic and political upheavals. The adoption of "Sinhala" — the language of the majority community —as the "official language" culminated in widespread ethnic disturbances in 1958. Over 900 strikes involving several hundred thousand workers organised by militant trade unions headed by the Leftist parties, during these 3-4 years crippled economic activities and compelled the Government to nationalise some vital sectors of the economy, such as the privately owned bus companies and the Port in 1958 which was followed later by an SLFP Government's take-over of Insurance and the foreign oil companies —Shell, Esso and Caltex in the early sixties. These actions discouraged the foreign investors resulting in a virtual stoppage of foreign investment to Sri Lanka. Inability to muster adequate domestic savings and to attract foreign investment led to a stagnation of the economy which compelled the Government to follow a more restrictive economic policy.

The Government also broad-based banking activities by setting up a 'People's Bank', sought to control import and internal trade by setting up the Co-operative Wholesale Establishment and the State Trading Corporation. In order to consolidate its rural base a "Paddy Lands Act" was passed, which though beneficial to the tenant farmers, weakened the economic base of the social elite of this political alliance which resulted in a power struggle paving the way for the resignation of the Marxist oriented VLSSP Cabinet Ministers and consolidation of reactionary forces within the Cabinet culminating in the assassination of the Prime Minister in September 1959.

The period that followed was full of social political and economic strife and turmoil. Politically the assassination of the Prime Minister created a chaotic situation—an interim Government—followed by an indecisive election in March 1960 which elected a minority Government into power, led by the UNP which resigned after the defeat of its Throne Speech in Parliament. The General Elections that followed in July 1960 brought the SLFP headed by the assassinated Prime Minister's widow — Mrs. Sirima Bandaranaike into power, largely owing to the no-contest pact with the Left parties, who opted to remain in the Opposition upto 1964. The SLFP Government sought to continue the policies followed by the MEP Government as already noted though it was devoid of radical thought.

Economically in the 1960s the balance of payment difficulties became more severe but the government continued to grant subsidies and social welfare measures and enlarged its intervention in economic affairs. The economy became restrictive due to continuing balance of payments difficulties caused by continuing adverse terms of trade. Import control and exchange control regulations were tightened in order to protect the balance of payments. The prevailing positive attitude towards foreign investment that is reflected in documents thus ran into difficulties due to foreign exchange problems faced by the country in the sixties. In the 1964-65 budget a moratorium was declared on all remittances of profits, dividends, interest and other investment income. Similar curbs were introduced on the transfer of capital by the Budget. Announcements were made about amendments to the Exchange Control Act and Import Control legislation in order to curb import and exchange malpractices; an intention to make individuals and business houses repatriate their foreign exchange to Sri Lanka were also announced in this Budget. But this was essentially a short-term measure dictated by the critical position of the country's foreign exchange resources, and in no way meant to be a fundamental policy change in relation to foreign investment.

Foreign investment was invited only to enhance the government's import substitution policy. Fifteen areas were demarcated where foreign investment was barred. These were areas where local investment particularly by the State had already established itself. These 15 areas included iron and steel, textiles, mineral sands, paper, cement, tyres and tubes etc. Apart from textiles, the State had to take on itself the major task of starting all large scale ventures in the absence of local capital capable and willing to undertake such industries.

A few foreign investments made in Sri Lanka during this period were by firms which already had markets in the country, eg. pharmaceuticals —Reckitt & Colman (Ceylon) Ltd., Warner-Hudnut (Ceylon) Ltd., automotive battery containers —Exide, Yuassa and synthetic textiles and garments — Maxim Ltd.,

The working class and the organised trade unions led by the LSSP and CP continued to exercise pressure on the Government for radical reforms, while the capitalist forces sought refuge with the rightist elements of the SLFP. The political stalemate, the economic stagnancy and the threat from the organised Left for take over of State power provided the background for an abortive rightwing Coup-d'etat led by the high ranking officers of the Armed Forces and the Police which compelled the Government to seek a shortlived political alliance with the organised working class based LSSP in March 1964. But this Coalition lasted only four months and its defeat in Parliament paved the way for a general election in 1965, which brought a UNP - led Coalition into power.

A change in attitude towards foreign investment was seen when the UNP-led coalition government came into office in 1965 and a second White Paper on Foreign Investments published in 1966 which reflected a return to the attitude to investments that prevailed before 1956. This new White Paper indicated the government's realisation of the urgent need for foreign capital to augment local investment, to diversify the economy, to provide employment and supply new managerial and technical skills. It was stated that despite the government's attempts to mobilise domestic resources, the level of domestic savings was inadequate to meet the full capital requirements of the development programme and therefore recourse must be had to external capital which would not only help to increase import capacity but would relieve the strain on the balance of payments. Foreign capital was expected to bring with it experienced entrepreneurship and technical know-how. This collaboration would, it was said, help Sri Lanka to adopt advanced technology, train local personnel and provide access to Sri Lankan business to use techniques available abroad.

The existing moratorium on dividends, interest and profits accruing to the foreign investor was relaxed. The government stated it had no intention to nationalise any private industry, but if it did become necessary in the public interest to do so, prompt and adequate payment would be made to compensate investors.

The Government however conserved some sections of industry exclusively for the State where it felt the private sector lacked the required resources and expertise. These sectors were cement, ceramics, paper, mineral sands, caustic soda and chlorine,plywood, steel, tyres and tubes, fertilizers and petroleum. Priority was to be given for the setting up of industries that would ensure a relatively high value added and which provided for a reduction of the import content of manufactures by substituting local raw materials and components.

An attempt was also made to diversify the areas for foreign investment by including tourism and fishing and another dimension was envisaged for foreign capital by including export promotion. Joint ventures were desired but no guidelines were given and it was also desired that an eventual transfer of the major part of the ownership to Sri Lankan nationals would take place.

Although controls were greatly relaxed in this White Paper, it did not seem to make a difference to the confidence of the foreign investor because the inflow of foreign investments was only around Rs. 18.5 million and came predominantly from Japan (eg. Siedles Electronic Industries Ltd., Ceylon Synthetic Textiles Ltd., Kundanmal Industries Ltd., etc.) the U.K. (Berec (Ceylon) Ltd., Harris (Ceylon) Ltd., etc) and U.S.A. (Union Carbide (Ceylon) Ltd.,). Adverse balance of payments and chronic foreign exchange problems characterised the plight of the economy during the decade.

The United Front (UF) Government of the Sri Lanka Freedom Party (SLFP), the Lanka Sama Samaja Party (LSSP) and the Communist Party of Sri Lanka (CPSL) that came to power in 1970 inherited an economy that had reached the verge of bankruptcy and insolvency, with large adverse balance of payments, chronic foreign exchange problems surpassing the maximum currency drawing rights from the IMF and IBRD and overwhelmingly accumulated foreign and internal debt burdens. The political composition of the UF Government was by no means tolerable to the local capitalists who looked upon this Government with horror while the imperialist powers adopted a hostile attitude.

