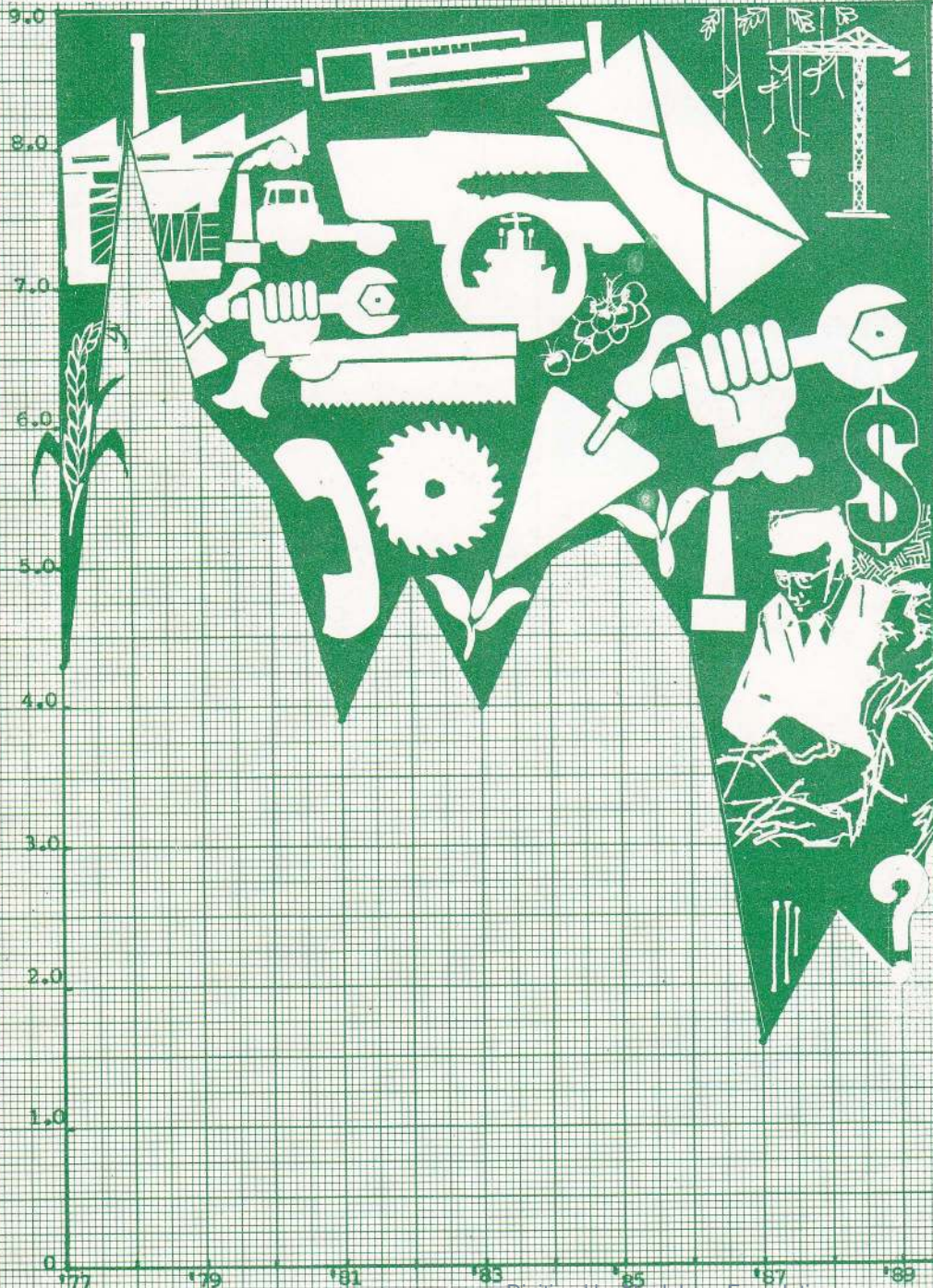


ECONOMIC REVIEW

1989
July/August

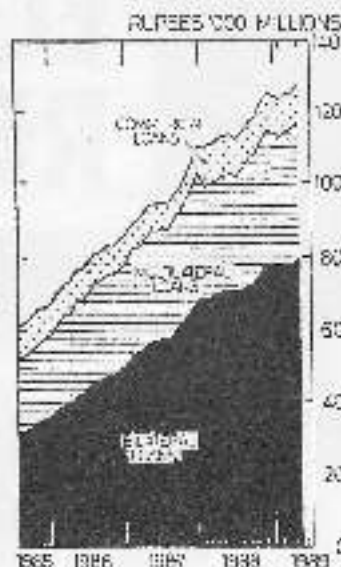
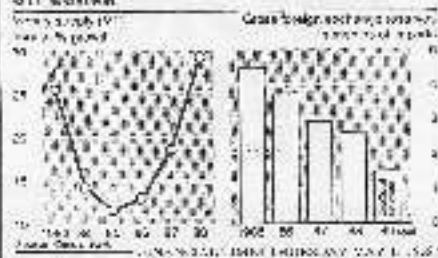
Growth Rate



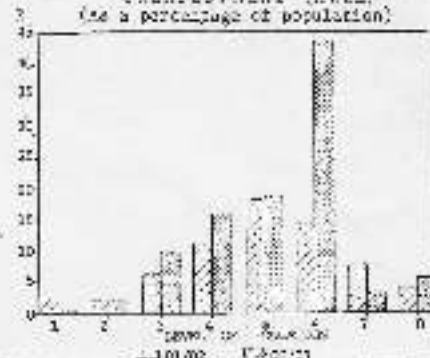
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THE ECONOMY IN 1989

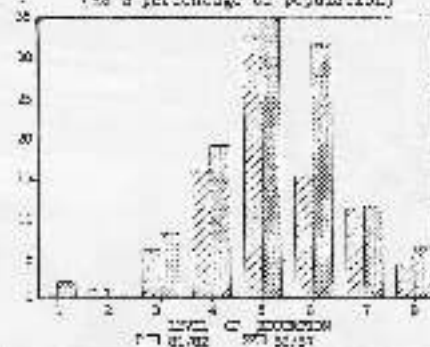
Sri Lanka



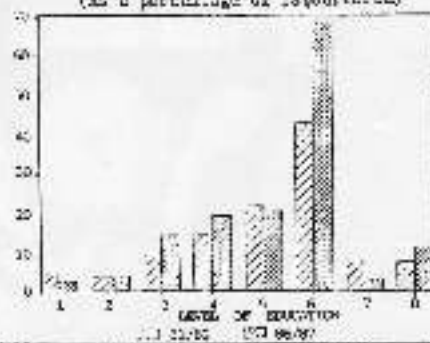
UNEMPLOYMENT (MALE) (as a percentage of population)



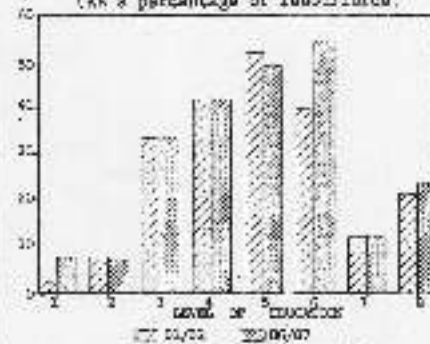
UNEMPLOYMENT (FEMALE) (as a percentage of population)



UNEMPLOYMENT (MALE) (as a percentage of population)

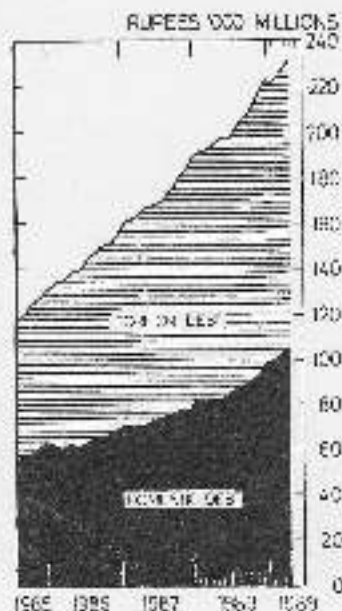


UNEMPLOYMENT (FEMALE) (as a percentage of population)

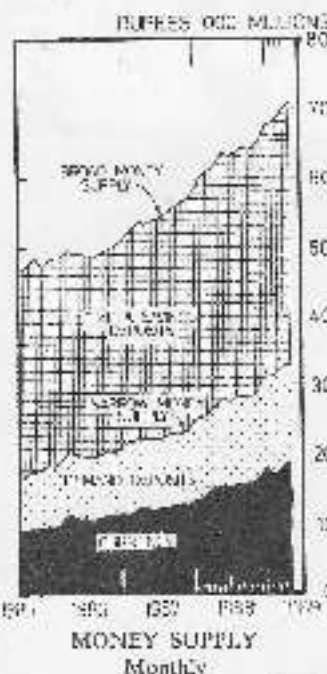


UNEMPLOYMENT BY SEX & EDUCATION
1-None Secondary 0-4,000 (A/G/1960)
2-Primary 0-1000 (A/G/1960)
3-Secondary 1-10000 (A/G/1960)
4-University 0-10000 (A/G/1960)
5-Postgraduate 0-10000 (A/G/1960)
6-Total

Source: Sri Lanka Department of Census
Data 1969,
Central Bank of Sri Lanka



ECONOMIC INDICATORS



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CONTENTS**COLUMNS**

Diary of Events	2	July 1989
Finance	15	Commercial bank deposits
Commodities	16	Coconut: Production – exports increase Spices: Prices fluctuate
Housing	17	Women and housing in India
The Economy	19	A case for an Open Economy and need for right policies

SPECIAL REPORT**3 SRI LANKA'S ECONOMY IN CRISIS**

S. Tilakaratne	8	Some factors in the current economic crisis
G. S. Chatoor	11	Steady slump in growth unfortunate
David Housego	13	Sri Lanka faces hard economic decisions – painful battle on another front
An ADB View	14	The outlook for Sri Lanka's economy

FEATURES

Sunimal Fernando and Willie Gamage	21	Some socio-political aspects of Janasaviya
Klas Sandell	26	Development and Ecocrisis
Sriyani Hulugalle	30	The exchange rate policy of Sri Lanka and its implications on the export sector 1981-1988

THE ECONOMIC REVIEW is intended to promote knowledge of and interest in the economy and economic development process by a many sided presentation of views & reportage, facts and debate.

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NEXT ISSUE

- * China in ferment: assessing the impact of new economic and social reforms
- * Incomes in Sri Lanka: small holdings sector
- * Sri Lanka's investment climate
- * Falling tea production – likely repercussions

COVER ARTIST
Sepalika Fernando

DIARY OF EVENTS

July

- 1 The Colombo Consumer's Cost of Living Index for July 1988 was 824.5 the Department of Census and Statistics announced. In June 1988 it was 823.07 while in July 1988 it was 845.7. The average rate for the last 12 months was 790.5 as against 695.4 in the previous 12 month period, indicating a 85.1 point increase in the index over the last 12 months or a 7.1 average monthly increase.

- 4 UNICEF handed over dry rations worth nearly Rs 300,000 to the Department of Social Services for distribution among the recent flood victims in the Sabaragamuwa area. In addition, the organisation also released various types of drugs worth about Rs 200,000 to the Health Ministry to combat any water borne diseases that may break out in these areas following the heavy floods. The dry rations include rice, sugar, dal, green gram and canned fish.

- 6 The French Government will donate Rs 12 million towards flood relief in Sri Lanka, according to the newsgency Lankapost. This money will be utilized to purchase milk foods, water pumps, water tanks, asbestos sheets and other building materials from State Corporations for distribution among the flood victims.

Capital expenditure amounted to Rs 21,212 million or compared to Rs 27,047 million provided in the approved budget estimates for 1988. In comparison to the previous year, capital expenditure in 1988 showed a decline of seven percent. As a proportion of GDP it declined from 11.6 percent in 1987 to 9.5 percent in 1988, according to Lankapost. The decline in capital expenditure during 1988 was largely due to the under expenditure on account of rehabilitation and reconstruction work resulting from unsettled security conditions.

- 11 An agreement was signed between Sri Lanka and Australia to provide an interest free loan of \$ 1,755,000. This loan will be utilized to provide solar energy to Panagaram a housing project undertaken by the National Housing Development Authority. The well known firm of BP Solar Australia will be supplying the technical know how and equipment.

Japan will pledge US \$ 30 billion in aid from 1990 to developing countries according to a decision taken at a Paris meeting of major industrialized nations, a leading economic newspaper reported. The current aid package was designed to recycle some of Japan's huge trade surplus with developing countries which amounted to US \$ 85 billion in fiscal 1988. This aid package is intended to support the debt reduction plan for developing countries proposed by US Treasury Secretary.

- 15 The Tokyo government pledged Rs 7 million of emergency assistance for the flood and landslide relief effort, the Japanese Embassy in Colombo said. This assistance would comprise ten mechanised boats, 1000 tons of skimmed milk, 5,000 packets of biscuits, 5,000 cans of fish and 2,400 blankets valued at approximately Rs. 5 million. Japan will meet the cost of transporting these goods and the total cost of the contribution has been valued at Rs 7 million.

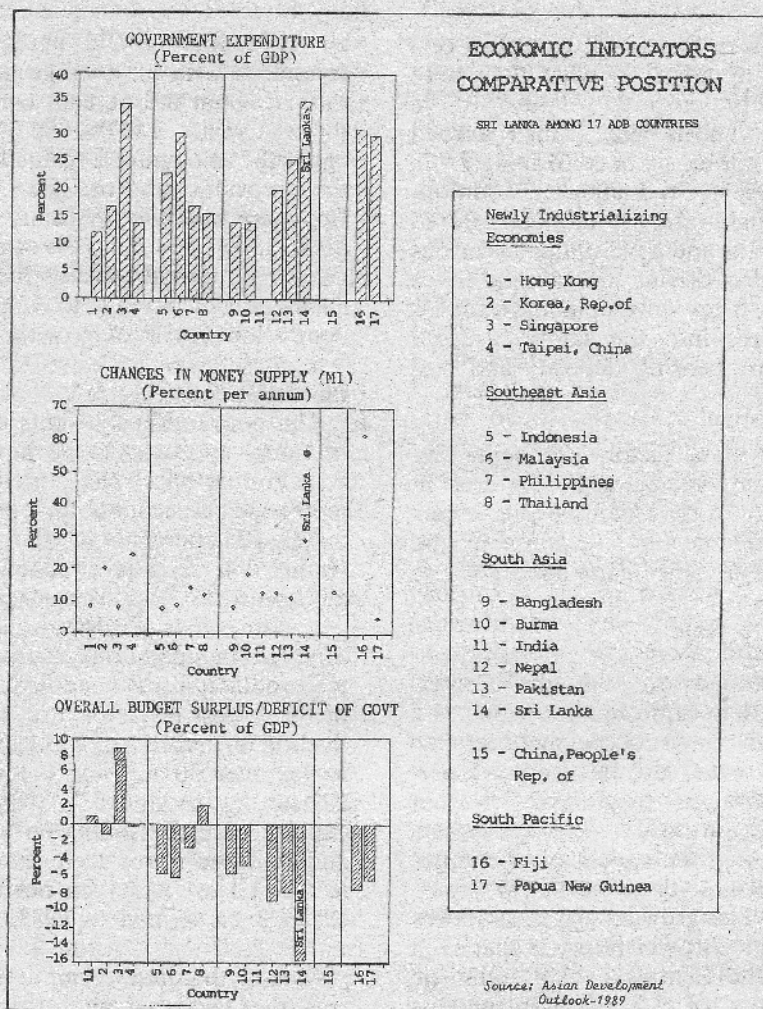
- 20 The European Economic Community responding to an initiative of the Ambassador of France, who represents the EEC under Spanish Presidency, granted Sri Lanka an emergency aid package amounting to 5,225,000 (almost eight million rupees). The French Embassy in Colombo said this aid distribution will be implemented by the League of the Red Cross and by "Médicines Sans Frontières - France".

The Government approved in principle measures taken to set up a Centre for Entrepreneurship Development and Consultancy Services encompassing the present Management Development Division of the Industrial Development Board and the UNDP sponsored Integrated Entrepreneurship Development Programme. Among the objectives of this Centre will be to organise and conduct training programmes for entrepreneurs, trainers and motivators, and undertake documentation and research in the field of entrepreneurship and small enterprises development.

- 21 The Government approved a proposal to implement the Finance Commission recommendations regarding provincial council finances for 1989 and their presentation before Parliament. The recommendations are that funds allocated under Heading 451 Provincial Councils programme I period 102 grants to provincial councils for capital works of a local nature (Rs 889 million) for the financial year 1989 be apportioned among the provincial councils on a pro-rata basis, taking into account the number of members of each provincial council and that funds allocated for Integrated Rural Development Projects for 1989 be apportioned among the respective provincial councils for implementation.

- 22 Treasury Bill auctions by the Central Bank resulted in average annual interest yields of 15.71 percent on three month bills, 16.65 percent on six month bills and 16.41 percent for one year bills, the Central Bank announced.