The election of the UF into power by the masses with a two-third majority in Parliament signified a great need for radical changes. The aspirations and expectations of the voters were extremely high, but the desire of the major partner of the Coalition (the SLFP) for radical change was to say the least lukewarm, in that it insisted on its working class based Coalition partners to give up their offices in the trade unions before taking up Cabinet portfolios, which were also shorn of vital functions such as the removal of Planning and Public Administration from the Ministry of Finance, and the nationalisation of foreign owned plantations from the Ministry of Plantation Industries. The contradiction between the aspirations of the people and the reluctance of the Government to effect radical changes expeditiously gave rise to a massive youth revolt in 1971, which though easily suppressed, compelled the Government to open the eyes of the reluctants to recognise the need for radical change. The legislative restrictions embodied in the Soulbury Constitution (Sec. 39) under which political Independence was granted to Sri Lanka in 1948, were removed by drafting a new Republican Constitution which enshrined absolute sovereignty in the people of Sri Lanka to determine their own future through a truly sovereign Parliament and pledged to go towards a "socialist democracy."

The UF Government was confronted with two main challenges. One was the early repayment of accumulated foreign debts which had made the country almost insolvent and non-creditworthy. Immediate steps had to be taken to commence repayment in order to restore the lost national self respect and creditworthiness of the country. The other was to mobilise domestic savings for meaningful investment that would increase production and generate more and more employment. These two gigantic challenges had to be met in a totally hostile domestic and foreign environment. Repayment of foreign debts required foreign exchange savings which compelled the Government to adopt a strict policy of import controls, quota systems, rationings, price controls and import substitution. The adoption of this policy coincided during the widely known era of "World Food Crisis and the World Oil Crisis" in the early '70s, the cumulative effects of which were bitterly felt by all alike. Nevertheless, this policy of strict import controls for saving foreign exchange for Foreign debt repayment yielded desirable results, in that it enabled the government to repay about 85 per cent of its foreign debt burden. But for the 'World Oil Crisis' which coincided with 'the World Food Crisis', the Government, it was said, could have fully repaid the accumulated foreign debts and relieved the nation completely of foreign indebtedness. This transformation of a near bankrupt and insolvent nation to a respectable and creditworthy one within a matter of 3-4 years of compulsory and agonising self denial, enabled successive governments unfortunately to indulge in a "borrowing spree".

The way ahead for the UF Government was by no means an easy one. Largely due to the presence of two Marxist parties with strong commitment to socialism, it had to face many obstacles at every turn. Apart from the insistence of the world lending organisations on immediate commencement of foreign debt repayment, several attempts were made to impose currency devaluations which would have reduced foreign exchange earnings from exports and nullified the efforts towards debt repayment. After hard bargaining, loans were offered on terms that were more favourable to the lending powers which did not find acceptance with the LSSP Minister of Finance. Non acceptance of sinister advice given by the World Bank and its allies naturally led to non accommodation or at most partial accommodation of Sri Lanka's requests. The Finance Minister was convinced that periodical currency devaluation, preferential/ discriminatory tariffs and frequent revision of freight rates could cripple the economy which is predominantly an Import-Export Economy.

Nevertheless, the Government made earnest effort to seek accommodation from the world lending organisations in order to meet the foreign exchange component in development projects, but with a remarkable difference, in that it sought loans on terms that were acceptable to the Government, without any strings attached, leaving the discretion to the Government to decide the priorities. It also welcomed Direct Foreign Investment on the basis of investment policies laid down in the White Paper published in 1972. This White Paper repeated many of the incentives offered to Direct Foreign Investment in 1966. Tourism, Fishing and Export promotion received special emphasis.

The White Paper of 1972 laid down stipulations for both foreign and local investment. Direct Foreign Investors were permitted to remit profits abroad after making adequate provision for the maintanence and replacement of assets. Investment in heavy capital goods industries, selected basic industries , and those processing mineral resources were reserved for the public sector. Joint ventures with foreign collaboration were encouraged on the basis that a greater proportion of the investments had to be local, the greater part of the raw materials used had to be indigenous, and the productions had to be primarily for export. Industries which would help to diversify the country's export trade, location in less developed areas, adoption of labour intensive techniques and adoption of technology that would lead to an indigenous machine building capacity were encouraged.

However the incentives offered to foreign investment did not appear to be sufficiently attractive and the Government's policy of strong import substitution, quantitative restrictions on imports, curtailment of movement of foreign exchange, imposition of price controls, and pursuance of subsidy and welfare programmes and several business acquisitions such as British Ceylon Corporation Ltd, Ceylon Extraction Co.Ltd., Bogala Graphic Mines, Colombo Gas & Water Co.Ltd., United Motors Ltd., Ceylon Oxygen Co., Wellawatte Spinning and Weaving Mills Ltd., would have caused apprehension in the minds of foreign investors and inhibited the flow of foreign capital. Therefore, instead of succumbing to the pressures of the World Bank, or waiting helplessly for foreign aid/ loans or foreign direct capital investments, steps were taken to give a new direction to the economy towards socialist goals.

Conscious and determined efforts were made to expand the public sector enterprise and make it the main instrument of economic growth. Steps were taken by the Government to exercise effective control over the means of production, distribution and exchange. The Land Reform Laws of 1972 placed a ceiling on private land ownership limiting it to 50 acres per person, including the plantation sector which was described as the commanding heights of the economy. Increasing productivity, security of employment and advancement of workers rights, privileges, working and living conditions, assurance of tenancy rights of farmers and release of lands for diversified farming and expansion of the production base and utilisation of the excess revenue from the plantation for investment in other sectors were the main objectives of the Land Reform. Currency demonetisation, tax on capital and capital gains, compulsory savings, ceiling on incomes and expenditure, direct and indirect taxes etc were levied to mobilise savings for domestic investment. The Business Acquisitions Act of 1971 sought to ensure proper management and business conduct, while a ceiling on housing, house rents, provided opportunities to the tenants to purchase the excess houses and security of tenancy. A near monopoly of import trade vested with the State by entrusting imports to several State Corporations such as the Cooperative Wholesale Establishment, the State Textile Corporation (Salu Sala), Sri Lanka State Trading General Corporation, Ceylon Petroleum Corporation, Textile Supplies Corporation, Tractor Corporation, Sri Lanka Pharmacuticals Corporation, National Beedi Corporation, Building Materials Corporation, etc. Strong control over export trade was exercised by the creation of the Colombo Auctions Centre for sale of Tea, Rubber and Sundry produce while the nationalisation of the BCC (British Ceylon Corporation) —a giant monopoly controlling the copra and coconut oil market ensured fair control over the coconut industry. The State Graphite Corporation, State Gem Corporation sought to regulate the export of graphite and other precious stones. Consolexpo was also reorganised to handle export of various other products.

Several more State Corporations such as the State Engineering Corporation, State Paper Mills Corporation, State Printing Corporation, Tyre Corporation, Sri Lanka Sugar Corporation, State Distilleries Corporation, State Hardware Corporation, State Steel Corporation, State Plantations Corporation, Janatha Estates Development Board, Mineral Sands Corporation, Silk and Allied Products Corporation, Cashew Corporation, State Timber Corporation etc. enabled the State to play a vital role in production.

The take over of the Bank of Ceylon helped along with the State owned People's Bank, State Mortgage and Investment Bank, National Savings Bank and together with the Central Bank to command financial direction and discipline.

However, the Ministry of Planning which was retained by the Prime Minister did not have a known development plan for investment of savings mobilised by the Banking Sector and the Minister of Finance.

The setting up of the National Shipping Corporation and the Freight Bureau abolished the monopoly exercised by the Foreign Conference Lines and exercised proper freight rates and movement of cargo. Together with the State owned Air Ceylon, the nationalised Bus Services and the State owned Railways, sea, air and inland transport of passengers and goods were regulated by the State.

The Co-operative Societies were reorganised to ensure proper distribution of rationed goods at controlled prices. The State owned Paddy Marketing Board offered fair prices to paddy farmers, while ensuring steady supply of local rice to consumers at fair prices. A Price Control Department was set up to ensure sale of goods at controlled prices to the consumers. This control over import and internal trade enabled the Government to effectively control inflation which was a unique achievement in the context of world wide inflation created by the World Food Crisis and the World Oil Crisis.

Steps were also taken to set up Workers' Councils in workplaces, Advisory Committees in Government Departments and Public Corporations and Janatha Committees (People's Councils) and Regional Development Councils in rural areas to make the blue-collared and white-collared workers and rural masses to become active participants in management, administration, and development. However these efforts at involving the masses in administration were not looked upon with much favour by the SLFP and their implementation was mainly confined to the Departments and Corporations coming under LSSP Ministers.

Taken as a whole, these measures naturally created class tensions, wrath of the capitalists both local and foreign and the question of the nationalisation of foreign owned plantations brought about an inevitable cleavage within the Coalition which led to the expulsion from the Government of the LSSP which was the forerunner of radical change.

The trade union movement during the period 1970-74 viewed the actions of the Government with mixed feelings. The trade unions actively and positively supported and safeguarded the Government during the period of youth revolt in 1971. The World Food Crisis and World Oil Crisis propelled hardships, food rations and the wage freeze policy adopted by the Government in order to combat inflation, were treated with bitter feelings, especially by the more sophisticated white-collar unions, whilst anti-capitalist measures taken by the Government and the Workers' Councils which provided an opportunity to workers to participate in management apparently pacified the vast majority of the blue collar workers.

The expulsion of the LSSP Ministers from the United Front Government on the eve of the take-over of foreign owned plantations, changed the character of that Government, in that it proclaimed thereafter its allegiance to the Bandaranaike policies of the SLFP. It also exposed the SLFP's lack of a development plan. The organised trade unions thereafter began to change their attitude towards the Government when it reversed its commitment to proceed towards socialism and abandoned the Workers' Councils, Advisory Committees and Janatha Committees etc. The organised unions once again began to agitate for higher wages and better conditions which they would demand from any capitalist Government. This betrayal of confidence in the Coalition partners and sudden reversal from progressive policies to ineffective capitalist policies led to the resounding defeat of the SLFP and the Coalition partners in the General Elections held in 1977.

It is worthwhile to note that in spite of the many difficulties experienced in the early 1970s, Sri Lanka also surfaced as a country whose values of life expectancy, infant mortality, adult literacy and fertility deviated significantly from values that would have been expected for a low-income developing country. In 1977 the Overseas Development Council under the direction of Morris D. Morris devised the Physical Quality of Life Index (PQLI) which could be used with some measure of per capita income to judge human welfare. The PQLI purports to estimate how well a society satisfied 3 measurable criteria: life expectancy, infant mortality and literacy. One of its obvious uses is for making comparisons of social welfare across countries. In the early 1970s for a per capita GNP of $179, Sri Lanka had a PQLI of 82 (out of a maximum possible score of 100). For comparison, 42 low-income countries with an average per capita GNP of $155 had an average PQLI of 40; and high income countries with an average per capita GNP of $4404 had an average PQLI of 92. Concerning Sri Lanka's spectacular performance on the PQLI scale despite its low per capita GNP, Morris commented: "If countries having per capita incomes of more than $179 and PQLIs of less than 82 could duplicate Sri Lanka's experience, 1.6 billion people would be affected". The implication was that Sri Lanka showed to many under-developed countries the picture of their possible future development. (A comparison made by using the Human Development Index published by the UNDP in 1970 brings out a similar result as that given above). It was precisely the heavy resource commitment to social welfare by successive governments under the pressure of the Left which made such an outcome possible. Figures of the welfare expenditure of the Government and relative distribution of income among households also bears out the effects of the policies pursued by the United Front Government during its existence. And this despite the world economic crisis with an acute food shortage which characterisied the period in which the United Front Government had to function.

The UNP elected to office in 1977 is strongly committed to capitalism and thus, a complete reversal of all progressive steps taken by the United Front Government was evidenced after its electoral victory. The Government proclaimed that rapid economic development was the only solution to the problems faced by the country and this could only be successfully effected within a framework of an export-oriented economy. Restrictive economic policies introduced by the UF Government were replaced with open economic policies, liberalised imports and exports, abolition of State monopolies and an invitation to foreign capital for investment on very attractive and liberal terms. Advices given by the World Bank for currency devaluations were promptly complied with and the local currency was thereafter left to float which inevitably resulted in a steady sinking in value. The following currency exchange rates (ie the rate at which Sri Lankan rupee exchanged with other currencies) would illustrate this fact.

Exchange Rates Since 1975

	Rupees per unit of	
	$	£
1975	7.70	15.59
1977	15.53	29.79
1981	20.53	39.06
1985	27.40	39.57
1989	39.98	65.04
1991	42.48	75.02
*		

*1992 June the parity rates were Rs. 44.07 and Rs. 83.80 respectively

However, in order to achieve these objectives the Government had to ensure industrial peace and political and economic stability which necessitated a policy of winning over or of smashing the organised working class movement. Since 1947 the organised working class had played a dynamic political role which compelled all parties in power to win it over or bring it under their hegemony. This policy has been successfully pursued by the conscious political patronage of unions by the UNP Government since 1977, with two Ministers of State today in the leadership of two major unions in the country. The unyielding unions were already debilitated in 1980 when the Government ruthlessly suppressed the general strike of that year from which blow the working class movement has yet not fully recovered. The absence of the organised and militant working class today as a countervailing force to that of the government and increasing authoritarian trends seen also in the system of Executive Presidential rule introduced by the new Constitution of 1978 together with an attack on democratic rights has given rise to armed uprisings of socially unstable youthful sections in both the North and South of the country.