- 23 Australia is providing A \$ 100,000 (Rupees 2,734,000) in relief assistance to the victims of floods and landslides in South Western Sri Lanka. Australia's contribution will be dispersed through community aid abroad (A \$ 20,000) which will focus in the Kegalle district, and the Red Cross Society (A \$ 20,000). The fund will be used mainly for providing food and shelter.



enced in this century. The ethnic troubles of the past six years were compounded by political and social turmoil. Most serious of all, there was an alarming breakdown of law and order, and for the first time in our experience there were prolonged periods when the writ of the Government did not seem to apply even in the city of Colombo. I need hardly elaborate on the near impossibility of satisfactory economic development in such conditions. The growth figures from 1987 sounded an unmistakable warning. The 1987 growth rate was 1.5 percent, the lowest since 1971. The 1988 figure was 2.7 percent. One shudders to even hazard a guess at the 1989 figure."

This quote, from the paper in this issue on pages 7-9, by Professor of Economics of Sri Jayawardenapura University Dr S. Tilakaratne adds a further perspective to the impact of the dislocations: "The crisis that Sri Lanka is passing through is one of the most complex in its recent history, both politically and economically. The country's economic problems have grown to serious proportions. The rate of increase in the country's overall production (Gross Domestic Product) had sharply deteriorated to an average of a mere two percent during 1987-88, the lowest level recorded in the past 15 years. The economic performance in 1989 is unlikely to do any better; probably it could deteriorate further in the wake of the political turbulences and uncertainties. Three successive years of virtual economic stagnation has no parallel in the post-independence history of the country. The economic crisis has manifested in many forms such as growing macro-economic imbalances, increasing unemployment and under-employment and worsening poverty."

Business Sector

Opinions on why the business sector finds it extremely difficult to operate in this climate were expressed to the 'Economic Review' by Ajit Jayaratne the

SRI LANKA'S ECONOMY IN CRISIS

The current crisis in the Sri Lankan economy reached its gravest point by the first week of September 1989. Following months of dislocation of essential services in the country came a month long total public transport strike in August, followed by a week long hold up of economic life from August to September.

The extent of today's dramatic crisis is clearly manifest in the virtual collapse, fully or partial, of many production and service sectors. The disruption of economic activity during the previous twelve months had contributed to a weakening of the general economic environment; while aggravating rising levels of inflation, cost of living, unemployment and consequently malnutrition and overall poverty.

The economy is reported, according to preliminary figures, to have recorded a growth rate close to zero during the third quarter of this year; the first two quarters being only slightly better.

Many depressing views have been expressed recently on Sri Lanka's social and political crisis, and how seriously it affects the economy. Of significance are the vocal and helpless cries of the business sector, typical being the following extract from an address (carried more fully on pages 10 - 11) by A. S. Chator, till recently, the Chairman of the Ceylon Chamber of Commerce:

"The past twelve months have surely been the most traumatic period which Sri Lanka has experi-

Deputy Chairman of the Colombo Securities Exchange and also the new Chairman of the Ceylon Chamber of Commerce in the following informed comment:

"The business sector in the country today, both public and private, is operating under extremely difficult and trying conditions. The essential pre-requisites for a conducive business environment are law and order and political stability. Without these basic factors the business community cannot indulge in any forward planning and without forward planning it is obvious that there could be no development. There has been a total breakdown of law and order and an apparent absence of political stability in the country now for a long period and under these circumstances no forward planning has been possible. In fact most business establishments in the recent past have put their existing forward plans into abeyance, at least for the time being, and spend most of their time in merely ensuring day to day operations. Some of the factors that have led to this situation are sudden work stoppages, absence of public transport for carriage of goods and people, early closure of government offices and slow cargo handling at the Port. Needless, to say, under these conditions, productivity is seriously affected resulting in loss of exports, increase in unemployment, further inflation due to decrease in production and loss of tax revenue to government. In the meantime under these conditions prospective foreign investors naturally are having second thoughts and are awaiting more stable conditions before they make any significant investment.

In addition to the problems mentioned above, certain fiscal disadvantages have also arisen recently so far as the business community is concerned. Perhaps with a view to curbing inflation and a drain on foreign exchange resources, the Central Bank has insisted on a 100 percent cash margin on most imports. Overdraft facilities have

also been restricted, except in certain key areas, to what they were at a previous date. Also, there were reports that banks abroad were not happy in confirming L/C's opened in Sri Lanka. In addition, the high rates of interest offered by banks and government securities are also driving investment funds away from development oriented ventures into the safety of fixed interest bearing deposits and securities.

All these factors are being significantly shown up by the drop in activity in the Colombo share market and the poor response by the public to new share issues."

Growth Rate

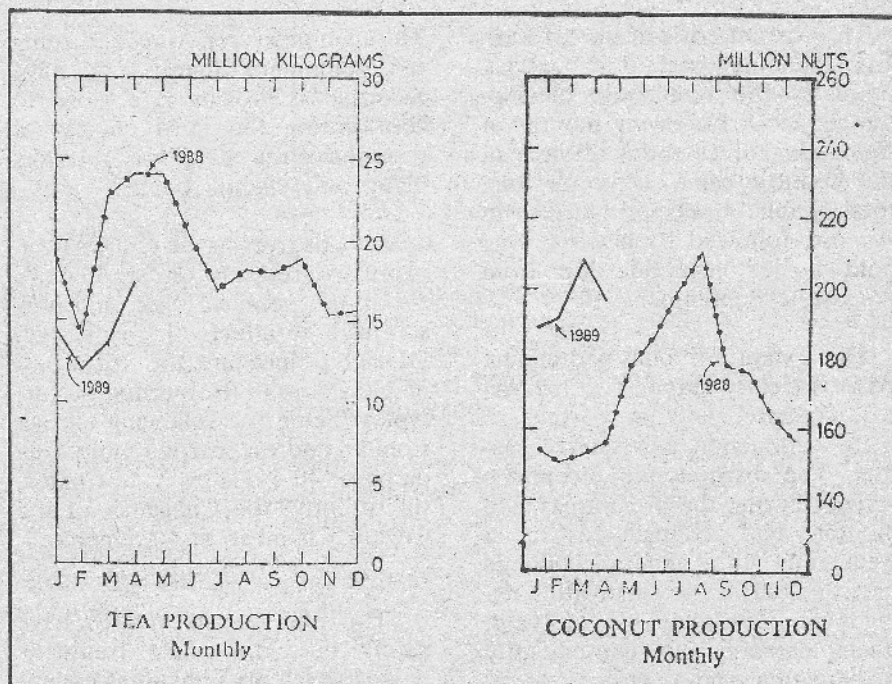
The Governor of the Central Bank has expressed the view, in a foreign news despatch, that the GNP would rise by about 3.5 percent this year from the 2.7 percent growth in 1988; although others reflecting the mood of the times expect growth to be below 2 percent. The growth rate in 1987 was 1.5 percent; which means that even with the Central Bank's optimistic estimate of 3.5 percent for this year, the average growth rate for the three years 1987-1989 would

be at a low of 2.5 percent as compared with an average growth rate of about 6.6 percent over the three years 1978-1980. The "growth" momentum gained with the introduction of the Open Economy could not be maintained in the 1980's and the crisis of recent years contributed towards bringing down the economy to unprecedently low levels of growth.

Plantation Agriculture

The commanding heights of the economy appeared to be in disarray. For instance, the agricultural sector which accounts for approximately 25 percent of the GNP recorded a drop in production at all levels, in both the plantation and domestic agricultural sub-sectors. In the plantation sub-sector tea production was heading for one of the lowest levels of annual production on record and was expected to be over 30 mn kgs below the 222 mn kgs produced in 1988. Tea exports were also falling far behind and in value terms were expected to be at least Rs. 1 bn below the Rs 12.3 bn earned in 1988.

Making the situation more critical was the fact that the two State Corporations which account for nearly two-thirds the country's tea



production and one-third of total rubber production today face severe crisis conditions. A 16 member official cure committee which recently reported on this crisis indicated that the two leading estate agencies, the State Plantations Corporations (SPC) and the Janatha Estate Development Board (JEDB) were "heading for virtual bankruptcy. Both the SPC and IFDB were in desperate financial straits last year having recorded losses of over Rs 300 million each. These losses and other expenditure were financed with borrowings from a leading state bank, the Bank of Ceylon, which has given overdrafts of Rs 725 million to the JEDB and Rs 543 million to the SPC; and the position deteriorated further in the first four months of this year with the overdraft limits rising to Rs 900 million and Rs 850 million, respectively".

The disruptions to cropping, transport of manufactured teas, tea sales and exports from ports have intensified in recent months. Also it is inevitable that with the average cost of tea production being pushed to levels much higher than the net sales average obtained for tea that is sold, large trading losses will result and the liquidity position of

the two estate agencies is bound to worsen. Furthermore, their borrowings from the Bank of Ceylon have exceeded Rs 1,000 million and it is feared by some observers that this debt could become irrecoverable, thereby jeopardising this bank's own financial stability. Extracts of the core groups report, published in the 'Sunday Times', support this view.

Domestic Agriculture

Another area of concern was that of the domestic agricultural sector. Paddy production for the current year is reported to have totalled 99 mn bushels, the lowest recorded in the past 12 years. In 1984 paddy production reached a record of 127 mn bushels, but with the ethnic violence in the Northern and Eastern provinces cultivation was affected and production continued to decline. Since then the disturbances have spread to all paddy growing provinces in the country and this year's estimated production of 99 mn bushels is lower than even that of 1978, which yielded 101 mn bushels, when the new agricultural drive began to "take-off". Apart from the civil unrest, both drought and floods have contributed towards the drop in production and to the lower

acres under cultivation. This fall in paddy production has also necessitated higher rice and flour imports.

How serious the situation is may be observed from the fact that in 1984 Sri Lanka was only 8 percent below self sufficiency in paddy production, but in 1989 the country is expected to be about 25 percent short of self sufficiency, according to a 'Daily News' report quoting a Ministry of Agriculture and Food document.

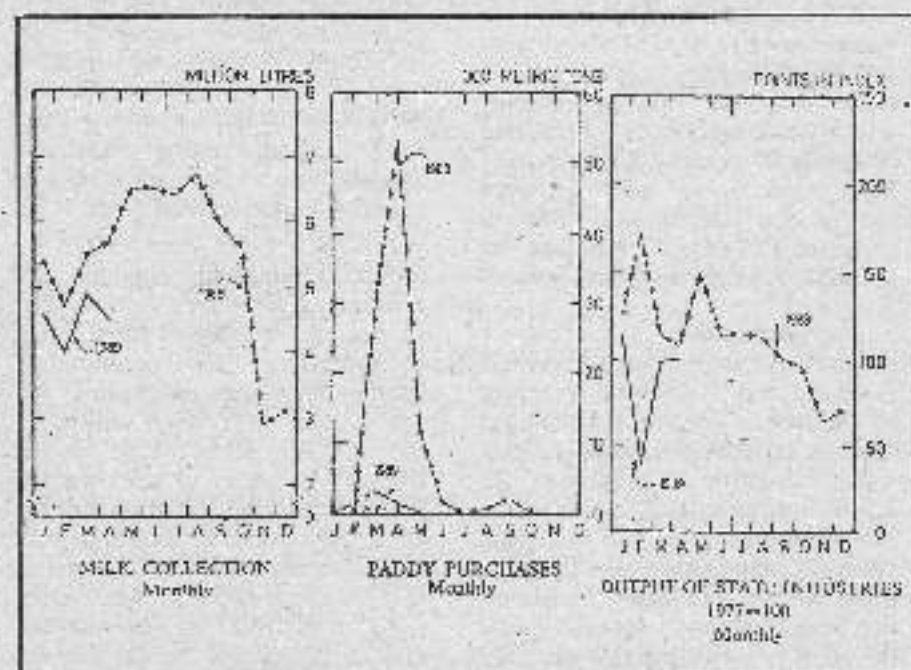
Other domestic food crops have similarly been affected. Due to frequent tension prevailing in the agricultural producing areas and uncertainty of purchase from producers the output of crops such as potatoes, onions, chillies and vegetables is reported to have decreased in some cases upto nearly 50 percent.

Consumer Prices

There were three basic factors precipitating the upward push in prices. Firstly, official agreement on some IMF conditions that subsidies on essential consumer items such as flour, bread, sugar and milk be lifted in order to keep the Government's budget deficit within control.

Over the past three months basic food items have experienced more than one price increase. The price of a kg. of flour has been increased by nearly Rs 1/50 over this period, while bread has increased by 55 cts per kg loaf; and sugar has increased from around Rs 16/- per kg to Rs 25/- per kg. and is expected to move up further. Milk foods have experienced a 25 percent price increase in recent months. The second factor is the break down in production and transport of most agricultural crops which has also contributed to the rise in consumer prices of many of these items.

The month long transport strike in August and the subsequent total week long strike upto September 1 paralysed transport, bank and



port services. The third factor is a rapid depreciation of the Rupee against most other currencies which had also pushed up local prices of all imported items, as a large part of the country's flour and sugar requirements are imported.

There has also been pressure on fuel prices and shortages of petroleum due to disruptions in supplies. As a consequence the prices of many essential commodities have increased significantly and the majority of traders who belong to the large and medium scale categories suffered heavy reductions in their margins.

Government Budget

The Government Budget, particularly its revenue measures are in jeopardy as a result of the regular disruptions in normal business activity. The monopoly cigarette manufacturer, which provides over Rs 10 mn of revenue per day to the government budget (estimated Tobacco Tax in 1989 Rs 4,802 mn.) has experienced regular work stoppages. Business Turnover Taxes expected from most traders, small, medium and large may not materialise as business gets more constricted and the entire trading sector has continued to experience difficulties.

In most areas of the Government Budget the revenue shortfall is

expected to be considerable. For instance a tax amnesty was offered, to holders of 'black money', who made official declarations, and this amnesty was expected to contribute Rs 100 million in revenue to the Government budget. Up to September 1989 (after 7 months) it was reported that less than Rs 1 million has come in. Such shortfalls in revenue are unfortunate in the context of the conditions laid down by the IMF for the release of a further US \$ 87 mn structural adjustment facility which required containing of expenditure and realising of revenues expected in the government budget. The IMF required that the budget deficit be contained to 10-12 percent of GDP as against the 16 percent of the Government estimates. In 1988 too Sri Lanka's overall budget deficit was 16 percent, which was the second highest among the 19 ADB Asia member countries, second only to Laos.

Together with this budgetary policy the IMF had also required a slowing down of monetary expansion (M1) to 18 percent this year though it was running at over 20 percent. But according to ADB statistics, Sri Lanka's Money Supply (M1) was 29 percent in 1988 which was again the highest for 19 Asian member countries, with again the exception of Laos. The inability to contain the money supply was also manifest in the rate of inflation which was closer to an official rate of nearly 20 percent. Interest rates have been rising, with Treasury bills of one year maturity offering a rate of 19 percent, reflecting the attempts at a tight monetary policy.

Poverty Alleviation

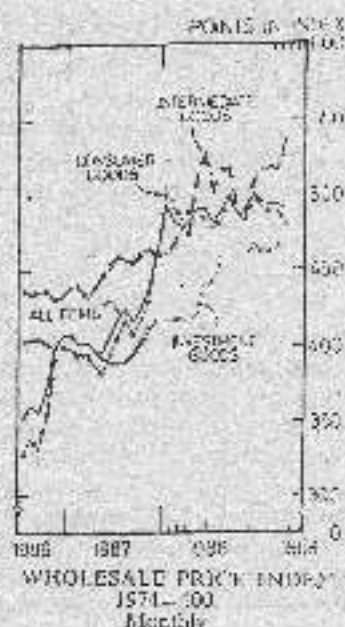
The Government was committed in its Poverty Alleviation Program to assisting nearly 1.5 million families (approx 6 million people) with a monthly allowance of Rs 2,500 per month. This Program was to extend over the next two years commencing with the Government Budget presented in March this year. An initial sum of Rs 10 billion was voted for this purpose in the current budget. According

to published reports the program could not get off the ground, due to (a) a lack of funds; (b) the demand from those employed in the lower wage groups for a minimum wage of Rs 2,500/- a month; (c) administrative unpreparedness, and (d) the very insecure law and order situation in the country which posed a threat to field personnel involved in this program. There are several other factors that have caused a stalling of this programme, while the foreign aid agencies are more interested in the investment component of the programme.

However, the concluding part of the first phase of the programme saw the distribution of printed Janasaviya Entitlements to all food stamp receiving families throughout the island, on June 29 this year. A total of 2.3 million Entitlement Certificates were distributed in all districts of the island.

According to a note from the Janasaviya Commission 'the first round was due to start in July 1989, but could not due to civil and economic unrest. Now, it is rescheduled to start in September 1989. This phase will go on till the year-end. It will form an invaluable pilot and learning phase. Phase III will begin in January 1990 with the second round of Janasaviya distribution. The largest possible number will be covered in 1990 depending on the actual first hand experience of the first round, the availability of Budgetary resources and the impact on inflation.'

In October this year, of the 1.5 million families eligible for Janasaviya assistance, only about 12 percent are due to be the first recipients of the consumption component of this Program. It will cost a little over Rs 3 billion, of the Rs 10 billion voted in the Budget this year, to start off the 181,740 selected families on the Janasaviya over a 12 month period. The first round will include exactly 181,740 families in 28 AGA Divisions in 25 Districts. The distribution of goods will be carried out by 30 Multi Purpose Co-operative



Stores in these areas. The balance 88 percent of the families are expected to be covered over 10 more rounds.