The new government took as its examples the Newly Industrialised Countries (NICs) of East Asia. A liberalised export oriented economy was to be the framework within which the country would progress. A Marga Study (as yet unpublished) sets out the changes that took place in the field of foreign investment since the UNP Government's assumption of office in 1977.

Some of the changes that were introduced included:

- a unified exchange rate to replace the overvalued dual exchange rate;
- a move towards privatising some of the state monopolies such as the public transport system and the import and internal trade;
- abolishing of price controls with a view to increasing capacity utilisation which was severely curtailed;
- relaxation of import licensing requirements to less than 150 items;
- liberalisation of the import of machinery up to a value of Rs. 700,000;
- simplification of the tariff structure to five basic slabs of import duty—nil, 5 percent, 12 1/2 percent, 50 percent and 100 percent; and
- the liberalisation of imports of most items at high rates of duty in order to improve the quality of the import-substituting products;
- imports of raw materials, intermediate goods, spare parts, components and capital goods were permitted because it was felt that the relaxation of import controls would provide a strong impetus to expand industrial production;

- a new business turnover tax was introduced with three basic rates —2 percent, 5 percent and 10 percent.

Revisions were introduced in the 1978 budget which gave effect to some of these measures.

In 1980, a Presidential Tariff Commission was appointed to provide a continuous review of tariffs and make recommendations on an appropriate tariff structure. The objective was a broad equalisation of protection levels between industries, based on the government's social and economic priorities, in order to effect a more efficient allocation of resources. The new tariff structure was to make it easier for industries to obtain more efficient technology and modernise these industries to make them more export oriented. Almost the entire recommendations of the Tariff Commission were implemented in the budget of 1985, including the imports of textiles by the private trade, which was the last of the government monopolies.

Massive infrastructural development was launched in accordance with the government's development policies, which centred around the three lead projects —the Accelerated Mahaweli Development Programme (AMDP), the Programmes of the Greater Colombo Economic Commission (GCEC), and the Housing and Urban Development Programme. These were given high priority in view of their scope for reducing unemployment. The Government considered the previous outlay on welfare to be inimical to growth and thus drastic cuts were made in them. Under the new welfare scheme only persons receiving an income of less than Rs. 300 per month were eligible to food and kerosene stamps (subsidies).

The envisioned development projects would not have been possible without a colossal amount of Official Development Assistance (ODA) where foreign countries and multilateral agencies came to Sri Lanka's aid for its development. The Government also had a crucial role for Foreign Direct Investment (FDI). It was to play a pivotal role in the export-led industrialisation strategy; it was to augment local private investment as well as provide a package to supplement scarce capital resources, technology, employment, skills, management and market access. The Greater Colombo Economic Commission (GCEC) was created by statute to administer the Investment Promotion Zones (IPZs) that were established.

FDI or FPI (Foreign Private Investment) was also to be used to further construction work connected with the Government's lead projects —the AMDP (Accelerated Mahaweli Development Programme) and housing and urban re-development, the development of tourism and capital or technical intensive agricultural projects. The Foreign Investment Advisory (Approvals) Committee (FIAC), which had been set up to service the White Paper of 1966 was reactivated to promote foreign collaboration in these areas. This Committee was merged with the GCEC in January 1990 "to form a one stop centre in order to facilitate easy entry to foreign investors" (Central Bank Annual Report 1990).

Sri Lanka also established a foreign currency banking scheme (FCBS) with a view to developing Colombo as an international financial centre. Sri Lanka was to follow Singapore as a major trading, banking and financial centre. The moratorium on the opening of foreign banks was lifted and a number of banks from Europe, the USA and a few Arab countries opened branches for business here. The Government also permitted commercial banks to conduct off-shore banking activities and money brokering firms to conduct business.

The most far-reaching step taken by the Government was the creation of the GCEC already referred to. The GCEC came into existence with the enactment of the GCEC Law No. 4 of 1978. It set up its first IPZ in the area of authority in Katunayake in 1978 and its second at Biyagama to cater to heavy and water consuming industry in 1983 and preparations are under way for a third at Koggala in the Southern Province of Sri Lanka. An amendment to the original legislation (the GCEC (Amendment) Act No.43 of 1980) which gives the GCEC jurisdiction over 'licensed zones' enabled the second zone to be established and empowered it to exercise power over dispersed projects, eg. agriculture projects and other industries. The GCEC is entrusted with the task of attracting foreign investors who are prepared to accept a 100 percent export obligation and who wish to be located in areas under the GCEC. The GCEC areas of authority are provided with a number of other activities such as warehousing, repackaging, blending, international banks, insurance companies, freight forwarders, an air cargo terminal, containerised shipping, modern telecommunications facilities, prepared factory sites etc.

In order to attract foreign investors, Sri Lanka's major attractions were emphasised such as the low wage rates, the quality of labour (educational), the literacy and health levels and its high adaptability, together with its geographic location. In order to enhance its comparative advantages, an attractive array of incentives and supports facilities were offered. The incentives were offered on a graded scale according to siting of the factory, creation of employment, export orientation, capital investment and development of technology. Some of the incentives were tax holidays ranging from 3-7 years (and up to 10 years in special cases); exemption from payment of Turnover Tax on all exports even after the tax holiday; exemption of all foreign personnel from taxes; exemption of non-resident shareholders from taxes; free transfer of capital and returns as well as proceeds of liquidation; tax holidays for foreign banks operating in the Area of Authority for periods of 5 years and concessionary taxes even afterwards; and exemption from import duty on the import of equipment, construction materials and other imports. The GCEC enterprises were allowed to have access to Foreign Currency Banking Units (FCBUs) operated by domestic and foreign banks (classified as off-shore banking enterprises) and to contract loans in foreign currency and many other facilities.

Double taxation relief agreements were signed with the USA, UK, the FR of Germany, France, Japan and many other countries and Investment Promotion Agreements were also entered into with as many countries which greatly increased the confidence of foreign investors. In order to ensure the security of investments, legal protection was provided by the Constitution by incorporation of Article 157 which had the force of law and with no legislative, executive or administrative action able to amend it.