Once the eleven rounds are completed, the Janasaviya Programme would embrace all the AGA Divisions in all 25 Districts in the island. At the end of the 24 months the consumption component of Rs 1,458 per family per month is expected to cease when the investment component of Rs 25,000 will be made available to generate employment. When the last round in the Program is due to end, however, is not certain.

Foreign Reserves

In the area of international payments, private remittances from the Middle East and other countries employing Sri Lankans had declined from SDR 270 million in 1984 to SDR 234 million in 1988. Exports too have continued to lag far behind imports and in the first 4 months of this year the deficit in Sri Lanka's merchandise balance of trade was Rs 8.6 billion, as against Rs 6.9 billion in the same period last year; in the 1989 period while export earnings were Rs 14.9 billion the value of imports reached Rs 23.5 billion.

The Current Accounts Deficit of the Balance of Payments was widening and it appeared that the government would find it increasingly difficult to finance much needed imports of rice, flour, sugar, fuel and cement unless agreement was reached with the IMF for balance of payments support.

Foreign exchange reserves were low and had come down from sufficient to finance 3 1/2 months of imports to sufficient for (according to reports) a much lesser figure. With this depletion of foreign exchange reserves foreign banks had also become reluctant to provide needed guarantees on credit lines for Sri Lanka. It had at times become necessary to finance essential imports on 180-day letters of credit, while a few suppliers were demanding that off-shore foreign banks independently confirm that payments will be made. Meanwhile, importers of 'non-essential' goods

have been asked to put up a 100 percent cash margin. One interpretation of these pressures is that it could compel the government to come to terms with the IMF. Most of the IMF's conditions are being complied with since the consequences of having to obtain commercial credits to finance imports would mean a more painful round of shortages and higher inflation.

Other aspects of the plight relative to larger perspectives of the Sri Lankan economy are summed up by the ADB in this concluding comment on the economy, in its recent annual report:

"Sri Lanka currently faces a very difficult economic situation. The macro-economic constraints to economic growth are a high debt-service ratio, high unemployment, large interest payments on government debt, a large current account deficit, and low domestic savings. The inflow of external assistance, which was at very high levels during the last decade, is not likely to increase further. In addition, the productivity of the massive investment program undertaken in the past has fallen far below expectations."

Prospects

Overall prospects of the economy for 1989 are one of gloom and all forecasts indicate that if political

and social conditions continue to remain as unsettled as at present the economy would deteriorate further. In all major sectors there were signs of downward trend. As noted at the onset prospects for agriculture are uncertain. An overall growth rate of 2.1 percent was recorded for this sector in 1988, but the same level of performance could not be expected this year.

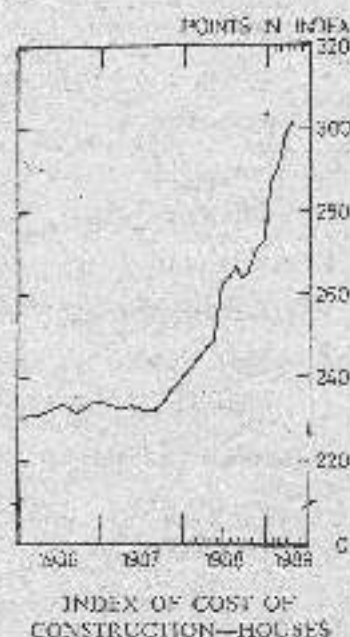
Industry and industrial exports, particularly rapidly growing product groups such as garments and new lines such as jewellery and gems (especially diamonds), are not expected to achieve their original targets. Other key sectors affected are Mining, Construction and Economic and Social Overheads. Cement manufacture, for instance, had come to a standstill at the two major factories for some weeks and both the mining and construction sectors which normally make a substantial contribution to the GNP are expected to turn in a poor performance in 1989.

Under Economic Overheads are sub-sectors such as banking and financial services, internal trade, tourism, roads and transport, communications and other infrastructure facilities.

The Social Overheads cover sub-sectors such as education, health and housing but every one of the Economic and Social Overheads have felt the damaging impact of the social and political upheavals over the eight months of this year.

The unrest has been at its highest in Aug-Sept. and in recent weeks the targets of anti-government activities have turned out to be economic / administrative targets such as Government installations, tea factories and other public buildings and property.

The Crisis facing the business sector is but a reflection of the economic crisis. The economic crisis is but an epiphenomenon in the breakdown of the fabric of the socio-economic system that we are witnessing today with the legitimacy of the very social order being questioned.



Some Factors in the Current Economic Crisis

S. Tilakaratne

Professor of Economics, University of Sri Jayawardenapura

The crisis that Sri Lanka is passing through is one of the most complex in its recent history both politically and economically. The country's economic problems have grown to serious proportions. The rate of increase in the country's overall production (Gross Domestic Production) had sharply deteriorated to an average of a mere two percent during 1987-88, the lowest level recorded in the past 15 years. The economic performance in 1989 is unlikely to do any better; probably it could deteriorate further in the wake of the political turbulence and uncertainties. Three successive years of virtual economic stagnation has no parallel in the post-independence history of the country. The economic crisis has manifested in many forms such as growing macro-economic imbalances, increasing unemployment and under-employment and worsening poverty. It is the poor and the vulnerable who tend to suffer most, since they have the least economic 'fat' to absorb the blows such as frequent interruptions in economic activity, reduced employment and rising prices of consumer goods.

Natural Factors

Undoubtedly, natural factors beyond the country's control, have aggravated the worsening economic problems of the country. Adverse weather has made a substantial dent on the agricultural production levels for three successive years. Rubber production recorded a sizeable decline during 1987-88. Coconut production in 1988 fell to its lowest level in the decade. The prolonged drought in major paddy growing areas has caused a decline in the Maha crop of 1988/89 leading to a higher import level of rice this year as well as enhanced governmental expenditure to provide relief to the drought-affected population.

According to newspaper reports, about eight lakhs of people have been affected by the drought particularly in the North Central, North-Western and Southern provinces. The severe floods and landslides in June this year have affected an estimated four lakhs of people in the Western and Sabaragamuwa provinces; caused damage to crops and household assets (including destruction of over 15,000 houses) and resettlement of several thousands displaced by the landslides. The victims of such natural disasters must undoubtedly be the poor (who live in drought-prone and flood-affected areas) who have the least economic reserves to

absorb the shocks. Such natural factors are however short-term in character. Return of good weather leads to a recovery of agricultural output. Rehabilitation and reconstruction could take care of the damage caused to physical assets.

Political Factors

A more important cause of the country's economic crisis has been the ethnic conflicts (since about 1983) and the widespread political turbulence and violence of the past two years (following the Indo-Sri Lanka Accord). The cost in terms of human lives lost is incalculable. Among the economic costs is the diversion of a substantial amount of fiscal resources for security purposes pre-empting investible resources for welfare and development. Expenditure on maintaining public order, safety and defence which had absorbed no more than about one per cent of the Gross Domestic Product historically, shot up to around five per cent by 1987;

ESTIMATES OF GOVERNMENT EXPENDITURE, 1989

Ministry	Expenditure (Rs. '000)	%
1. Finance	47,399.1	14.0
2. Defence	8,917.8	8.9
3. Public Administration	6,797.5	6.4
4. Education	6,359.5	6.9
5. Lands & Irrigation	5,370.2	5.6
6. Health	5,319.3	5.0
7. Transport & Highways	5,285.1	4.9
8. Power & Energy	5,015.2	4.8
9. Labour & Social Welfare	2,928.2	2.7
10. Agriculture & Food	2,716.5	2.6
11. Posts & Telecom	2,338.5	2.2
12. Housing & Construction	1,655.7	1.5
13. Higher Education	1,591.7	1.4
14. 12 Other Ministries	5,789.9	5.5
Total Expenditure	107,250.5	100.0

and defence-related imports reached about US\$ 100 million, equivalent to five per cent of the country's import bill.

The allocation for defence expenditure in the 1989 budgetary estimates is nearly Rs. 9000 million, a level very much higher than the allocation for either education or health. A drop in agricultural and fisheries production in the North and East, decline in tourism, disruptions to trade and commerce, destruction of capital assets and the erosion of the investment climate were among the more important economic consequences of the ethnic and political conflicts. The overall result was a slow down in economic growth. The loss to the economy caused by the ethnic conflict has been estimated at Rs. 50-55 billion (by the World Bank) up to August 1987. To this figure must be added the economic losses that the country suffered on account of widespread violence and political instability of the past two years for which no estimates are available. The transport strike in June this year led to a general disruption of economic activity for more than one month. Some of the output losses (such as closure of schools and universities and loss of work-days in government departments and ministries) would not get recorded in the Gross Domestic Production as the output of governmental services is valued on the basis of costs incurred (e.g. salaries paid) irrespective of whether the services were actually performed or delivered. On the other hand, increased expenditures on defence get added to the GDP although they do not contribute anything to the production process (civilian goods).

Structural Weaknesses of the Economy

The above mentioned factors namely the adverse weather, and the ethnic and political conflicts explain only some parts of the process that created the current economic crisis. The roots of the

crisis go much deeper, that is the structural weaknesses of the economy. A crisis was more or less inevitable in the way the economy evolved in the past, (about, ten years) and given the failure to adopt early measures to correct its course.

The main source of economic growth in the past decade was services rather than commodity production (that is industrial or agricultural production). The growth of the services sector has accounted for more than 60 per cent of the overall growth in domestic production (Gross Domestic Product). Utilities, transport, trade and commerce, public administration and defence were among the fastest growing activities under the liberalised economic regime. While the services have accounted for more than 50 per cent of the GDP, the share of industry has stagnated at around 14-15 per cent of the GDP throughout the decade. This situation is in sharp contrast with many other developing countries in a comparable stage of development where the share of industry in GDP exceeds 20 per cent. In spite of a decade of liberal policies, Sri Lanka's industries have played a disappointingly modest role in generating growth and employment. Sri Lanka has failed to make the transition from a primary-producing and mercantile-biased economy to an economy with a substantial degree of industrialisation. Given this failure to restructure the economy, a viable base has not emerged for a sustained growth process and employment expansion.

Nature of Industrial Growth

Virtually the only industrial product category which showed a sustained growth was garments; but this industry is characterized by (a) relatively low domestic value added (less than 30 per cent of the export value), being heavily dependent on imported inputs and (b) low linkages with the rest of the economy; the local textile manufacturing

industry having failed to develop the capacity to supply the materials needed by the garments industry. Moreover, the continuing growth of the garments industry was itself hampered by the import quotas imposed by the developed countries.

The disappointing performance of the Public Manufacturing Enterprises (PMEs) has been another important cause of low industrial growth in the country. The PMEs which number about 40 and account for close to half of the manufacturing output has recorded an average growth rate of only about one per cent per year over the past decade. Employment has also increased only marginally.

Sri Lanka failed to evolve a clear-cut industrial policy and strategy. It was only in 1987 (that is, ten years after the liberalisation) that an Industrial Policy Statement was issued; but then it was too late, for, political instability had led to a deterioration of the investment climate.

Rise in Unemployment

An important manifestation of the poor performance of industry has been the failure to arrest the growth of unemployment, particularly over the past five years or so. Industrial growth has failed to provide a dynamic source of employment generation. In 1986, only about 19 per cent of the employed population of the country was engaged in some form of industrial activity. Official estimates indicate a level of unemployment of over 1.2 million; that is 18-20 per cent of the labour force. Most of the unemployed are youth with at least middle-school education, and hence receptive to training and adaptable to modern enterprise environment. The aspirations of most unemployed youth are also for industrial, technical and professional employment of some type. It is the growth of industry that can serve as an important means of meeting such aspirations.

On the other hand, the governments have over the years attempted to deal with the problem of unemployment by expanding the agricultural frontier with emphasis on irrigated paddy agriculture. Heavy emphasis was placed on capital intensive irrigation and settlement projects. The Accelerated Mahaweli Development Project was the lead project of the government over the past decade. Whatever its other benefits, the new employment generation that came out of this Project compares very unfavourably with the massive investment that was incurred. No doubt the construction phase of this project (in the late 70's and early 80's) created a large volume of employment; but these were temporary jobs that phased out with the end of the construction boom. The permanent employment that resulted from the Accelerated Mahaweli Project has been estimated (by the World Bank) to be no more than about 55,000 by 1987 compared with an investment expenditure of about Rs. 44,000 million. Thus, new employment had come at very great cost; each new job entailing a total capital investment of about eight lakhs of rupees. Moreover, new employment created represents less than five per cent of the estimated unemployed population of the country. Hence, Mahaweli was a costly exercise in terms of alleviating the unemployment problem.

Apart from the heavy capital costs, the scarcity of land resources places a sharp limit on the possible employment expansion through irrigation, land development and settlement projects. In this context, unemployment can be expected to rise further in future years unless industry could emerge as the lead sector providing the necessary dynamism to the economy.

Foreign Resource Gap

Another important manifestation of the structural weakness of the economy is the sizeable foreign resource gap that has persisted over the years. Export-oriented industrialisation was narrowly-based, being more or less confined to the garments industry, which given its low domestic value-added could not make a significant contribution to the alleviation of the foreign resource problem. Foreign payments (on imports, services and capital repayments) have exceeded the foreign receipts (from exports, services and private remittances) by an average of over Rs. 35,000 million (over US\$ 1000 million) per year during 1985-88. On average, payments have been running at more than 1.5 times the flow of receipts. The greater part of this gap was financed by resorting to borrowings which had raised the outstanding external debt of the country to Rs. 162,548 million by end 1988 (a figure very close to US\$ 5000 million). It is equivalent to 3.5 times the export earnings

and over 70 per cent of the Gross Domestic Product of that year. In per capita terms, the external debt has amounted to nearly Rs. 10,000 compared with a per capita income level of less than Rs. 12,000 in 1988. The liberalised economic regime has been sustained more by resort to foreign borrowings than by a capacity build-up for expanded exports. The fact that this situation is unsustainable over the long-term became evident when by 1988 debt-servicing reached a record high of nearly 29 per cent of the export earnings. A sizeable outflow of foreign resources (through debt-servicing) had been created running parallel to the inflow of foreign loans and aid. Debt servicing has begun to reach a level almost equivalent to the foreign aid commitments. In this way, the net addition to the external resources of the country through foreign aid flows has drastically declined over the years.

It was inevitable that the country's external assets came under heavy pressure resulting in a decline of external assets for four consecutive years (1985-88). The gross external assets which were adequate to finance four months of imports in 1986 fell to an equivalent of only 2 1/2 months of imports by the beginning of 1989. The pressure on external assets appears to have continued in the first half of 1989. In March this year, the IMF suspended outstanding credit supplies in view of the failure of the government to adopt corrective measures to deal with the macro-economic imbalances. Given this chain of events, speculation ran high about the possible devaluation of the Rupee to an anticipated level of Rs. 40-45 per US Dollar. According to newspaper reports, such speculation had led to a flight of capital and delayed receipt of export proceeds, thereby aggravating further the external financial crisis. These events are basically manifestations of the underlying structural weaknesses of the economy compounded by political instability.

Debt Service Payments 1984-1988

Part	SEUR MILLION				
	1983	1984	1985	1986-87	1988/89
1. Debt Service Payments	307.0	199.5	276.4	353.5	384.2
1.1 Amortisation	175.1	105.5	213.5	234.5	279.7
To IMF	22.7	32.8	58.8	68.3	84.1
To Others	152.4	72.7	154.7	166.2	195.6
1.2 Interest Payments	131.9	135.1	143.1	219.0	104.5
To IMF	11.4	22.1	21.3	18.3	22.7
To Others	120.5	113.0	121.8	200.7	81.8
2. Export of Goods & Services	1,756.1	1,615.0	1,352.6	1,746.4	1,386.5
3. Receipts from Goods, Services and Private Transfers	2,043.6	1,906.0	1,623.4	1,659.7	1,693.5
4. Debt Service Ratio - Gross % of (2)	17.2	12.0	20.4	20.2	28.8
Excluding IMF	14.2	17.1	20.5	21.4	27.5
5. Debt Service Ratio - Net % of (3)	15.8	17.9	22.0	23.2	21.7
Including IMF	12.4	14.6	19.1	17.5	16.3

(a) Revised.
(b) Provisional.

Source: Bank of Ceylon

Steady Slump in Growth Unfortunate

G. S. Chatoor

Chairman, Ceylon Chamber of Commerce

Traumatic period

The past twelve months have surely been the most traumatic period which Sri Lanka has experienced in this country. The ethnic troubles of the past six years were compounded by political and social turmoil. Most serious of all, there was an alarming breakdown of law and order, and for the first time in our experience there were prolonged periods when the writ of the Government did not seem to apply even in the city of Colombo.

I need hardly elaborate on the near impossibility of satisfactory economic development in such conditions. The growth figures from 1987 sounded an unmistakable warning; the 1987 growth rate was 1.5 per cent, the lowest since 1971. The 1988 figure was 2.7 per cent. One shudders to even hazard a guess at the 1989 figure.

During the past eleven years there have been three plateaus of economic growth levels. In the period from 1978 to 1983 growth averaged a satisfactory 6 %; from 1984 to 1986, despite ethnic conflict, it was a creditable 4% to 5%; but from 1987 onwards it has averaged a poor 2%.