The Government re-activated the FIAC as previously stated to approve and monitor foreign investment outside the GCEC, and it had powers to approve investments which took the form of joint ventures with a greater proportion of Sri Lankan equity participation and which do not have to conform to such strict export obligations. The FIAC's norm regarding equity participation in a joint venture was that at least 51 percent of the investment was Sri Lankan. Luxury 5-star hotels of over 200 rooms were allowed, with a foreign equity share of 70 percent; construction projects undertaken by the Mahaweli Development Programme was allowed as much as 60 percent and in cases where there was no significant transfer of technology, the equity shareholding of the foreign partner was limited to 25 percent. The FIAC also offered a number of fiscal and other incentives to foreign investors, which approached but did not equal the incentives offered by the GCEC. All these facilities and incentives were offered to foreign investors to exploit our labour market to the maximum possible extent.

In Sri Lanka the pattern of investment was that the annual average Gross Domestic Investment (GDI) in the period 1970 to 1977 was 16.67% of GDP at current market prices, of which private investment made up 8.36%. As part of the total investment, direct foreign private investment was negligible. In the period 1978 to 1990, the annual average GDI was 27.07% at current market prices. Of this, an average of approximately 17.46% was made up of private investment. For the first time since the import substitution days of the sixties and seventies, direct foreign investment assumed some significance. The net direct foreign investment since 1978 given below illustrates the change that took place from that year following the liberalisation of the economy, and the generous package of incentives that was offered to private foreign investors:

Trends in Direct Foreign Investment
1971 - 1990

Year	Amount (net) (Rs. Million)	SDRs
1971	2.0	-
1972	2.4	-
1973	3.1	-
1974	9.0	-
1975	-1.3	-
1976	0.2	-
1977	-9.6	-
1978	23.8	-
1979	731.5	-
1980	710.0	-
1981	946.5	41.9
1982	1,322.8	57.6
1983	887.3	35.1
1984	829.6	31.8
1985	679.1	24.5
1986	784.1	24.3
1987	1,726.5	44.6
1988	1,376.9	32.1
1989	633.1	13.7
1990	799.3	14.6

Source: Central Bank of Sri Lanka
Balance of Payments Tables

Total Foreign Investments (1978-1990)

Project Area Units	No. of Capital	Foreign Capital (Rs.Mn)	Local Investment (Rs.Mn)	Total (Rs.Mn)
GCEC	101	6,775	2,098	9673
FIAC	307	-	-	11802
1989-90 (Contracted)	30	-	-	1432
	===			=====
	438			22907
	===			=====

Up to 1982 the inflow of foreign investment increased annually but then fell away due to the ethnic disturbances; when it again started to increase there were civil disturbances in the South and it was affected. It has begun to rise again gradually.

At the end of 1990 there were 120 projects in operation under the GCEC "Free Trade Zone (FTZ)" of which 65 were in the Katunayake Export Promotion Zone (KEPZ), 23 in the Biyagama Export Promotion Zone (BEPZ) and 32 in various parts of the country. A total of 337 projects had been approved and agreements had been signed with 194 to set up industries. Of these, 120 projects were in commercial production. At the end of 1988, 162 firms had contracted with the GCEC to set up industries, 103 of them located in the KEPZ, 25 located in the BEPZ and 34 in various parts of the country. They had an investment of Rs. 9,175 Mn. out of which Rs. 6,775 Mn. was foreign investment and Rs. 2,398 Mn. was local. Of these 101 projects were in commercial production.

As regards FIAC projects, as at the end of 1990, the authority (the GCEC in 1990) had approved 661 projects with an investment potential of Rs. 25,155 Mn. At the end of 1989 there were 320 of these projects in operation; it is not known how many were operating in 1990. At the end of 1988, however, 307 projects with an investment of Rs. 11,802 Mn. were in operation. Of these, 154 were in the manufacturing sector. These had a total investment of Rs. 3,598 Mn. of which the foreign capital component was Rs. 1,702 Mn. or 47 percent.*

However, no firm conclusions have been made regarding the value of direct private foreign investment. There are claims and counter-claims as to its benefits and costs. For instance, it has been claimed that three of the main

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* In an advertisement published in the English Daily Papers on 3rd November 1991, on the eve of the GCEC/UNIDO sponsored 'Investors Forum' held in Colombo from 4th-7th of November 1991, His Excellency the President of the Democratic Socialist Republic of Sri Lanka has proclaimed that "the economy has been liberated from the narrow confines of a regime of controls and an insular vision. During the last 2 years alone, nearly 700,000 persons have found direct or indirect employment. This is an indicator of the success of our pragmatic policies". This advertisement further states that "In a rapid and dramatic emergence of the country's foreign investment potential over the last decade Sri Lanka is today taking top billing as one of Asia's most sought after countries for setting up industries for the manufacture and export of a wide variety of products. At the command of potential investors are some of the finest resources, excellently sited and equipped investment zones, highly literate and optimally productive man power and package of Tax Holidays, incentives and benefits that other regions find difficult to match. Behind it all is the support and backing of Sri Lanka's Government—a prime factor that obviates all elements of risk and substitutes the promise of continuing success". The advertisement also published the following figures to illustrate the value of Export Earnings of GCEC enterprises.

Value of Export Earnings of GCEC Enterprises

Year	Rs. Millions
1979	152
1980	529
1981	1,163
1982	1,653
1983	2,419
1984	3,537
1985	3,802
1986	5,356
1987	7,630
1988	9,546
1989	12,805
1990	15,575

contributions of direct foreign investment are its financial contribution to development, the improvement in the balance of payments and the rise of the technological level. The financial contribution made by private foreign investment adds to the capital formation, helps to mobilise it in the home country, and provides its foreign exchange component. It also has a positive effect on the balance of payments when investments and foreign exchange income derived from it exceeds payments of dividends and other charges. The foreign investment package includes a transfer of more sophisticated technology to industry, thereby increasing productivity. Foreign investments are more often made to establish new industries, mainly for export, and these help not only to diversify but increase a developing country's exports. A foreign investor also has links to foreign markets and access to them, so that export markets also will be diversified. Foreign private investment creates employment in host countries and transfers management expertise to host country personnel.

These claims have been disputed, The catalytic action claimed for foreign investment in the manufacturing sector of "developing" countries (only a small proportion of which comes from the foreign investor's home country) implies that national resources would otherwise have remained unemployed. It is argued that profits repatriated from "developing" countries together with interest, royalty and technical assistance payments amount to several times their own contributions. The positive effect of foreign private investment is also disputed with the argument that in their manufacturing activities, the import coefficients are often higher than their export (value added) coefficients, that they encourage the consumption of goods with a high import content and that they are reluctant to export except where the condition is laid down, and that in the case of TNCs they bring with them the problems of transfer pricing. Foreign enterprises are also accused of circumventing impórt substitution policies in host countries, of operating in developing countries to take advantage of cheap labour and of using the same standardised and automatised technologies in all countries in which they operate. Hence, there is no real transfer of technology.