This steady slump in growth is unfortunate, because it is economic growth that creates more employment, more earnings, better nourishment, more savings for further investment, and, as a result of all these things, a happier, more contented society. While we fully appreciate that the alleviation of poverty is a national priority today, it is an inescapable fact that poverty can be alleviated only through a growing economy.

Economic development requires investment, the commitment of funds, the taking of risks. So far

Sri Lanka's efforts at encouraging investment have been concentrated on providing fiscal incentives. These are important, but not to the exclusion of more fundamental requisites.

In 1988 the International Chamber of Commerce (ICC) convened a Conference to consider the central economic issue of the need for more private investment in productive enterprise, nationally and internationally. Their findings were illuminating, particularly for Sri Lanka, which has neglected some of the fundamentals.

I shall quote from the ICC Annual Report for 1988. "The conditions which are most effective in attracting foreign private investment. The principal conditions are: a stable political system with a government which respects the role of business; an efficient and honest bureaucracy; rising standards of education, health care and social infrastructure; sound monetary and fiscal policies; moderate levels of personal and corporate taxation, flexibility of relative prices to reflect market signals; a legislative framework for business which is clear, stable and yet sufficiently flexible to adapt to modern commercial operations; the protection of private property rights, including rights in intellectual property; an impartial judicial system; and uninhibited access to the courts to redress wrongs and settle disputes."

Alarming deterioration in infrastructure

You will see that the ICC factors can be grouped under the broad headings of political, social and economic infrastructure, and include some items to which not much attention is paid by our authorities. To put it plainly, the

basics — not only of the economy but of society — must be right. It would be a salutary exercise, and a chastening one, to examine the ICC conditions and see how though Sri Lanka has put together an attractive package of tax incentives, their effect has been undermined by an alarming deterioration in the political, social and economic infrastructure.

I have chosen to stress infrastructure at the beginning of my speech, instead, as in the past, towards the end, because it has become of such over-riding importance. I now move on to other matters, and you will notice that many of the problems that exist have their roots in shortcomings in the infrastructure.

Garments continued to be our largest export in 1988. Unfortunately, the events of the past few weeks, when production has been seriously disrupted by regular work stoppages, may impose long-term damage on the industry because Sri Lanka's reliability as a supplier has now been called into question. It is sad that the biggest success story in the export field may falter due to self-inflicted wounds.

Tea prices have continued to be depressed. Due to the large wage increases granted in times of high prices, without provision for adjustment if prices fell, several plantations are operating at a loss. That is not all. In many speeches to you at the previous two Annual General Meetings I warned that continuing indiscipline in the tea plantations would have the most serious consequences if it went on unchecked. Not only has there been no improvement; there has been the added trial of external threats and sudden stoppages of work. To quote the Chairman of the Colombo Tea Traders' Association at their Annual General Meeting last month, "... one must sympathise with the producer who suffers threats to life and limb. We have some of the finest planters in the world, but many have lost their motivation and interest. The Superintendent has lost his author-

ity, many promotions have been politically motivated rather than earned and the trade is suffering for it." The long-term future of the tea industry must now be considered, uncertain.

Question mark over largest exports

It is a tragedy of the first magnitude that large question marks hang over our two largest exports, garments and tea, which between them accounted for 55 percent of the country's export earnings in 1988. The consequences of their collapse would be too horrendous to even contemplate.

However, there is a ray of hope for the tea industry. The new Minister for Plantation Industries, the Honourable Gamini Disanayake, has shown an uncommon grasp of the needs of the industry, and has enlisted the help of the private sector in the form of a newly established Tea Council, on which most sectors of the industry are represented, which is to serve as an advisory body to the Sri Lanka Tea Board.

The Minister of Plantation Industries has also agreed to set up a Rubber Council/Board to serve as an apex body for the rubber industry. These new bodies will equip the tea and rubber industries with the best institutional framework they have ever had, and I hope that the expected results will accrue.

The gem industry's exports have been increasing over the years, but it is still not operating anywhere near its potential. According to the trade the purchase of gemstones by Thai gem merchants and their conversion to sapphires in Thailand has helped greatly to build up Bangkok as one of the world's great gem centres. The agreement between the Sri Lanka and Thai governments about the purchase of gemstones has channelled some of the trade into legitimate exports, but the long-term answer is to develop the technology to process gemstones ourselves, and the internal market-

ing system to pay the miner a fair price. The work done so far is reported to be promising. However, neither the trade nor the Government has come up with the incentive which will produce the kind of quantum leaps in exports which occurred in the 1970's with the introduction of the CRA schemes. The Sri Lanka Gem Trader's Association, which is affiliated to the Chamber, will soon be releasing a report which will contain proposals for the development of the gem industry.

Manufacturing industry as a whole also remains an under-developed sector, despite the progress made in some fields. I shall briefly mention a few problems that handicap local industry. Although some locally manufactured products are subject to price control, similar imports are not. Again, while some locally manufactured goods are required to comply with Sri Lanka Standards, the corresponding imported articles are not. Local industry also has to contend, in some cases, with overseas suppliers who dump inferior quality products in Sri Lanka at very low prices.

Search for an industrial policy continues

The search for an industrial policy continues. The document produced by a committee and released in March 1987 was a start, but it depended too much on one key proposal - the introduction of Transferable Tax Credits (TTC's). In November 1987 the Chamber addressed a memorandum to the Minister of Finance and Planning drawing attention to aspects of the TTC scheme which were not clear and which required careful study. The Chamber was also concerned that the TTC scheme, which would be complex and dependent on a number of variables, had not succeeded anywhere in the world, and would be in the nature of an experiment with our industrialists as the guinea pigs. I think we have enough problems without venturing to indulge in the luxury of a theoretically elegant scheme which might prove unworkable and harmful in

practice.

The industry which has suffered most due to the problems of the past few years is tourism. Until the return of normalcy, the impressive tourism plant built up in the good years should be given every support. The authorities are to be commended on all the relief measures they have already agreed to.

In the field of taxation I would like to spotlight the thoroughly unjustified taxation of provident funds, which are taxed not just once, which would be bad enough, but twice. Firstly, provident fund balances to the credit of private sector employees are taxed at up to 15% of the employer's contribution on retirement, although inflation has already taken a heavy toll of the real value of the balances. Secondly, there is the iniquitous taxation of provident fund incomes introduced in the Budget Speech of November 1987. Although the tax was reduced from 20% to 10% by the Budget Speech of March 1989, the relief to employees was more than outweighed by the simultaneous removal of the exemption of interest on Government securities in computing provident fund income. I strongly urge, on grounds of equity and humanitarianism, that the state should cease to regard provident funds as a source of revenue.

For eighteen years the Chamber and other private sector bodies have urged the repeal of the Business Undertakings (Acquisition) Act of 1971. We were therefore relieved that the Act was repealed by Parliament on 25th November, 1988. But even before the repealing Act had been certified, a senior Chamber member was taken over under Emergency Regulations in much the same manner that enterprises had been acquired under the Business Undertakings (Acquisition) Act. The Chamber protested strongly to His Excellency the President against the take-over and pointed out the damage caused to the business climate.

FOREIGNPRESS VIEWS

Colombo faces a painful battle on another front

(David Housego looks at the country's ailing economy)

Continuing terrorist conflicts in the north and south of the country, strikes and shutdowns imposed by Sinhalese and Tamil extremists, vote-rigging, spending in both the presidential and general elections — all have taken their toll on the economy. Inflation, which has risen to 17 per cent at the end of last year, has probably passed 20 per cent and is still climbing.

The budget deficit which should have come down to 10 per cent of gross domestic product this year under the existing structural adjustment programme agreed with the IMF, surged last year to 15 per cent and will reach 12–14 per cent this year on the basis of budget estimates.

Monetary growth was still a high 22 per cent on an annual basis at the end of March though down on the 29 per cent at the end of last year.

Most indicative of the government's lack of space for manoeuvre is that with the current account deficit still rising (an expected 9 per cent of GDP this year) and Sri Lanka's high debt service ratio virtually barring it from further commercial borrowings, the foreign exchange reserves have dipped to a low for the decade of the equivalent of six weeks' imports.

Interest rates which had been raised to absorb inflation were abruptly reduced before recently resuming their upward trend. The currency which was depreciating at the beginning, was briefly revalued before resuming a downward slide. Price controls were imposed on pharmaceuticals though the President's real instincts appear to be market-oriented.

Against this background economic growth has remained low, particularly by comparison with the rapid expansions that followed the initial opening up of the economy in the late 1970s. Real GDP has risen at only 2.3 per cent over the last two turbulent years. Unemployment, which is at the root of the frustrations that have allowed the extremist Sinhalese JVP movement to build up its strength, is around 18 per cent.

The bright spot in the economy, demonstrating Sri Lanka's potential if ever it can get back on the rails, has been export-oriented manufacturing and services. Arden Spence, a large, diversified, local group with interests in shipping, garments, container traffic and tourism says it had record profits last year in spite of their hotels being closed down in the peak winter holiday period.

A new Taiwanese-Sri Lankan joint venture exported \$ 5m of garments in its first year, last year, and is expecting a \$ 14m turnover this year while also constructing a factory to make sweaters. Substantial Japanese investment is waiting to pour in but is delayed by economic and political uncertainties.

The task of the IMF mission is to decide on what terms Sri Lanka will be able to make an overdue \$ 100m second-tranche drawing on its three-year structural adjustment loan. On the Fund's approval depends the release of concessional aid by western donor nations.

Until recently the new government had hoped the Fund would not be too pressing in its demands. But the mood among Fund and the Bank officials is that Sri Lanka has now twice postponed much needed stabilisation measures because of political difficulties.

Because of government determination to hold down inflation last year, the currency was allowed to appreciate by 5 per cent in real terms (as adjusted for inflation and measured against that of Sri Lanka's main trading partners).

This year's depreciation in nominal terms has not begun to make good the loss of competitiveness caused by Sri Lanka's soaring inflation rate. A substantial devaluation (10-20 per cent) would boost export earnings, but the immediate rub for the government is that it would further exacerbate inflation — with the risk of unrest spreading from students to industrial workers and public employees.

To contain the inflationary consequences the Fund is expected to insist on tight fiscal and monetary policies — possibly a budget deficit limited to 10 per cent of GDP and a target for monetary growth of 10-15 per cent. This would require bringing down government expenditure as a proportion of GDP from 34 per cent to about 28 per cent and sharply raising interest rates.

Austerity policies are never popular. President Premadasa's government can be expected to put up a tough fight over the details. But the dwindling foreign exchange reserves leave the country little choice but accept the policy changes that the Fund will propose.

*Excerpts from
"Financial Times"
May 12, 1989.*

Sri Lanka faces hard economic decisions

David Housego (in Colombo)

With the trade and current account deficit continuing to widen, the foreign exchange reserves have virtually disappeared. A sign of Sri Lanka's plight is that the government is having to finance imports of wheat, sugar, rice and fuel on 180-day letters of credit. Suppliers are demanding that off-shore foreign banks independently confirm that payment will be made. Importers of non-essential goods are being asked to put up a 100 per cent cash margin.

As business circles see it, the balance of payments squeeze is putting an irresistible pressure on the government to come to terms with the International Monetary Fund. One IMF mission left 10 days ago without an agreement, and another arrives in 10 days. The IMF is withholding a \$ 87m drawing on a structural adjustment facility until Sri Lanka enters new commitments. Payment on this would unlock \$ 60m more in balance of payments support from the Fund and new aid from western donor nations.

Some hard decisions have already been taken. The President's *lanuvuvin* programme, involving a Rs. 2500 a month (£44) payment for the poorest families, has been shelved for this year,

along with another welfare programme for mid-day meals. The two would have cost Rs. 4 bn for 1989.

But the most difficult decisions remain. The removal of subsidies on wheat and flour could push up the cost of a loaf of bread by over 40 per cent to about Rs. 5.

Overall, the IMF wants to contain the budget deficit to 12 per cent of GDP, as against the 15 per cent in the government estimates. This marks a softening on its original goal of 10 per cent of GDP.

Parallel with this the Fund is seeking a slight slowing of monetary expansion (M1) to 18 per cent this year — which allows for an optimistic 2.3 per cent real growth in GNP and 15 per cent inflation. Interest rates have been rising, with one year Treasury bills now at 19 per cent, reflecting the tightening of monetary policy.

The influence of Fund thinking is already being reflected in the accelerated depreciation of the rupee over the last two weeks.

*Excerpts from "Financial Times"
August 10, 1989.*

The Outlook for Sri Lanka's Economy — an ADB view

The Asian Development Bank in its annual survey of the Sri Lanka's economy comes to the conclusion that by the end of 1988 the country faced a very difficult economic situation. In the ADB's view the major constraints to economic growth were a high debt service ratio, high unemployment, large interest payments on government debt, a growing current account deficit, and low domestic savings. It saw two other unfavourable prospects for the economy, namely, that the earlier heavy flows of external assistance could not be maintained at the same pace and the productivity of the massive investment programme undertaken over the past decade had fallen far below expectations.

The ADB also warned that though the pursuit of very drastic austerity programmes would be difficult for Sri Lanka, in view of the already difficult political situation, there was a need to bring down

TABLE 1.
CHANGES IN MONEY SUPPLY (M1)
(percent per annum)

	1987	1988	1989
Selected Asia (19)			
EXEMPT			
Brunei Darussalam	2.3	4.4	4.8
Malaysia	15.8	16.1	20.3
Singapore	15.3	12.1	1.4
Taiwan (China)	15.1	17.3	24.1
Selected Asia			
Indonesia	11.3	11.4	11.5
Thailand	11.3	11.4	11.5
Philippines	11.3	11.4	11.5
Malaysia	11.3	11.4	11.5
Brunei Darussalam	11.3	11.4	11.5
South Asia			
Bangladesh	11.3	11.4	11.5
India	11.3	11.4	11.5
Pakistan	11.3	11.4	11.5
Sri Lanka	11.3	11.4	11.5
Other Asia's Special			
China	11.3	11.4	11.5
South Pacific			
Fiji	11.3	11.4	11.5
Vanuatu	11.3	11.4	11.5

the budgetary and external payments deficits, through sustained efforts at fiscal cut backs and export promotion.

The survey records how since 1985 economic growth had slowed down as both direct and indirect repercussions of the civil disturbances in the North and East of the country percolated through the economy. These disturbances only

TABLE 2.
CHANGES IN MONEY SUPPLY (M2)
(percent per annum)

	1987	1988	1989
Selected Asia (19)			
EXEMPT			
Brunei Darussalam	11.3	11.4	11.5
Malaysia	11.3	11.4	11.5
Singapore	11.3	11.4	11.5
Taiwan (China)	11.3	11.4	11.5
Selected Asia			
Indonesia	11.3	11.4	11.5
Thailand	11.3	11.4	11.5
Philippines	11.3	11.4	11.5
Malaysia	11.3	11.4	11.5
Brunei Darussalam	11.3	11.4	11.5
South Asia			
Bangladesh	11.3	11.4	11.5
India	11.3	11.4	11.5
Pakistan	11.3	11.4	11.5
Sri Lanka	11.3	11.4	11.5
Other Asia's Special			
China	11.3	11.4	11.5
South Pacific			
Fiji	11.3	11.4	11.5
Vanuatu	11.3	11.4	11.5

aggravated the domestic and external pressures on the economy. The escalating expenditures on defence and internal security hampered attempts of the government to stabilise the economy and effect structural adjustments. While the 1987 economic performance was seriously affected by a severe drought, which reduced agricultural production to low levels, the modest recovery recorded in 1988 did not have a significant impact on economic performance. Some of the ADB's comparative performance indicators (see diagram on Page 3) show that in at least four of these

TABLE 3.
GOVERNMENT EXPENDITURE
(percent of GDP)

	1987	1988	1989
Selected Asia (19)			
EXEMPT			
Brunei Darussalam	11.3	11.4	11.5
Malaysia	11.3	11.4	11.5
Singapore	11.3	11.4	11.5
Taiwan (China)	11.3	11.4	11.5
Selected Asia			
Indonesia	11.3	11.4	11.5
Thailand	11.3	11.4	11.5
Philippines	11.3	11.4	11.5
Malaysia	11.3	11.4	11.5
Brunei Darussalam	11.3	11.4	11.5
South Asia			
Bangladesh	11.3	11.4	11.5
India	11.3	11.4	11.5
Pakistan	11.3	11.4	11.5
Sri Lanka	11.3	11.4	11.5
Other Asia's Special			
China	11.3	11.4	11.5
South Pacific			
Fiji	11.3	11.4	11.5
Vanuatu	11.3	11.4	11.5

economic indicators Sri Lanka was near the bottom of the league. With regard to changes in Money Supply (M1) there were only 2 countries namely, Laos 77.3% and Fiji 61.6% that had higher rates of money supply change in 1988 than Sri Lanka's 29.1% (In terms of M2, however, there were nearly 7 countries of the 19 ADB members ahead of Sri Lanka) See Tables 1 and 2.

In Sri Lanka, Money Supply (M1), increased by 29 percent in 1988. The ADB survey states that this excessive growth in liquidity, together with the decline in domestic availability of some basic goods after the sharp drop in agricultural production in 1987, and the upward adjustments in business turnover taxes, wage increase and higher incomes earned from improved prices of exports, have contributed to the acceleration in inflation during 1988.

Another important indicator was Government expenditure as percent of GDP and here Sri Lanka headed the list for 1988 with 35.2%, closely followed by 34.7% of Singapore. (See Table 3).

TABLE 4.
GOVERNMENT TAX REVENUE
(percent of GDP)

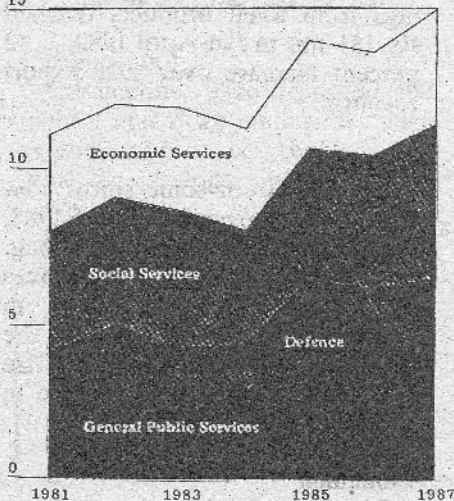
	1986	1987	1988
Newly Industrializing Economies			
Hong Kong	10.6	11.2	9.4
Korea Rep. of	16.0	16.7	15.2
Singapore	13.6	13.1	13.1
Taipei, China	7.5	7.8	9.1
Southeast Asia			
Indonesia	15.6	16.4	15.9
Laos People's Democratic Rep.	2.4	2.6	
Malaysia	20.6	15.5	15.9
Philippines	10.5	11.7	11.6
Thailand	14.1	15.0	16.6
Viet Nam, Socialist Rep. of	2.7	3.1	
South Asia			
Bangladesh	7.0	7.0	6.9
Burma	7.4	7.5	7.3
India	8.3	8.6	
Nepal	7.1	7.5	8.3
Pakistan	11.5	10.8	11.4
Sri Lanka	18.1	18.6	15.7
China, People's Rep. of	22.1	19.3	
South Pacific			
Fiji	18.6	18.5	16.3
Papua New Guinea	17.9	18.1	18.6

In terms of Government tax revenue as percent of GDP Sri Lanka's 16.7% was only second to Papua New Guinea's 18.6%. (See Table 4).

Sri Lanka's budget deficit was also about the highest for the 19 ADB member Asian countries, (apart from the exceptional Laos 49.1%). In spite of the high tax

Government Expenditure by Function

Per Cent of GDP



Source: ADB, Key Indicators (July 1988).

revenue and GDP ratio of 19% in 1987, the highest for Asia in that year, and 16.7% in 1988 (second only to 18.7% of Papua New Guinea), Sri Lanka's overall budget deficit has continued to be a relatively high 15.7% in 1988. The main reason was that while the ratio of capital expenditure to the GDP was reduced there has been

TABLE 5.
OVERALL BUDGET SURPLUS/DEFICIT OF CENTRAL GOVERNMENT
(percent of GDP)

	1985	1987	1988
Newly Industrializing Economies			
Hong Kong	1.3	3.2	0.9
Korea Rep. of	-0.1	-0.5	-1.1
Singapore	3.1	-3.9	9.0
Taipei, China	-0.8	0.1	-0.2
Southeast Asia			
Indonesia	-6.0	-5.4	-5.6
Laos People's Democratic Rep.	-11.3	-12.5	-49.1
Malaysia	-10.6	-7.6	-6.0
Philippines	-5.0	-3.0	-2.8
Thailand	-3.8	-0.7	2.3
Viet Nam, Socialist Rep. of	-6.1	-4.9	
South Asia			
Bangladesh	-7.0	-6.4	-5.6
Burma	-2.6	-0.3	-4.6
India	-5.4	-4.5	
Nepal	-9.3	-8.9	-8.8
Pakistan	-7.6	-8.8	-7.7
Sri Lanka	-12.7	-11.7	-15.7
China, People's Rep. of	-0.7	-0.7	
South Pacific			
Fiji	-5.7	-5.2	-7.4
Papua New Guinea	-11.3	-7.9	-6.1

a rapid growth in current expenditure. Defence expenditure has continued to take up an increasingly large amount of total expenditure since 1984. (See diagram). Mainly because of defence and external security associated with the disturbed civil conditions the fiscal position has continued to deteriorate. Throughout 1986, 1987 and 1988 Sri Lanka's overall budget deficit as a percent of GDP has been one of the highest for the Asian countries. (See Table 5).

The survey emphasises that a wide resource gap is a key structural weakness which poses some difficult problems for macroeconomic management in Sri Lanka. Even though the investment rate declined to about 22-23 percent in 1987 and 1988, the resource gap remained large because domestic saving, despite some increase, fell far short of investment.

FINANCE

Commercial Bank Deposits

In 1988 the total resources of Commercial Banks increased by nearly Rs 19 bn or 25 percent over that of the previous year. As much as 42 percent of this resource growth was by way of deposit mobilisation. The growth in bank deposits consisted of increases in time and savings deposits of Rs 3.5 bn and demand deposits of Rs 4.5 bn. In 1988 substantial increases in other liabilities, and paid up capital and reserves also contributed to the increasing resource base of Commercial Banks.

The Central Bank's latest quarterly Survey of Bank Deposits and Advances shows that total bank deposits stood at Rs 42.3 bn by the end of June 1988; and of these deposits the indigenous banks held 77 percent and the foreign banks 23 percent. Of the total deposits the States Banks held 66 per cent and the other indigenous banks 11 percent; while of the 23 percent held by the foreign banks the old foreign banks and the new foreign banks each held approximately 11.5 percent.

The total number of deposit accounts with the Commercial Banks at the end of June 1988 stood at 5,886,683 indicating a decline of 173,379 during the first six months of 1988.

However, the total number of accounts held by foreign banks increased by 5,144 during the period under review.

In the case of indigenous banks, the average balance of an account increased slightly by Rs 284 to reach Rs 5,639 as at the end of June. Meanwhile, the average balance of an account with foreign banks stood at Rs 94,870 as at the end of June, reflecting an increase of Rs 2,093 during the first half of 1988. Following the trend observed in recent years, these changes indicated that the indigenous banks were more oriented towards retail banking through their large network of branches, while the foreign banks were mostly concentrated in wholesale banking.

Amount in Rupees Million.

	1988 June			
	No. of Accounts	% of Total	Amount	% of Total
1. Indigenous Banks	5,786,962	98.3	32,630.3	77.1
1.1 State Banks	5,494,357	95.3	28,004.9	66.2
1.2 Other Indigenous	292,605	5.0	4,625.4	10.9
2. Foreign Banks	101,721	1.7	9,676.8	22.9
2.1 Old Foreign Banks	79,670	1.4	4,849.6	11.5
2.2 New Foreign Banks	22,051	0.3	4,827.2	11.4
	5,886,683	100.0	42,307.1	100.0

Source: Central Bank of Sri Lanka

COMMODITIES

Coconut - Production Exports Increase

Sri Lanka had a favourable coconut harvest during the first four months of 1989. The result was that coconut production increased by nearly 30 percent in 1989, to 784.5 mn nuts, over that of the Jan - April period in 1988. Mainly responsible for the better crop was improved weather conditions.

Kernal Products

Coconut kernal products exports increased by 70 percent in both volume and value. Among the kernal products, the largest increase in export earnings was in the DC category.

Production of coconut oil and desiccated coconut also increased substantially. DC up from 1,711 mt. tons in the 1988 period to 11,143 mt. tons in the 1989 period; while coconut oil production moved up from 10,600 mt. tons in 1988 to 23,023 mt. tons in 1989. Export earnings from all coconut products

recorded a substantial increase in the four month period, almost doubling from Rs 304 mn (SDR 7.2 mn) in the 1988 period to Rs 596.9 mn (SDR 13.7 mn) in the 1989 period.

Table 2 Local Market Prices of Coconut Products (Rs. per Kg.)

	1987	1988	1988 (Jan-April)	1989 (Jan-April)
Coconut oil	18.75	30.80	34.78	23.24
Desiccated	18.12	25.04	24.52	18.48
Copra	12.53	19.79	24.74	15.15
Coin Fibre			7.14	9.27
FOB Price				

Source:

1. Coconut Development Authority
2. Department of Commerce

Though production increased products could not receive maximum benefits due to the fall in prices in the local market. The price of Copra was down nearly 38 percent. In the case of DC prices both in the local and international markets were down heavily between April 1988 and April 1989 as seen in the DC market prices in the table above.

	April 88	April 89
International Prices (Mt) US\$	1,006.00	713.00
Local Market Prices (Kg) Rs	23.00	16.75

However, Coconut oil prices in the local market were up from Rs 12,885 per mt in April 1988 to Rs 20,735 per mt. ton in April 1989.

Table 1 EXPORT OF COCONUT PRODUCTS (Rupees Million)

Kernal Products	1988 (Jan-April)	1989 (Jan-April)	Change %
Oil	5.07	52.92	95
Desiccated	65.98	230.69	72
Copra	12.62	39.27	68
Nuts	24.69	22.99	-07
Coccol	2.08	5.37	61
Total	106.28	351.24	70
Non Kernal			
Fibre	130.38	258.91	50
Shell	158.41	180.87	12
Other	92.02	100.66	
Total	380.81	540.44	30
Grand Total	487.09	891.68	46

Source: Coconut Development Authority

Non Kernal Products

An interesting trend was that in the first four months of this year export earnings from non kernal products went up to Rs 540 mn; which was well over the Rs 351 mn earnings of the 1988 period. Among the non kernal products the largest export earnings were from Fibre products with export earnings in this sub-sector amounting to Rs 259 million for the first four months of 1989; this was a 50 percent increase over earnings in the 1988 period. Meanwhile, earnings from Shell products reached Rs 181 mn in Jan-April 1989, a 12 percent increase over 1988 export earnings.

SPICES

Earnings from some spices continued their upward trend of 1988, particularly cinnamon and nutmeg. In 1988 cinnamon and cloves showed substantial increases in export earnings over those of the previous year, while quantity-wise there was a heavy increase in export of these two items.

Cinnamon

Cinnamon is the biggest export earner among the minor agricul-

**EXPORTS OF SELECTED MINOR AGRICULTURAL PRODUCTS
(IN METRIC TONS)**

Year	Cinnamon	Change %	Cardamoms	Change %	Cloves	Change %	Pepper	Change %
1987	7,505	-1.1	192	-29.4	492	-33.5	2,015	+58.5
1988	6,811	-9.2	139	-27.6	2,251	+357.5	2,692	+33.5
1988 (Jan-Apr.)	1,805		66		1,173		1,241	
1989 (Jan-Apr.)	1,982	+9.8	77	+16.6	153	-86.8	569	-54.1

Source: Trade Statistics, Dept. of Commerce

tural export crops; its share being around 26 percent of the total in value terms. Since 1984 cinnamon export earnings have increased despite a lower volume of exports in recent years. The highest recorded quantity of exports for a year was 8,682 mt tons in 1981, and though it was 6,811 mt tons in 1988 in the first four months of 1989 exports had exceeded those of last year. There is also a better price for cinnamon at present due to the high demand in the world market and earnings for the first quarter of 1989 reached Rs 195 mn as against Rs 99 mn in the first quarter of 1988.

Nutmeg

Exports of nutmeg and mace also recorded a significant rise over that of the previous year - Rs 14 mn in the first four months of 1989 as against Rs 8.9 mn in 1988. In terms of quantity, during this period exports went up from 69,800 kgs in 1988 to 130,700 kgs in 1989.

Cardamoms

Cardamoms have recorded the highest unit price among all minor agricultural products. However, the level of earnings and volume of

exports have been on the decrease since 1986. In 1988 its drop was 28 percent over 1987; although in the first four months of this year the volume of exports increased marginally. The annual average price of cardamoms in the first four months of 1988 was Rs 265.48 per kg, but this year it was down to Rs 235.67 per kg.

Pepper

The annual average market price of pepper has shown a sharp decreasing trend; coming down from Rs 115 per kg to Rs 83 per kg this year. Both in terms of quantity and export earnings also pepper has recorded a considerable drop, with earnings decreasing from Rs 152.5 mn in the first four months of 1988 to Rs 43.1 mn in the same period of this year.

Cloves

Export of cloves have also recorded a very heavy drop in the first four months of 1988, coming down from 1,173 mt tons in the 1988 period to 153 tons in Jan-April of this year. Meanwhile, earnings dropped from Rs 120.8 mn in the 1988 period to Rs 10.4 mn in 1989. Average market prices of cloves, however, had improved in 1989.

AVERAGE MARKET PRICE

(Rs. per Kg.)

Commodity	1987	1988	1988 Jan.-Apr	1989 Jan.-Apr
Cinnamon (quills)	60.97	111.05	52.26	149.40
Cloves	103.56	127.18	102.70	110.93
Cardamoms	270.55	241.88	265.48	235.67
Pepper	129.20	87.26	115.53	83.18

Source: Trade Statistics Department of Commerce

HOUSING

WOMEN AND HOUSING IN INDIA

- Humanising Housing

In India there is a struggle to empower women in the housing process. This has become an issue for open debate and in a paper titled "Humanising Housing" Lalita Das, a practising architect and member of the Women's Centre, Bombay, has highlighted the difference in design and use of space, in social status and thereby decision making powers of women, especially in the communities where women design and build houses as against those communities where men do so. This paper also gives reasons why the system is changing more and more in men's favour and makes proposals on how and why changes should be brought about. The following are relevant excerpts from the paper by Das.

Women are the primary users of housing which for the majority of them is a work-place as well as a residence. Yet, they have been and are more and more marginalised in the housing process. Housing programmes calculate the requirements on the basis of family as a unit and the design, location and details are planned to suit the needs of the head of the household who in India is always assumed to be a man. Yet, according to UN micro-studies, one third of the households are women-headed - a fact that is not reflected in either designs or in women's participation in the process. In fact, the degree of women's involvement in the housing process is a clear indication of women's position in society.

Women designed and built housing

In many communities in India, women have been designing and building their own houses and still do so even though the numbers of these communities have shrunk greatly. These communities today mostly consist of rural communities who still are

or were herders, tribals and semi-nomads.

Men designed and built housing

On the other hand, when women are totally excluded from the housing process, different social structures and design patterns become obvious.

- * Men design for themselves as primary users and women as secondary users. Thus the prime areas such as front otias (platforms) and rooms are demarcated as men's areas and women are relegated to back rooms and the rear courtyard - if any.

- * **Economics and building methods:** When women built their houses, it was with materials that they had easy access to such as stone, bamboo, tree branches, mud, cow-dung, thatch, grass etc. Moreover, they used their traditional skills such as weaving, plastering with cow-dung etc. With these natural materials either depleted or getting commercially exploited, women's access to these has got limited. Now these materials need to be bought, not gathered. At the same time, a need for pucca (permanent) houses involves the use of materials such as burnt bricks, tin sheets, cement etc. which are all man-made and need to be bought. With women being considered more and more economically non-productive, men control all the finances and therefore buy the building materials. Eventually, the house and decision-making regarding it come to be seen as men's rights.

Thus it becomes obvious that the difference in housing design and construction methods is not a difference only in physical structure but involves a fundamental change in attitudes, living patterns, men's and women's roles in family and community and in women's value as human beings. Further, empowering women in the housing process also helps bring about a fundamental change in society.

Struggle to empower women in the housing process.

As seen before, housing is major instrument of control in a society. In

India, traditionally housing has favoured not only property owners over others and state over individuals but also men over women. A drastic change in housing policies is therefore required to bring about social change. In response to the UN Declaration of family, The Draft National Housing Policy published in 1987 deals mostly with legal, administrative and financial problems involved in increasing construction activity.

Many non-governmental organizations and individuals felt the lack of social perspective and the lack of people's participation in the government's programme and joined hands under the banner of National Campaign for Housing Rights (NCHR) to take another look at what housing means in relation to our total system. The central aim of NCHR is to draft a People's Bill of Housing Rights and to get it passed through parliament. In its definition of housing, NCHR states "Housing is not just the buildings. To be complete it must have access to the basic things that sustain life. Good housing is a vital base in society for citizens to build free and equal relationships among themselves and in turn to build cultural identities and society itself". It concludes that the right to housing is a fundamental and human right - "the right to live with dignity".

Precisely because NCHR recognises the significance of many different issues involved in the housing campaign and that housing touches many different areas of life, it has attracted a varied group of organizations and people including many women's organizations all over the country. NCHR has realised the importance of gender and housing issue at an early date and given it priority in the issues to be researched and studied. Yet, the focus of gender and housing was on providing relief to women rather than to change the system. The Draft Approach Paper (DAP) prepared by the Legal Working Group of NCHR concentrated on problems such as:

- * property rights for women - inherited and matrimonial,
- * provision of plots for women's housing in town planning,
- * possession of primarily to suit women's needs.