Investment whether local of foreign must not only generate income and economic growth but more necessarily create new employment opportunities. The creation of employment by direct foreign investment and its relative significance is shown hereunder.

Employment

Government Departments		Semi-Government Institutions Corporation Sector)	DFI*Sector
1988	535,500	752,900	99,876**
1989	588,500	749,700	61,429 (GCEC only)
1990	609,750	708,400	71,358 -do-

Source: Central Bank Report 1990
*DFI = Direct Foreign Investment
**Marga Institute unpublished data.

Significant foreign collaboration though meant to be promoted by the GCEC has in most instances been with State industries. The Ceramics Corporation went into collaboration with Noritake of Japan, the Tyre Corporation with Good Year, the State Textile Corporation with Tootal International Ltd, Bombay Dyeing and Manufacturing Ltd. and Star Textile Engineering Co. Ltd. The Milk Board has been taken over by Nestles. Collaboration with foreign firms has of course also meant that the social objective of these State Corporation are lost and profit becomes the only objective with jacked-up prices and considerable repatriation of profits by foreign collaborators. It seems to be the intention of the present UNP Government to encourage the private sector and even let the public sector die!

What has in fact been achieved?

GCEC-Free Trade Zone (FTZ)

Although planned to attract big transnationals, those who have invested in the GCEC/FTZ (Export Promotion Zones) were largely small Asian textile firms; foreign banks expected to bring in capital through numbered accounts merely provided the means to send out black money. The transfer by the FTZ firms was not of capital intensive technology, but of labour intensive technology used to take advantage of the cheap labour in the country. (If was perhaps unrealistic to expect Transnationals with advanced technology to invest in a country with low technological development) Further since there was a concentration of garment firms. little skill was needed and therefore no transfer of technology at all. Despite all the incentives given, profits were repatriated thus draining the economy of potential profit from non GCEC projects. The promotion of exports by means of the FTZ was also not successful, for here again there was a concentration of textile and garment industries which accounted for as much as 80% of the profits in 1986 and garments are 71% dependent on imports. For all the incentives granted to the FTZ enterprise as seen at Katunayake and Biyagama where there are today 80 factories and 23 factories respectively, the number of jobs created here by 1990 amounted to only 71,585 according to the Annual Report of the Central Bank for 1990 and that too under non-unionised and trying conditions for women workers who constitute the overwhelming majority of the workforce. There is little defence here for workers' rights and exploitation and harrassment of a sexual nature are also concomitant with this type of employment. Protection of FTZ enterprises from labour agitation was secured by the recruitment of workers registered with the GCEC after obtaining letters from Members of Parliament. Enterprises were also permitted to call for letters from third persons guaranteeing loyalty, honesty and even resignation from employment if so required.

It could be said therefore that the FTZ though providing some little relief by way of employment, was generally speaking a loss to the country in that the easiest area of potential foreign earnings was handed over to foreigners and the local textile industry thereby deprived of its quotas and opportunities to develop further. The scheme has not developed the capital goods sector which could help meet the needs of the people. Nor has it promoted self-reliance in technology. It also did not take on lines to process our raw materials such as tea, rubber, coconut, spice and fruits, and there is only one gem cutting firm within Katunayake FTZ. Apart from firms in the garment industry, of the approximately 80 factories today within the Katunayake FTZ there are the following: 2 firms engaged in diamond cutting, 1 in gem cutting, 2 producing computer parts, 2 for steel cupboard, 2 for electrical fittings, 1 for nuts and bolts, 2 for shoes, 1 for electric bulbs, 1 for plastic flowers, 2 each for jerseys, gloves and socks.

Furthermore the type of firms investing in the FTZ are such as would readily move out the moment they found better locations and therefore cannot be expected to invest capital and contribute to capital formation.
Instances of such closure of factories from the eighties are the following:

1. Serendib Electricals, a firm set up with Japanese capital to produce hair dryers which closed the factory without paying wages to 350 workers for 2 months or giving them a gratuity or the Employees Provident Fund benefits to which they were entitled.

2. Asian Rubber, a firm with Korean capital which employed 400 workers and closed in the same way as Serendib Electricals.

3. Sun-Cornel Textiles, Japanese and local capital employing 600 workers which closed without 2 1/2 months payment to workers or giving gratuity or compensation to them.

4. Pure Globe, a gloves factory (Hong Kong capital?) which closed in 1990 with 2 1/2 months wages owing to workers and EPF benefits or compensation unpaid to the 450 workers employed by them.

5. Terry Lanka, a firm with Pakistani capital is said to be getting ready now to close in a similar manner and even forcing workers to hand in letters of resignation.

Efforts to form Trade Unions have been strongly resisted by the employers in the FTZ and termination of services is the result where workers have attempted such unionisation. Although the normal Labour Laws are legally said to apply to the FTZ too, in practice there is a virtual disregard of such laws, with dire consequences for the workers who attempt to stand up to their employers. It is significant that to this date there is no organised trade union in the FTZ whether in Katunayake or at Biyagama. In fact the State of Emergency and the State counter-terror in the face of the more recent terrorism of the Janata Vimukti Peramuna (JVP) was made use of by some employers to get rid of "troublesome" workers.

A few instances of actions by employers against workers who had the audacity to attempt the organisation of their fellow workers are set out below:

1. In 1988 the workers in the Korea-Ceylon shoe factory made 18 demands on their own and later struck work. 17 leaders were interdicted by the Company as a result. A mass campaign organised on behalf of these members resulted in the reinstatement of 16 workers except for their leader P.M. Suraweera. During the period of JVP terror in 1989, two worker activists were killed and Suraweera had to go underground.

2. In Floral Greens - a factory producing plastic flowers, H.M. Ranjith a supporter of the present Prime Minister and a member of the ruling UNP carried on an agitation in his factory against old and obsolete machines which injured and even cut off the fingers of workers. He complained to the Labour Department and GCEC officials and played the leading part in obtaining compensation for the workers and safeguarding their rights. When Ranjith was about to form a Trade Union in the workplace he was interdicted by the employers. During the troubled period, on October 27, 1989 when he and his legal adviser were returning after a disciplinary inquiry conducted in the factory, they were abducted and killed and their bodies burnt. It was suspected that the management of the factory was behind these killings.

3. When the workers of "Atlas Gloves" struck work on some demands about 50 of them were interdicted. The young woman leading them was taken into custody and kept in the police station for 3 days on the ground that she was a JVP suspect. Later over 50 workers were dismissed from the factory.

4. In the early 1980s when 4 workers of A.J. Milton Company started a magazine called "We of the Zone", they were arrested and locked up by the police and then interdicted by the Company.