When the DAP was presented for national discussion and a National Consultation (NC) was held in Bombay in May 1987, the focus suddenly changed. The discussion at NC was very lively and as points started coming up, it was obvious that it was necessary to break out of the framework in which housing and rights in housing are seen and raise new concepts on what housing means to men and women in our social context. Here one can go back to the differences observed between societies in which women designed housing and those in which men did so and pinpoint some of the differences in social context:

- * that women consider the requirements of the whole of the household as of equal importance. When women design and build, it is for the household. Men always give primary importance to their own needs when designing and constructing;
- * that the housing process has continued according to this value system, thereby empowering men and oppressing women;
- * that community support and sharing is more pronounced when women participate in the housing process;
- * there is more tolerance of other religions and different life styles in these communities;
- * single, aged and infirm persons are integrated in and cared for within the community.

From these it becomes obvious that just giving more rights to women in the same system will not change the system but may even strengthen it. What is required is that the proposed Bill act as a catalyst for changing the man-woman relationship which at present continues to be that between oppressor and oppressed as well as

creating a stratified and intolerant society.

To many of the men who attended NC, it was a shock to realise how entrenched was the value system whereby man and his needs are considered superior to women and their needs and how it spreads to create an oppressive society. It was realised that the first priority is to humanise the man-woman relationship and that the whole concept of the Bill needs to be re-examined from the perspective of "Humanising Housing".

Humanising housing is a very wide concept and many of its implications are just beginning to come to the force. Much more study, thought and discussion are required to transform the concept into a viable proposal. Some of the areas proposed for the study are:

Realisation of non-material value of housing:

- * Realisation of emotional involvement of women in housing.
- * Giving value to physical labour involved in making a house into a home.
- * Understanding insecurity and fears in women due to homelessness such as physical violence, brutality, child-rearing problems, etc.

Removal of artificial limitations imposed on women:

- * Granting of equal rights to women to ancestral as well as matrimonial property.
- * Removal of the division of social roles by gender.
- * Removal of demarkation of men's and women's interests and activities within and without housing.

De-nuclifying family:

- * Removal of isolation and thereby control of women in a nuclear family.
- * Re-generating communal living structures whereby community support and sharing can be achieved without eliminating privacy and individuality.

Though interim reliefs are certainly required, the thrust of the required change needs to follow the above mentioned guide-lines.

THE ECONOMY

DISCUSSING SRI LANKA'S ECONOMY

A case for an open economy and need for right policies

There was no alternative, but to choose an open economy if Sri Lanka were to achieve a rapid economic and employment growth, was the conclusion of Dr. A. S. Jayawardena in an address at the 1989 Annual Sessions of the Organisation of Professional Associations held in September.

The OPA devoted an entire session to Sri Lanka's economy, where the two main speakers were Dr. A. S. Jayawardena, Deputy Governor of the Central Bank and Chairman, Bank of Ceylon; and former Governor of the Central Bank, Mr. N. U. Jayawardena.

Mr. N. U. Jayawardena's subject was restoring confidence through sound economic management where he emphasised that such a strategy would require a conjunction of several policies with supporting infrastructure. He summed up these policies as right development policy; right expenditure policy; right fiscal policy; right monetary policy; and last but not least, right resource management policy, involving above all management of the most important resource of humans.

Dr. A. S. Jayawardena focussed on what he thought was the most appropriate economic strategy for Sri Lanka at this juncture. He surveyed the vast changes that had taken place in Sri Lanka's economy since independence under different economic regimes. During the first 30 years, he said, a welfare oriented and an inward looking economic policy was pursued. Although there was some progress during this period, Sri Lanka fell behind most other countries of Asia in terms of economic growth and living stan-

dards. The next 12 years saw a change in policies towards an open economy. There was an acceleration in economic growth and diversification, but with inadequate attention paid to welfare considerations. Divisive tendencies in the socio-political sphere have been aggravated and this has created instability and uncertainty. He emphasised that widespread consensus on the appropriate economic strategy for Sri Lanka appears to be lacking.

In his view the current economic perspectives in Sri Lanka could be categorised into three groups;

- (a) Persevering with open economic policies, with adequate concern for welfare and employment.
- (b) Reversion to a controlled economy, with strong emphasis on welfare and employment.
- (c) Large scale socialisation of the economy, on the lines of the now abandoned Soviet and Chinese models.

Sri Lanka is a small island economy with a narrow domestic market. Adoption of inward-looking policies in such a context will inevitably result in low growth, low incomes and high unemployment. On the other hand, the experience of the Soviet and Chinese economies has demonstrated severe limitations of the traditional socialist strategies. Therefore, he concluded, that if Sri Lanka wished to achieve a rapid economic and employment growth with diversification, it had no option but to choose an open economy.

He maintained that an open economy would mean integration with world markets, not isolating oneself from them. It would necessitate the adoption of a highly flexible exchange rate policy, the exchange rate being the price at which we trade with the rest of the world. It would also be necessary to create internationally competitive domestic economic activities, by a progressive reduction of over protection of domestic economic activities. We will have to remove ultra-national "blinkers" on the question of foreign investment. The objectives of income distribution could be best achieved by the government's tax - expenditure process.

Adoption of any other strategy will have disastrous consequences. In the ultimate analysis, he said, problems of economic management are the same, whether we choose a market-oriented or a command type economic strategy. Experience the world over shows that these problems are more easily solved under a strategy which leaves the economic decisions to an open competitive market.

Industrial Development

Another connected issue was the subject of industrial development which was analysed and discussed by Industries Ministry Secretary, Mr. Vincent Panditha. Looking at the current scenario he argued that after forty years of independence and various plans for industrialisation, Sri Lanka was still a predominantly agricultural country with a very small industrial base. Industry contributed only 15 percent to the GNP as against an Asian average of 32 percent. Another significant factor was, that at the time of independence, Sri Lanka ranked second in living standards in South and East Asia, only next to Japan. Today our average income was estimated at \$375 and was surpassed by Pakistan \$400, Indonesia \$520,

Thailand \$995, Malaysia \$1920, South Korea \$3910, Taiwan \$6053, Singapore \$9155, Hong Kong \$9605 and even Maldives \$470.

An analysis of the structure of private and public sector industry showed that over the last 12 years, the production of the public sector which was 66 percent, and the private sector 34 percent had changed to the public sector 34 percent and the private sector 66 percent. A large part of existing industry is dependent on imported intermediates. Also the industrial sector (with one or two sub sector exceptions) has continued to display a weak export performance and make a relatively low contribution to GNP when compared with many of the Asian countries that have developed more rapidly. Among the constraints to further development, he listed cost of funds and problems of credit; and also a lack of dispersal of industries and consequential problems. His view was that the primary objective for economic development has to be the achievement of economic growth, the raising of living standards of the people and generating of employment opportunities as quickly as possible. An analysis of the unemployment situation has shown that as a percentage of the labour force the unemployment level among GCE (A/L) qualified was as high as 34.8% and among GCE (O/L) qualified it was 28.5% in 1986/87. Unemployment of under-graduates was 61.7%. While there is still some potential for agricultural growth, import substitution of food grains, milk, fish and other food crops, substantial economic growth has to come from a dynamic industrial sector. Furthermore, due to the limited absorptive capacity of the domestic market, production has to be export oriented, which means that industries have to be competitive. The possibilities of linking industrial development with expansion of agriculture has also to be explored,

particularly if 60 percent of family budgets went on food.

The policies and strategies required in the immediate future should be directed, he said, to providing greater employment and income opportunities for the growing population; towards strengthening Sri Lanka's Balance of Payments; towards transforming the primary domestic market oriented industry to an export oriented one; and to ensuring a more equitable distribution of income and wealth, and thereby improving the quality of life of the people. To achieve these objectives, he advocated specific policy instruments among which were:

- (i) Complete neutrality between public and private sectors and ownership.
- (ii) Complete neutrality between import substitution and export orientation among industries.
- (iii) The active promotion of linkages between big investors and small producers.
- (iv) Adoption of prudent macro-economic policies in order to stabilise the economy, contain inflation and promote productive economic activity.
- (v) Removal of administrative barriers.

The short term strategies required, he concluded were: an Exchange Rate policy which is realistic and flexible, since it was the exchange rate that fixed the prices at which we dealt with the outside world; a tariff Policy which would not over protect and would help existing industries to become internationally competitive; a Fiscal Policy which would not contribute to inflation; a wage Policy which relates wages to productivity; an Industrial Policy that would facilitate development rather than regulate or control it; and finally peace and security which would bring about social cohesion and a stability required for development.

SOME SOCIO-POLITICAL ASPECTS OF JANASAVIYA

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This paper tries to highlight some of the critical socio-political aspects of the Poverty Alleviation Programme (PAP) of the Sri Lankan government known as 'Janasaviya'. In doing so, it identifies a number of Processes and Issues critical to the success of the programme, which, in the view of the authors, should be sensitively and qualitatively monitored through the period of implementation. The views expressed are those of the authors and not necessarily those of any group, committee or organisation of which they may happen to be members.

The paper deals with Processes and Movement, and not with Events and Statistics. It largely ignores the Theories Concepts and Frameworks that are often imposed on the reality by Academic Elites. It avoids not only the Stifling Jargon but even the 'Indicators' of both Poverty and Development that continue to be fashionable in International Development Dialogue. It offers no Schemes or Packages in Support of Janasaviya. It tries to unfold processes, highlight issues and provide insights into the concept of Janasaviya. Put in a different way, the authors try to grasp the reality of poverty and the challenge of its possible Alleviation from the vantage point of Communities of the Rural and Urban Poor with whom the organisation to which the authors belong identifies its own work.

The Socio-Political Processes Through Which Poverty Has Found Itself Defined

The policy thrust of every government since Independence has been to place primary emphasis on uplifting the socio-economic conditions of the Poor. This soon became a cornerstone of our political culture. Policy Makers, Administrators, Politicians and Academics comprising various sub-sections of the 'Establishment' continuously developed Policies, Strategies, Programmes and Projects to 'uplift the socio-economic conditions of the Poor'. Those planning and implementing the numerous programmes addressed to the Poor, used different

Indicators to define and identify the Poor.

Some Programmes sought to identify the Poor with reference to Land Ownership; others identified the Poor in terms of Nutrition Levels; still others in terms of Family Income; some in terms of Levels of Employment; some identified the poor in terms of Access to Social Amenities; some with reference to Housing Standards etc, depending on the nature and emphasis of each specific programme. Likewise, the various other actors on the development scene such as Economists, Sociologists, Bankers, Accountants, Cultural Activists, Religious Thinkers, Social Activists etc also developed their own specific frameworks and definitions for identifying the Poor.

What is important to realise is that the rural and urban Poor, for their part, viewed and perceived all these often well-intentioned Actors on the development scene as constituting another Order. The Poor perceived them as a kind of 'Agency' which controlled numerous Resources which they were ready to 'hand-out' to the Poor through their various programmes and projects. The Developmental Actors continued to be seen by the Poor as a 'They' and not as a part of a 'We'. They were perceived as an 'Agency' or 'Establishment' that had access to (and often also enjoy the use of) resources which were needed by the Poor. The political, cultural and economic processes that alienated the Developmental Actors from the Poor are outside the scope of the present paper.

Despite the efforts that continued to be made to develop Sri Lankan Political Society into a Participatory Democracy, the socio-cultural and political distance between the 'They' (Viz: the Developmental Actors including Planners, Government Functionaries, Politicians, Academics etc.) and the 'We' (the people) by and large continued to remain unbridged. While the 'They', operating within their often narrow compartments

continued to apply various Indicators to define and identify the Poor, the 'We' in our wisdom continued to apply 'Our' creative skills to get more and more of 'Ourselves' (Viz: the People) included under one or other definition of the poor so that increasingly greater numbers could benefit from programmes designed for 'Improving the socio-economic conditions of the Poor'. To get included within categories defined by Developmental Actors as 'those qualifying to benefit from programmes designed for the Poor', people were not slow to manipulate local power structures for their benefit. The socio-political process through which Poverty came to be defined was further strengthened by the growth of Patronage Politics. Those development practitioners functioning in the political sub-sector of the Development Scene, – in other words 'Politicians', – competed with one another within the ethos of patronage politics to have more and more of their 'clients' (i.e. Supporters, Voters) included within the category of 'The Poor' so that they may share the benefits of programmes addressed to the poor.

In the circumstances in which they were placed, the People can be seen to have acted very sensibly in getting greater and greater numbers included within the category of 'The Poor'. To start with, the dominant Political Culture focused on the poor – so to get the attention of the State, it was imperative to place oneself within focus – i.e. to be seen as Poor. Then again, the People were dealing with what they perceived to be 'Development Agencies' which not only controlled resources but were also drawing up plans and programmes and inviting the People to 'Participate' in the development programmes formulated by them instead of moving close to the people, understanding the People, understanding the People's Development Plans and Processes and applying the resources that they control to support the mainstream processes of the people. In such a set of circumstances, the People responded sensibly by applying their creative genius to manipulate the 'Development Agencies' and draw more resources to themselves. Their strategy of manipulation, within the Poverty-focused Political Culture in which they were operating, resulted in greater numbers presenting themselves as falling below the Line separating the Poor from the Non-Poor. As a result, nearly 50 percent of all Sri Lankan families are seen to

have family incomes of less than Rs.700/- per month according to the Food Stamps Scheme — a near preposterous position.

What Constitutes Poverty

Within their own societies, rural communities and urban garden communities define and identify their Poor in terms of a few broad qualitative criteria. These criteria are casually inter-related and with the other —

- Families whose basic needs are not adequately satisfied are considered to be Poor. This includes families without proper shelter; families which are not able to send their children to schools; ill clad families; those who cannot adequately feed themselves; families that cannot afford minimal medical attention for the sick etc.
- Families which do not have a regular/secure/assured source of income are seen as being Poor. This includes families of labourers who cannot be sure of a regular number of days of work per week; families of small highland farmers whose income is critically related to rains which have proved to be uncertain; families of artisanal fishermen whose fishing days get severely constrained by weather conditions or of fishermen whose resources have been seriously depleted through over-exploitation; families of craftsman and other small producers whose products are being competed out of the market by substitutes that are mass produced in factories etc.
- Families which are not well integrated into the development process (i.e. families on the fringes of the development process — are seen as being Poor.
- Families which often as a result of their economic deprivation have lost courage, hope and initiative are seen to be Poor. This reflects a state of mind in which have families concerned, oppressed by an overwhelming sense of failure, resign themselves to a hopeless future one in which there seems no chance of overcoming their Poverty. A state of mind which nullifies any interest in the political process, the develop-

ment process or in the processes of change, because their experience of Poverty is so deep and intense that they entertain no hope of improving their situation through participation in either the political process or in a process of development and change. Poverty has sapped the strength and crushed the hope and initiative of these families; hopelessness, resignation, acceptance of the status quo, lack of faith in the possibility of improvement through efforts — these are thus often seen as external signs of Poverty.

- Families which need some external support — a helping hand — to get more integrally linked to the development process and thereby uplift their socio-economic conditions are seen as being Poor.

"In all past approaches... programmes were planned and implemented at levels removed from the poor."

Assessment of Past Approaches to Poverty Alleviation and the Emergence of the Janasaviya Concept

The Janasaviya Concept constitutes an innovative approach to Poverty Alleviation that is qualitatively different to all Poverty Alleviation Approaches that have been followed in the past. At the same time, in presents itself within the parameters of the dominant political Culture of the post-independence period. A culture that reaffirms to itself from time to time the existence of poverty as a serious problem and recognises the Alleviation of poverty as being the prime responsibility of Political Society. To this extent, Janasaviya is a mainstream political programme that has evolved within the mainstream political culture of the post independence period. Whether the extent of poverty that the political culture likes to think exists, actually does exist or not is another matter. More over, the State of Poverty is a Relative one and not an Absolute State. One is seen as being Poor in relation to someone else, but while being almost aggressively anchored in mainstream political culture — (and that is why no political party can dare oppose the 'Concept of Janasaviya'

without risking alienation from mass politics) — the concept, strategy and Approach of Janasaviya reflect a series of radical departures from the Strategies and Approaches of the past.

- Past approaches have viewed the Poor as Objects of Development for whom programmes were planned and implemented by others.

In all past approaches, the Authors or Subjects of Development were Politicians, Planners, Government Functionaries / Administrators and Expatriate so-called Experts. Programmes were planned and implemented at levels removed from the Poor. A socio-cultural distance separated those who planned and implemented programmes for alleviating poverty from those whom the programmes were meant to benefit. Government functionaries or administrators who constituted what is defined in jargon as the 'delivery mechanism of development for the poor', often reached the poor at community level through a better off (non Poor) villager or urban garden dweller with whom the functionary would socially and culturally feel more comfortable. Such persons could be teachers, government functionaries, traders, land owners and educated persons belonging to the community. These are also usually the people who hold office in Community Organisations, thus giving legitimacy to their role as intermediaries between the 'Government Delivery Mechanism' and the Poor.