It will be seen from the foregoing therefore that workers who took an interest in organising Unions were faced with interdictions, police harrassment and even death.

No officials belonging to a Union can enter the FTZ area and enter a factory, for special passes are needed for such entry.

The police do not in practice permit the distribution of any leaflets or what they consider to be agitataional material in and around the FTZ area. Furthermore although the workers who are interdicted can have recourse to Labour Tribunals, the hearing of cases is so long drawn out (these are also deliberately prolonged by the employers) that the workers cannot continue to appear in Court especially if they have left the area for their homes or have secured other employment sometimes within the FTZ itself and cannot obtain leave for this purpose. About 80 percent of these cases are dismissed due to the absence of the applicants who are victimised workers.

Ninety five percent of the workers in the FTZ are women between the ages of 18 and 35 years. There are around 50,000 such workers employed in Katunayake and some 20,000 working in Biyagama. A trainee is generally paid Rs. 1250 a month and Rs. 1500 after 6 months. The annual increments vary from Rs. 10 to Rs. 50 in the case of trainees and Rs. 25 to Rs. 75 in the case of unskilled workers. There is however no uniform wage pattern in the FTZ. On December 1, 1989, the Government Wages Board declared that the minimum wage in the FTZ should be Rs. 1000 (roughly US $26) per month. As a result most companies increased wages although not all of them adhered to this increase.

A cup of tea is generally provided during work in the morning and afternoon and a very few firms also provide biscuits with the cup of tea and also a free midday meal. A distinguishing feature of FTZ employment is the compulsory overtime that workers have to engage in, in some places every day for about 2 hours. In other work places workers are compelled to work on Sundays and whenever they are required to do so by the employers especially in the months of August and December when they have to meet urgent orders. If workers fail to report for such overtime, the "attendance bonus" of Rs. 100 paid to them monthly in most work places is cut in punishment.

The living conditions of the FTZ workers too are pathetic. In Katunayake there is only one decent boarding house—that maintained by the YWCA, but only those at the supervisory level can pay the charges of that institution. Workers therefore have to be content to live in over-crowded private houses without proper facilities. These privately owned houses once accommodated only one family. Now they accommodate sometimes up to 40 or even 60 workers. A room of 15 sq. metres would accommodate as many as 6 women workers, each occupying just enough space to lay a mat and suitcase. The rooms are dingy and separated by flimsy partitions. Privacy is virtually non-existent and everything up to writing a letter is done sitting on the ground. All these women share one toilet, one well and one kitchen. The women often compare their boarding house to the private sector bus into which people are packed like sardines.

In such places it is usual for the women workers to be charged Rs. 100 to 150 per month for only the use of a mat to sleep, in over-crowded rooms along with many other such workers. As stated already, there is hardly space in the rooms so occupied and not enough water or lavatory facilities. The only facility afforded to them is apparently the electric light in these houses!

These workers are also beset with health problems owing to bad working and living conditions. Asthma and headaches are the normal complaints besides cuts inflicted on their fingers and also accidents affecting the eyes which occur in the course of work. In the diamond cutting factory the incidence of asthma is higher. Malnutrition is marked, more so as the workers eat only rice and a vegetable or dhal to save on meals. If the 'boardings' supply meals they have to pay some Rs. 600 to 700 a month which leaves them hardly anything to send home to their villages after their other personal expenses. The result is that workers try to earn as much as they can by way of overtime to the detriment of their health and perhaps a fair proportion of them even engage in prostitution after work hours since doctors in the area have reported several cases of abortion and most of them involving workers in the FTZ. Most factories have a health nurse but the workers complain that all they get is a tablet of aspirin or panadol for any ailment. Very few factories have doctors attending to their workers. There is a medical centre maintained by the GCEC but the workers rarely visit it since it is of not much use to them. There is only the base hospital run by the State in the area and this too is not as fully equipped as it should be.

The plight of these poor workers mostly drawn from rural areas and exploited at every turn is indeed a pitiable one.

The Role of Transnational Companies in the Context of Foreign Investment in Sri Lanka

In the field of agriculture, Transnational Companies (TNCs) have begun to play a vital role in recent times. Supply of agro-chemical inputs like fertiliser, chemicals, improved seed materials and agricultural machinery and equipment such as tractors and spraying tanks etc. are largely controlled by the TNCs. Cultivation of tea, rubber, sugar cane, paddy and vegetables which are the country's main agricultural products are heavily dependent on these inputs. "Haychem" (a subsidiary of Hayley & Co. who have collaborated with Bayer A.G. of Federal Republic of Germany); "C.I.C." - (Chemical Industries Colombo Ltd. —a subsidiary of Imperial Chemical Industries Ltd. of United Kingdom); "Lankem" - (Lankem Ceylon Ltd. — a subsidiary of Shell International Chemical Company Ltd.) - have become household names in the farming areas and the plantations. The Ceylon Tobacco Company (a subsidiary of BAT), Nestles' Lanka Ltd., (a subsidiary of Nestles' S.A., Switzerland) and Pelwatta Sugar Co. Ltd., (a joint venture started by the Sri Lanka Government with Booker Agricultural International Ltd.) have a stranglehold on the producers of tobacco, milk and sugar cane; Lever Brothers (Lanka) Ltd., a subsidiary of Unilevers which has recently bought over Liptons (Lanka) Ltd., and Brooke Bonds (Lanka) Ltd., has gained a commanding position over the Tea Industry.

The tremendous influence exercised by some of these TNCs on agricultural activities and milk production has been lucidly described by DAGA (HongKong) in its number of November 1986 and warrants no further repetition. Therefore a few comments in brief would be made regarding the more recent developments.

TNCs and the Mahaweli Development Programme

The involvement of the TNCs in the Mahaweli Development Programme could be clearly observed in two stages. One was in the construction stage, where through the donor countries the TNCs were able to wrest opportunities for supplying various project components such as, supply of consultancy services and contracting for construction of major dams, reservoirs, power projects, supply of machinery and materials etc.

The next stage was after the settlement of farmers. the TNCs have stepped into supply the agro-chemical inputs such as fertilizer, chemicals, weedicides, pesticides, high quality seeds and farm machinery and equipment etc.

As a third stage the Mahaweli Economic Agency and its Enterprise Development division has offered opportunities for Direct Investment or Joint Collaboration. Perhaps the political unrest and vulnerability of these areas to terrorist disruptions would have distracted inflow of foreign investments in these areas.