The socio-cultural distance separating these different actors on the traditional poverty alleviation scene are reflected in the stereotype images each has been known to have of the other. Most government functionaries / administrators and the non-poor through whom they reach the Poor, and also many politicians see the Poor as lazy (alasa), lacking initiative (udaseena), lacking confidence, negatively pulling back (pasugami), needing to be taken by the hand and helped along indefinitely, irrational in the use of money, prone to alcohol and to other items of 'wasteful' expenditure, unreliable in financial transactions, generally dishonest and unreliable etc. The Poor see the non-poor as people with whom linkages of dependence can be forged. The Poor do not generally perceive the non-poor as 'Exploiters' or 'Class Antagonists' except in some exceptional instances. The Poor perceive government functionaries/administra-

ters and politicians as persons functioning in a kind of 'Development Agency' that has distanced itself socially and culturally from the Poor: An 'Agency' that is powerful in that it controls resources needed by the Poor: An 'Agency' that the Poor have to manipulate in order to draw some of their resources for themselves. The social, structural, cultural and attitudinal distances separating the administrative system, the political system and the non-poor sections of the community from the Poor are such that programmes for alleviating poverty have been 'delivered' from above in the absence of a willingness to trust the Poor to make a success of them on their own. Built into these programmes, therefore, are structural ties of dependence linking the Poor to the administrative and political apparatus which continues to thwart the initiative and innovativeness of the Poor, even after linking them into the process of development. The Janasaviya Concept provides a dramatic break with the past. Janasaviya is paradoxically also a top-down programme. But a top-down programme that immediately stands the old-type top-down approach on its head. Janasaviya evolves on the premise that the persons most concerned with Poverty Alleviation - viz.: The Poor themselves - should be the Subjects and not the Objects of a Poverty Alleviation Programme. And those who are seen to constitute a somewhat alienated 'Development Agency for the Poor' should restructure themselves into a kind of 'Support Organisation at the Service of the Poor'.

- * The Success of Janasaviya requires a fundamental restructuring of the relationship between the People and the Development Organs of the state. This calls for alterations in power relations and changes in control over developmental resources. It calls for major attitudinal changes on the part of planners, government functionaries, politicians, academics, the non-Poor and the Poor.
- * The Success of Janasaviya requires capacity building among the Poor to undertake the responsibility for Poverty Alleviation as the Authors or Subjects of the process itself rather as the objects of someone else's programme. This in turn requires State intervention to remove the existing constraints to a People-based Process of Poverty Allevia-

tion. It also calls for the provision of appropriate Support Services to the Poor for strengthening a People-based Process of Poverty Alleviation.

Strengthening the Mainstream Process of Development among the Poor: Another Way of Looking at Janasaviya

In any community of the rural or urban poor, individual families have risen to overcome poverty through their own efforts and improve their conditions of life. There is in any rural or urban garden community a certain - albeit small - degree of social mobility out of the ranks of the Poor without the direct intervention of the State. This constitutes the Mainstream Process of Development among the Poor. The mainstream no doubt, is small. It includes families which have come out of poverty by educating a child who then obtains a secure job and brings to the family a new standing in society. It includes families of persons who have developed small enterprises through the application of their own skills to a small material resource. It includes families of persons who, having temporarily migrated to another part of the country or abroad have invested their hard-earned savings in income-generating activities. It includes families of persons who have developed a profitable business on a small initial investment, etc. Mainstream success in overcoming poverty is seen to be usually associated with a combination of two or more of the following factors:

- * A desire to improve oneself as opposed to an overwhelming sense of hopelessness and failure.
- * Some types of skill which is usually available in most poor families.
- * Access to small material resources for starting-up an activity.
- * A feeling of freedom to take decisions unconstrained by linkages of dependence.
- * Ability to identify opportunities either by oneself or else by accessing information.
- * Accessing appropriate low cost technologies which are often available with the people themselves.

- * A feeling of confidence in one's own abilities (which is usually associated with a feeling of freedom from dependency linkages that bind one to others for one's sustenance).

Janasaviya can be seen as a programme for strengthening the Mainstream Process of Development among the Poor. Viewed from this angle, Janasaviya projects a two pronged strategy:

- * Strengthening the factors associated with Mainstream Success through clearing the Access Channels and providing Support Services.
- * Weakening and even uprooting those politico-social, cultural and attitudinal factors which are seen to conscribe the mainstream process.

The mainstream development process of the Poor is presently a small one. The aim of Janasaviya is to stimulate it to become broad enough to provide large numbers of presently poor families with sustainable income and a livelihood. The degree of success in achieving this objective will depend - among other factors - on the resolution through praxis of the following inter-related conditions intrinsic to the Janasaviya Programme itself:

- * Selection of Janasaviya Beneficiaries:

The guidelines are clear. The thinking is unambiguous. Each hamlet of around 100 houses meets and selects 4 members for its Support Group (Sahaya Kandyam) to which the AGA adds one government functionary to make the group 5. Together with its own Support Group (4 members of which are selected by the hamlet itself), the hamlet families select the beneficiaries at a public meeting. No hard and fast indicators of Poverty are imposed on the hamlet by the guidelines. In fact, the hamlet is free to apply its own qualitative criteria to identify its poor. The power to define, identify and select the Poor has to all intents and practical purposes been completely devolved on the people living in hamlets and rural garden clusters. The strategy is to trust the people and devolve responsibility on them. With what degree of

responsibility will the hamlet identify its poor? It depends on the way the hamlet perceives the Janasaviya Programme. If it is perceived as a traditional-type Government Programme — i.e. where decisions are taken by government functionaries and politicians outside the community and benefits are 'delivered' to the people from outside, it is likely that the people's response will be the same as that given to any traditional top-down programme. In such an environment, the hamlet can be expected to include as many names as possible in their list of beneficiaries. People's perception, in turn, will be conditioned by the response of government functionaries and politicians to the decision making powers that have been devolved on the hamlet community. For instance if an M.P. or a Provincial Council Member or the Grama Sevaka or AGA or even the Government Functionary serving as a member of the Hamlet Support Group ties to intervene either in the appointment of the Support Group or in preparing the list of beneficiaries, people will perceive Janasaviya as yet another government programme and respond to it as they would to any other top-down programme. For a hamlet community to be activated to act with responsibility in identifying their Poor, there should be no outside-political or administrative — interventions at hamlet level. The extent to which this will be possible is another matter. In practice, it is likely to vary from area to area depending on the calibre of local political and administrative functionaries on the one side and the level of empowerment of the people on the other.

* **Structural Integrity of the Support Group:**

The Support Group of Five has a critical role to play in the Janasaviya Programme at community level. Their task is to stimulate and activate the beneficiaries and access Support for them to become economically self-reliant in two years. Their structural role is that of Hamlet level. Resource Person cum Link between Janasaviya Beneficiaries and External Agencies supportive of Janasaviya. As it is very likely that the Janasaviya Programme — in

Praxis — despite all its planning and training will generate a certain level of structural tension between the socio-cultural-political interests of external agencies and those of local communities in the process of possible empowerment, it is imperative

that the structural integrity of the Support Group does not get compromised by tilting their allegiance onto the side of the external agencies with whom they would establish contact through their role in Janasaviya and from whom they have much to gain in terms of power and influence for themselves. If the Janasaviya Process is not carefully managed — as is possible in a context in which a massive scale of activity is launched within a very short period of time — Support Groups at least in some areas can evolve into new groups of hamlet level oppressors who draw their authority from their external contacts.

* **Awakening the Poor into the Future:**

A common characteristic of the Poor is their overriding sense of failure and hopelessness. Poverty is also a state of mind: A mental state that accompanies long period of deprivation: A frame of mind that is not conducive to initiative and innovation: A deep sense of resignation born out of the experience of hopelessness for the future. A major thrust of Janasaviya is to offer a different experience to the Poor, and by doing so change their mental state into one that generates hope, initiative and innovation. The new experience presents itself in the form of Consumption Support to the value of Rs.1,500/- per month regularly for 2 years with which to satisfy basic needs, and Investment Support of Rs.25,000/-. It is expected that this very material offer of hope will 'awaken' the Poor, galvanise their latent skills, initiative and innovativeness into economic activity of a level that will also provide them with a regular and secure income. The level of success in 'awakening' the Poor and activating them into a process of self-reliant economic activity will be conditioned by other processes that will have to work themselves out through praxis. Providing finan-

cial resources — by itself — cannot activate the poor into the mainstream of socio-economic development.

The attitudinal structures of the administrative and political systems which feel impelled to make decisions for the Poor, impose programmes on them and make the Poor dependent of them, have been a major obstacle to the human development of the Poor. As shown earlier, the existing attitudinal stances of most administrators, politicians and the non-poor towards the Poor are antithetical to the very Concept of Janasaviya. Existing attitudinal structures are the result of decades of training and practice. Unlearning and Re-learning, though an integral part of the Janasaviya strategy, are usually slow processes that take years to accomplish. But Janasaviya cannot wait: it has to accomplish itself within two years.

- The Unlearning and Re-learning Process (i.e. Attitudinal Change) cannot be accomplished on such a massive scale through Training Programmes alone. A change of attitudes and values of the scale expected in the Janasaviya Programme can only be achieved through a determined National Effort, spearheaded by the political will and Determination of the President and galvanised into action with the political clout of his entire government. And for such a national effort to succeed in a big way, the socio-political environment should be so conducive as to enable the nation to focus on Janasaviya. The level of Success will increase if the socio-political environment of the country improves.
- The Janasaviya Approach recognises the need to uplift the Poor morally and psychologically if they are to be activated into participating in the mainstream of socio-economic development. But it seems ironical that some of the key words of the Janasaviya vocabulary are themselves somewhat dehumanising rather than uplifting. For example, to be called 'Poor' (duppath) and especially to be called 'Extremely Poor' (duggee duppath) or to be described as one who 'has nothing and can do nothing' (nethi-beri) is not by any means Uplifting — morally and

psychologically — but demeaning and almost oppressive. It could be helpful to re-examine the basic Janasaviya vocabulary and develop new words to reflect the new attitudes to an old reality.

Hand-outs have in the past always reinforced the mental state of poverty among the Poor. When hand-outs are received, the 'neethi-beri' (have nothing and can do nothing) mentality gets further reinforced. Food Stamps have had this effect on many families. The impact of hand-outs on the recipient runs counter to the very objective of Janasaviya. It is in this context that one has to reflect on how the Consumption Support with a value of Rs.1,500/- per month will be perceived by the Poor. Will it be perceived as another hand-out? Will it reinforce the 'neethi-beri' feeling and serve to negate the process of Awakening the Poor to the Future? The Consumption Support Component has to be very intelligently comprehended and very skillfully presented at all levels if its psychological impact is not to contradict the primary objective of the Janasaviya Programmes.

Capacity-building and Empowerment:

The ability of the Poor to integrate themselves into the mainstream of economic development and thereby broaden the mainstream process is a function of their Capacity to do so, which in turn is a function of their level of Empowerment. Capacity and Empowerment are related concepts. The main aim of Janasaviya is to build-up within two years the capacity of the Poor to join the mainstream of economic development by developing their own income-generating enterprises and activities. Families of the Poor have resources of Labour and Skills. Janasaviya provides them with Consumption Support to satisfy basic needs, with a Start-up investment capital of Rs.25,000/- and — hopefully — a socio-cultural environment that weakens the processes that bind them on the one hand to their poverty and on the other hand to structures of dependence. Within a two-year period the Janasaviya Concept aims at empowering the Poor by:

- Weakening their links of dependence on oppressive structure.

- Motivating them to work towards a better future.

- Accessing — through chains of Support Groups at hamlet, divisional, district and national levels — the necessary financial, technical, managerial, informational and marketing support for productive economic activities.

- Providing a start-up investment capital of Rs.25,000/-.

- Operating in such a way that large numbers of poor families may share each other's hopes, problems and experiences and provide strength to one another in a shared process.

Will the external Support Institutions which have normally thought it unproductive and undesirable to deal with the Poor, respond with Support when accessed? Will their attitudinal changes be such that they are more amenable to supporting the Poor? Will the practitioners of patronage politics intervene to direct support only to politically selected families? Since accessing support for the Poor will be time-consuming and tiresome, will the members of the hamlet-based Support Groups be able to spend much time on these Voluntary Services while attending to their own economic and domestic activities at the same time? Are there divisional, regional or provincial institutions that can be accessed by the Janasaviya beneficiaries for information and support on commercially viable micro enterprises — both agro-based and non-agricultural? If various facets of an emerging community level investment pattern of Janasaviya beneficiaries were to be rendered non-viable by the open economy policies of the government, how will such a contradiction be resolved? At the end of the two-year period, what proportion of Janasaviya beneficiaries will feel confident of their capacity and power to take their future into their own hands? What will happen to those Janasaviya beneficiaries who, at the end of the two-year period, fail to successfully integrate themselves into the mainstream of economic development? These are the challenges of Janasaviya. The challenges of what is presented in conceptual terms as a mass movement of popular empowerment.

Some Possible Political Implications of The Janasaviya Concept

In most developing countries, the State is distanced from the People. The socio-political and cultural distance separating the State from the People is sometimes so great that there is a serious lack of the dialogue and understanding between the State and the People. In such circumstances, radical political movements move into empower the people: To make the people aware of their potential and capacity to make them aware of their own power: To make them conscious of the failure of the State to alleviate their living conditions and provide them with, at least, their basic needs. While radical political movements of the Poor are known to undertake popular empowerment on a mass scale, radically-oriented NGOs also empower small communities of the Poor almost always on a very small scale and in a few isolated pockets. Empowerment of the People results in the sharpening of the contradiction between the State and the People, leading in most instances to confrontation and conflict. Although in Sri Lanka the distancing of the People from the State is not as large as in most developing countries of the world, a sizeable socio-political and cultural distance does separate the State especially from the poor. Before this contradiction can mature into confrontation and conflict, and before any radical political movement of the Poor could empower the Poor and mobilise them for a confrontation with the State, Janasaviya moves into resolve the contradiction before it can mature into conflict. The Janasaviya Concept has within it the potential for attempting to resolve this contradiction in advance. On the one hand it seeks to mobilise and empower the Poor before any radical political movement were to attempt to do so. On the other hand it seeks to transform the administrative organs of the State from being institutions that impose their decisions — top-down — on the People, into becoming Support Organisations that give a helping hand to the initiatives, decisions and mainstream processes of the Poor.

* Political Society in Sri Lanka Is

DEVELOPMENT AND ECOCRISIS

Klas Sandell

Ecology is often defined as "the study of plants and animals in relation to their environment." (Hagget 1975:116). In this study the organism is man. Eco thus indicates that the man-nature relationship is in focus, as in human ecology. This means that ecostategies are strategies used by individuals or groups of individuals for the

broadly stratified in three layers. The top layer is composed of the minority of 'Affluent Families'. It is a small layer. Its families are well integrated into the Development Process from which they draw many benefits. They are well satisfied with the existing order and naturally do not desire changes in the existing politico-economic system. The bottom layer is the largest. It consists of the Poor: The families that are only marginally integrated into the Development Process. Though they have least to gain from the existing politico-economic system, they are overwhelmed with such a feeling of defeat and failure that they take no interest in the Economic order and the political process as well. This large stratum consisting of the poor are politically silent and inactive. The middle layer, though small, is restless and dynamic. It consists of families that are neither poor nor affluent. Neither so poor as to be politically dormant and inactive, nor so affluent as to be satisfied with the existing order. Middle stratum families are fairly well integrated into the Development Process. But they are not integrated well enough as to satisfy many of their social and economic aspirations. Generally they want a change in the existing order: One that will provide them a better chance of satisfied chance of satisfying their social and economic aspirations. The middle stratum provides the active elements of the Political process. Elements that struggle for political and economic change. Political dynamism on the one hand and challenges to the existing order and threats to the stability of the State on the other, originate in this middle layer of Political Society.

utilization of nature. It is important to note that man alone can change his ecological behaviour and adopt different strategies at will.

Man, Nature and Development

Environmental problems and resource depletion are not mainly a technical problem but are the outcome of human perspectives and strategies. Three principal 'ecostategies' ('domination', 'active adaptation' and 'passive adaptation') were elaborated upon and a case study was carried out in Sri Lanka to investigate to what extent

The Janasaviya Concept aims at integrating the large dormant bottom layer of Political Society into the Development Process, motivating them with hopes of socio-economic improvement and a better future, shaking off their mental state of inactivity and resignation, and activating them into the Political Process.

Enrolling the large bottom layer of Political Society to participate actively in the Political Process will, no doubt, alter the political power balance in society. While the restless middle layer families continue actively campaigning for changes in the existing politico-economic

order to remove what they see as being barriers to their socio-economic improvement, the newly activated bottom layer would at least for the next few years, see an interest in actively defending the existing order that is giving them a new break in life.

If the Janasaviya Programme succeeds, it is likely that the influence of the middle layer political activists in the Political Order will be increasingly negated — at least for a few years — by pro-Status-Quo activism that can be expected from the newly activated bottom layer. On the other hand, if Janasaviya Practice lags far behind Janasaviya Thinking and the programme fails to successfully integrate the bottom layer into the Development Mainstream, there can be widespread political unrest — especially after the Janasaviya benefits cease at the end of two years.

this conceptual framework was reflected in this physical and social reality.

Alarming reports about contaminated waterways, polluted air and deterioration of natural resources reach us with increasing frequency. The need for a sustainable man-nature relationship appears as one of the most crucial questions for future development. A recent example of this concern is the report "Our Common Future" by the World Commission on Environment and Development (1987). Although the problems discussed in that report look insurmountable, the authors believe in a "new era" in which the environmental resource base could be sustained and even expanded. The report noted, however, that: "The world must quickly design strategies that will allow nations to move from their present, often destructive, processes

In the longer run, however, the Janasaviya Process, through praxis could result in greater political unrest. Once the large bottom layer of Political Society — presently dormant — is economically and politically activated, if it is found that there are not enough resources to meet their rising aspirations, the political price to pay will indeed be high. This could happen — if at all — in the longer run.