Agricultural Production Zones

The Government has also offered several incentives which are on par with incentives and concessions offered to the FTZ to attract TNCs and other private investments into agricultural ventures in the Agricultural Production Zones particularly in the Districts of Moneragala , Mannar and Vavuniya. Only two companies have so far commenced agro-business ventures in the Moneragala district. They are the Pelwatta Sugar Co. Ltd. —a joint venture started by the Government of Sri Lanka in collaboration with Booker Agricultural International Ltd. of the United Kingdom and the Moneragala Sugar Company Ltd. which is also a joint venture between the Government of Sri Lanka and Metha International based in Bermuda, which is an Indian-African Sugar Multinational Company. These two TNCs have already caused considerable damage to the ecology of the country by clearing several thousand acres of virgin jungles, destroying the water sources, animal life etc.

The Pelwatta Sugar Company has been allocated with 8,159 hectares of virgin jungles by the Government, while another 3,671 hectares of partly State lands and partly private lands owned by the Ruhunu Kataragama Devalaya have been leased out to this Company. Most of the latter lands were cultivated for long periods by the poverty striken peasants on a lease basis or unauthorisedly and these helpless farmers have been deprived of their lands. This extent of land is considered as a "settler area", where the settlers are requested to cultivate sugar cane in accordance with the norms laid down by the Company.

The Company has estimated to harvest 252,000 MT. annually from its nucleus plantation and 191,000 MT. annually from the settler area, while another

50,000 - 100,000 MT. is expected to be purchased from local out-growers and farmers who have been cultivating sugar cane in Wellawaya, Haldumulla, Thanamalwila and Buttala areas during 1971-77 when then Government followed a strong import substitution policy.

The out-grower system envisaged by the Company has not yielded satisfactory results due to the realisation by the out-growers that the net income derived by them after paying the bank loan instalments and for the inputs provided by the Company such as seed cane and technical advice, is barely sufficient for their own existence.

The Settler Scheme started by the Company has also run into many difficulties. The promise offered by the Company to ensure settler families of a monthly income of Rs. 3000 has been blatantly belied. The net incomes derived by the settler families have declined to about 1/3 of the promised earnings within the first crop itself and declines to half and one third of that, respectively during the 3rd and 4th crops. In other words, after the Company and Bank appropriate their shares from the peasants earnings, the peasant family is left with an income which works out to about Rs. 1000 from the first crop and scales down to Rs. 500 and Rs. 300 by the fourth and fifth year.

This situation has created tremendous frustration among the settlers. The position is made worse by the steps taken by the Company to remove settlers who in the opinion of the Company are incapable of working according to the norms stipulated by the Company. The intolerable situation created by the Company has compelled the cultivators to form a Trade Union known as "Pelwatta Agricultural Service Union". The attitude of the Company towards this Union is extremely hostile and therefore in order to avoid an immediate confrontation, the Union has sought the assistance of the 'Movement for the Defence of Democratic Rights' (MDDR) to file legal action in the District Court of Moneragala.

The MDDR has filed 4 cases (Case Nos. 1541/M - 1544/M) in the District Court against the Company for :

1. The failure of the Company to ensure the crops stipulated in the agreement; and
2. Deductions made in excess of the amounts stipulated for technical assistance, i.e. Rs. 2500.

According to the agreements signed with settlers, the Company was to recover this Rs. 2500 for technical advice rendered by the Company, but the Company has in fact recovered Rs. 10,000 per farmer for this service. In the Courts the Çompany has undertaken to repay the excess recoveries made hitherto. Nevertheless, after repaying the excess recoveries, the Company has once again started to deduct Rs. 10,000 for "technical services" thus displaying a blatant disregard for the law.

The MDDR has also filed action oh behalf of the Union against arbitrary prohibitions and removal of peasants from their holdings (Case Nos. 1407/L and 1412/L - District Court, Moneragala). Whenever peasants joined this Trade Union, the Company has sought to prohibit and remove the peasants from their allotments under various pretexts. The peasants are not paid any compensation for the work done or the crop raised up to the time of their eviction. So far 220 farmers have been evicted or removed for joining this Trade Union.

The extreme hostility of the Company towards this Union was also demonstrated by the arrest of the President of the Union before the inaugural meeting and his release after conclusion of the proceedings. He was subsequently arrested by the police presumably on the advice of the Company and kept in Police custody for over three months. The MDDR challenged this unfair and unlawful arrest in the Supreme Court and secured his release. The Chairman of the Company, who was the General Secretary of the UNP and Chairman of two large Public Corporations, and who subsequently became the Minister of Internal Security —the late Mr. Ranjan Wijeratne —however reportedly threatened to break the Union President's bones and the local Police refused to accept any complaints against the Company Chairman. Finally a private plaint had to be filed in the Magistrate's Court where the Company gave an undertaking not to harrass him and to restore his plot of land, which has still however not been honoured!

Extreme hostility and an anti-Union attitude has become a general trend in the later TNCs. Companies operating in the GCEC area FIAC Project, and Prima Ceylon Ltd., a Singapore based TNC —have taken strong anti-Trade Union attitudes, thus depriving workers of their basic democratic rights, and seeking to subjugate them to servility and further exploitation, The more established and older TNCs like CTC, Lever Brothers, Bata etc. though more accomodating towards Unions, due to historical circumstances, have begun to turn towards other devices to circumvent Unions by resorting to contractual arrangements under the catchy slogan of extending "partnerships in development" to rural and semi urban contractors. This arrangement will no doubt help the TNCs to cut down costs, maximise profits and indirectly exploit local labour without extending any sort of benefits, This arrangement has helped large TNCs like Lever Brothers Lanka, and its new subsidiaries —Brooke Bonds and Liptons (Lanka) to cut down their labour force.

The Moneragala Sugar Company Ltd. has been allocated 21,675 hectares which consists of a nucleus plantation of 5,200 hectares, a settlement area of 11,750 hectares and an out-grower area of 4,610 hectares. Out of the project area an extent of 19,000 acres, suitable for sugar cane cultivation has been given to the Company on a 30 year lease. This area includes 48 traditional villages— the inhabitants of which look upon this project with mixed feelings of hope and horror. The attractive incomes they derived from sugar cane during the era of import substitution agriculture make them hopeful while the threat of losing their traditional chena lands create feelings of horror and apprehension in their minds. Therefore the peasants in the nearby villages have reacted adversely by uprooting the seed cane planted in close proximity to their holdings.Although the Company had commenced its factory construction, these buildings and machinery were set on fire during the insurgent activities in 1987-1988. Attempts are being made once again to recommence operations.However, the attitude of the peasantry to the Moneragala Sugar Company could be expected to be more hostile and vigorous in the light of the historical background of this proud peasantry and the bitter experience of their brethren in the Pelwatta Project area.

The most conspicuous feature about the investments undertaken by the TNCs in Sri Lanka is the absolutely high degree of secrecy maintained in respect of the magnitude of their investments, incomes and profits. Such data does not seem to be available even to the Central Bank of Sri Lanka for publication. ■

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