The Development Strategy for rural communities and small urban communities involved in the Janasaviya Concept is the development of large numbers of small, privately owned enterprises for income and employment generation. With State institutions transformed to pay a supportive role (rather than a dominant part) in a privatised small enterprise type economy that could develop out of a successful Janasaviya, the Concept implies an independent privatised small enterprise oriented development model free of State patronage and State control. A model that will enable increasingly greater numbers of people from rural communities and urban garden communities to enter the mainstream of capitalist production.

of growth and development onto sustainable development paths."

Environmental problems exist in both industrialized countries and the Third World, albeit in different forms. In industrialized countries, for example, toxic discharges in air, water and soil; over-consumption and short-term speculations at the expense of non-material values and forethought are common. In the Third World, on the other hand, it is above all a question of a sensitive balance between population pressure and natural resources, bearing in mind such risks as soil erosion, desertification and declining ground water supplies. The declaration of the UN Stockholm Conference (1972:83) on the Human Environment states: "In the developing countries most of the environmental problems are caused by under-development." International dependency, for example, via transnational companies and export of natural resources is also an important aspect of under-development and the environmental problems.

So far, these perspectives of the natural resource base have to a large extent been neglected in the discussions of different development theories and strategies. A broad survey of development research and thinking indicated that: "Due to this neglect of the natural base of human societies, only widespread fear of global ecological crisis could bring social scientists, and others dealing with development problems, to analyze development as a process involving both society and the environment" (Hettne, 1982:91).

The point of departure for this research project could be formulated as follows: The views and practices concerning the man-nature relationship underlying the industrial-growth-society are not compatible with the demands of a sustainable relationship with nature.

The problems concerning man's relationship with nature are not

Through the research programme "Irrigated Agriculture and Eco-development: Analyses of Social and Ecological Factors Related to Traditional Irrigated Agriculture in the Dry Zone of Sri Lanka" at the Department of Water in Environment and Society, Linköping University, I gained access to the research situation I was looking for. I also received the necessary support to tackle my evasive research-questions through cooperation with researchers from other disciplines and with Sri Lankan colleagues.

solely technological. Emergency measures such as better purification methods of waste water or industrial smoke, alternative energy techniques, more stringent laws; all may prove effective and may suffice as short-term solutions, but in the long run, they are inadequate. A more profound and realistic approach requires a broad perspective on environmental problems involving value judgements and goal orientations. The environmental crises, both in the 'developed, and in the 'developing' countries, is to a large extent, due to an inadequate understanding and orientation of man's utilization and dependence of natural resources.

Agricultural practices in Sri Lanka and especially those of the green revolution are of significant importance. Yapa (1979) identified the following three main problems of the "ecopolitical economy" of the green revolution: material bias, landlord bias and environmental problems. The present study highlights the first and third of these aspects, including the underlying strategy for man's relation with nature and its linkages to a natural science perspective. The latter aspects could be tackled thanks to the collaboration with an interdisciplinary research team.

Water availability and supply of nutrients were successively selected as focal points for the investigation. These inputs are generally recognized as being scarce in the studied areas. The farmers' views of the sup-

ply, use and need of water and nutrients in agriculture, were analysed and compared with their practices and with the conceptual framework of man-nature relations elaborated upon in the theoretical part of the present study.

Knowledge and information in such a time-tested system is an important research area. To some extent information concerning this system could be traced in the current physical arrangements, practices, tools, social organization and the views, perceptions and knowledge among the present farmers. With the ongoing ecocrises it is necessary to gain all the inspiration and information possible concerning the potentiality of a sustainable man-nature relation. Or as Chambers (1983:92) argues: "In most countries of the third world, rural people's knowledge is an enormous and underutilised national resource."

Knowledge about man-nature relationship in Third World countries is of interest not only in that context. Commoner (1972:xxiv), among others, pointed out that it is a false idea that the modern Western World should be less dependent on nature than other groups of people. "The truth is tragically different. We have become, not less dependent on the balance of nature, but more dependent on it". This indicated the potential of a reverse flow of information from the 'developing' countries to the 'developed' ones. The results should hopefully also be valuable for the region studied. This means that even if the case study is carried out in a developing country, it is not primarily conducted with the common perspective for such a study, i.e. trying, from an industrial-growth perspective, to formulate recommendations for the process of further development of the Third World country. Instead, this case study was primarily carried out with the assumption that it is fruitful to try to explore some aspects of the views and practices among Third World farmers as a source of insight and inspiration, not the least for the necessary process of further de-

velopment of the industrialized world.

To what extent the villages traditionally have been an example of an independent, locally adapted system is difficult to say. It is clear that during long periods in ancient times, many of the villages in various ways were tied to extensive social structures. Subsequently after the 13th century, during the Kandyan kingdom and especially in the early British period, the villages were probably quite isolated, lacking means of communication and with only little trade with such things as pots and metal. (Hettige, 1948:53, Farmer, 1976). It is even more difficult to ascertain the standard of living, but examples of famines and malaria epidemics indicate some of the problems. Some of the basic features discussed above have probably been in existence for up to 2,000 years. For at least during some periods, the villagers have been solely dependent on an ecostrategy adapted to local conditions.

A Deteriorating System

The system briefly discussed above is disintegrating today (or more accurately changing). As pointed out by Ellen (1982:22), "the stable and apparently conservationist strategies of many small-scale societies are largely an illusion." The farming system described above is currently changing for the following reasons.

(i) As a response to population pressure (incl. "village expansion schemes") the houses of the villages were dispersed along the roads. This dispersion diminishes social coherence and interpersonal contact and blurs the differences between chena and homegarden cultivation. Even if the villagers try to keep up the traditional pattern of cultivation, the size of their gardens has increased and the highlands now occupied are on average drier compared to their previous gardens, which were close to the tank lands where the water table was high.

(ii) Market penetration and other aspects of external influences (e.g., the evolution of new paddy rice land privately leased or freehold instead of the old "share" system) make it difficult to maintain cooperation within the village. Cooperation is more and more replaced by wage labour, which was traditionally avoided. This, in turn, makes it difficult to, for example, maintain the village irrigation structures.

(iii) Population pressure and the cultivation of cash crops, speed up the chena cycle and the same plot could be cleared and used again after only two or three years of non-use.

The 'traditional' system illustrated above can hardly 'carry' the present and future populations of the area with a reasonable welfare. The shortening regeneration periods in chena cultivation is, for instance, a threat to a sustained productivity of chena lands.

During the first part of my investigation the interviews were not solely focused on nutrients and water as inputs in agriculture. The whole range of modern and traditional inputs (such as pesticides/herbicides and draftpower) were discussed as aspects of the farmers' ecostrategies. Even if most of the people wanted to use more of the modern inputs due to the potential for increased yields, they were also worried about the impact on long term soil fertility and the quality of the foods produced. Out of the 10 persons selected for the semi-structured interviews, only three, fairly young females did not express anxiety about the health and environmental effects of the industrialized inputs; this is probably a consequence of the interview situation. The ideas concerning negative health effects probably were influenced by the fact that drinking pesticides and herbicides is a common method to commit suicide in Sri Lanka.

Many villagers claimed that the industrialized inputs had negative side-effects, and that: "The various kinds of paddy rice have adapted them-

selves to chemicals (6:3.xi)." They also said that "When pesticides and herbicides, *tel*, and chemical fertilizers are applied the earth gradually becomes infertile, *nisaru veruwa* (c:5.18)." In an investigation among farmers in Talgodapitiya in Kurunegala District by S. Henayake (pers. comm. 1984) the perception of pesticides and herbicides making the paddy rice poisonous was also found. Similarly, they believed that the land will get used to the agro-chemicals, including the chemical fertilizers. These findings were surprising (a more positive attitude toward the industrialized inputs had been expected, with the exception of the problem of getting money to buy them), and were followed up during the latter part of the investigation which was focused on nutrients.

A part of this scepticism concerning the industrialized inputs was the perception that the different inputs were dependent on each other. "The new varieties need the chemical fertilizers" (4:3-85.15). The perception was often expressed in terms of the soil and the paddy rice becoming adapted to, *kuruwenawa*, or used to *heda gehenawa*, the chemical fertilizers. This adaption was often expressed in terms of a soil degradation. "There will be a decrease in the fertility for some time after the chemical fertilizers have been used" (21:3-85.9.3).

The reasons for a decline in precipitation given by the villagers was: (i) deforestation; (ii) less respect for the Gods and rivers; and (iii) bad behaviour among people in the village and the country.

Deforestation

The most frequently given reason was the clearing of forests: "There is no rain because the jungle has been cleared. If there is jungle even a passing rain cloud tends to stay" (a:13,iv1). Some people said that increased chena cultivation was not a major reason for these problems, since no large trees were felled for this. It was the large trees which blocked the rain clouds.

Others did admit that chena cultivation (which mainly occurs in young forests) was partly responsible for deforestation, and some said that there had been a three fold increase in the areas for chena cultivation during the last 15-25 years (c:5,iii&11,v&h:3ii). There seemed to be a vicious circle: less rain-less paddy rice-need for more dryland cultivation-deforestation-less rain... According to Maduma Bandara (1987:6) the forest covered 70% of the total land area in Sri Lanka in the year 1900. By 1953 the forest coverage had diminished to approximately 50%, and in 1982 it had come down to 25%.

With regard to the clearing of high forests it could be noted that the 1935 Land Settlement report from the single village stated: "Small isolated patches of high forest occur in the north and south east."

It was also reported that at a location a few km away there "is a large tract of high forest." Nowadays almost no high forest is seen in the area. According to Temakoon (1986:144) 70% of villagers considered forest destruction as a cause for drought, followed by excessive use of water (29.2%) and acts of God (24.4%). Colonists in this same region placed deforestation third on their list of causes (16.9%), preceded by acts of God (20.5%) and "don't know" (38.8%: *ibid*).

The difference between the villagers and the colonists in the same region, supports the perception that the apprehensions of the villagers concerning deforestation was genuine, and not mainly a result of external information concerning such things as environmental protection. Very few persons mentioned or referred to external information when they argued that deforestation was a reason for decreased precipitation. However, it is difficult to know to what extent the origin of these ideas was modern and external and to what extent they stemmed from older beliefs

which now to a large extent fit into modern ideas.

Reasons given for an increase in the area under chena cultivation were population increase and the increased demands of individuals: "Due to higher demands and desires the jungle gets cleared", (b:21,3). Even if there are laws against jungle clearing, chena cultivation is a necessary part of this farming system and according to Leach (1971:61): "Formal government opposition to chena cultivation... of all sorts goes back almost to the beginning of British administration." The villagers are well aware of these restrictions, but there is great pressure on the resources, and, as Leach already wrote with regard to the 1950's, "practice is very far removed from the legal theory" (1971:62).

The lack of large trees is pointed out as crucial for the decreased precipitation: "If the wind dashes against that tree, it rises directly, and there it stops the rain clouds in the sky, and then it will start to rain." (c:5,ix). Some people blamed the extensive colonization schemes for a large part of the deforestation in the region. A few persons pointed out the role of the forest companies in the past.

Scientifically it is well known that on a large scale, the forest cover influences precipitation. In the Amazons, 74% of precipitation is transpired from the forest but the information concerning the linkage between the vegetation and the atmosphere is the weakest part in the attempts to build global climate models including precipitation (L. Rosswall, pers. comm. 1986). To what extent the forest cover influences the local spatial distribution of rainfall in the way that the farmers claim is not known.

Gods and Rites

Gods and religious rites was the second main explanation for a decrease in precipitation. "Because

we do not pay attention to the Gods, they pay no attention to us." (a:10,iv1). Almost all of the villagers participated in the ordinary ceremonial rites, but one villager said that: "even if the ceremonies are performed, they are not done with any faith in them." (19:3-85,14).

Bad Behaviour

Bad behaviour among the villagers was the third reason given for the perceived decrease in rain, without explicitly linking this to religious rites and Gods. The country in general was mentioned as being involved: "It could be the government, it could be the people" (22:3-85,13,3). When asked what was the main type of bad behaviour, the villagers gave examples of general social misbehaviour such as "crimes, murders, threats" (d:18,iv1); or "the fact that children do not even look after their parents" (b:3/21,iv1). The parallels between human behaviour and environment could be traced back in various ways. A villager could, for example, quote his old schoolbook, *sabashithaya*: "Like paddy rice fields and gardens grow in proper rain and wind, would people be protected by a proper king and intelligent ministers. Like the forest is destroyed by the gusty winds, everything will be destroyed by kings and ministers of bad behaviour."

These links between the behaviour of people (not the least rulers) and phenomena in nature (e.g. favourable weather conditions for agriculture) constitute a common and ancient element in Asian philosophy. Nakamura (1985:150) referred to examples from China and said the Buddhist and Indian ethical systems teach that good human behaviour causes favourable natural conditions, and vice versa. The general linkage between bad human behaviour and not performing rites as a reason for decreases in precipitation is a common feature in similar contexts elsewhere (cf. Knutsson, 1988:92).

THE EXCHANGE RATE POLICY OF SRI LANKA AND ITS IMPLICATIONS ON THE EXPORT SECTOR 1981 - 1988

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(The views expressed in this article are those of the author and in no way represent the views of the EDB.)

Introduction

With the collapse of the Bretton-wood system in the early 1970's exchange rate policy has been considered an active instrument in the management of the economy by many a Government. For instance Professor Lakshman points out in his study that prevailing systems vary from independent or managed floating to single currency pegging or basket of currency pegging. The Sri Lankan Rupee since 1982 has been linked to a major currency and adjusted according to the developments in the foreign exchange market. (Lakshman 86:2)

The exchange rate has been considered a vital policy instrument in the development of the export sector. From a theoretical perspective, a depreciation of the Rupee will result in an increase in the price received by exporters in local currency. In a "small country" case, it is assumed that the changes in the exchange rate will not affect the international prices of the exports or the imports. This is due to the fact that the market share of a small country is marginal and cannot have an impact on the aggregate supply or demand.

Therefore, a depreciation is a market signal for exporters to increase their volume of exports. Invariably, with a depreciation, foreign exchange in terms of Dollars will decline unless and otherwise the supply is responsive to the changes in rupee returns of the exporters. The favourable effects of the depreciation will have to trickle down to the producers or

the manufacturers if this process is to take place. A "realistic exchange rate", that is, a depreciating exchange rate, is considered a pre-requisite for the creation of a conducive investment climate for the export sector, specially in the developing countries.

More than the Nominal Exchange Rate (NER), which is the officially declared rate, it is the Real Effective Exchange Rate (REER) that indicates the impact of an exchange rate policy on exports. The rate of inflation vis-a-vis the trading partners and the net subsidy (Subsidies minus Taxes) will have to be taken into account.

The depreciation of the Rupee indicates that for one unit of foreign currency more units of rupees should be paid. In other words the exporter who earns foreign exchange will receive more in terms of Rupees when the rupee is depreciating and conversely importers have to pay more in terms of Rupees for one unit of Dollar. Therefore, a depreciation would result in an increase in the profitability of the exporters while discouraging the import sector.

The effects of a depreciation can be viewed in terms of elasticities. The traditional approach is contained in the Marshall-Lerner condition which states that "the sum of elasticities of demand for a country's exports and of demand for its imports has to be greater than unity" for a depreciation to have a positive effect on a country's trade balance. (Soderstrom:279) Nevertheless in a developing country like Sri Lanka, it is assumed that the demand for our export products is elastic. In other words, the international market can absorb whatever amount we supply as our supply levels are insignificant.

However, the favourable effects of the depreciation will be eroded by inflationary trends. If domestic inflation is comparatively higher than the inflationary trends of the trading partners, the desired results will not be achieved.

Scope, Methodology and Limitations

The scope of this paper is confined to the movements of the real exchange rates and the behaviour of price and volume indices of exports and imports. Therefore, in order to evaluate empirical evidence of exchange rate policy in Sri Lanka, the real exchange rate indices and the trade indices have been analysed.

Due to the inability to obtain information pertaining to subsidies and taxes, the effective rates have not been computed. The reasons being that some of the subsidies granted by Government agencies are product specific and the taxes are often applied on an individual basis. Therefore, a generalisation will conceal the actual situation.

The period under review is 1981-1988 and the base year for the computation of all indices is 1981.

Real Exchange Rate Movements

According to the real exchange rate indices (Table 1A) for the trading partners, the Sri Lankan Rupee had appreciated drastically from 1981-1984 against all major currencies: that is the US Dollar, the Sterling Pound, the Deutsche Mark, the Yen and the French Franc. However, since 1984, they had shown a positive depreciation and after 1986 they have exceeded even the 1981 level. The rate of depreciation with regard to the French Franc, the Deutsche Mark and the Yen are notably higher than for the two major currencies, the Dollar and the Pound.

The real exchange rate vis-a-vis some of our competitors, (Table 1B) that is, India, Pakistan, Philippines, Singapore, Korea and Thai-

land, too had taken a dip since 1981 and reached the lowest in 1984 indicating an appreciation of the Sri Lankan Rupee against the major competitors. As a result, the profitability of the Sri Lankan exporters vis-à-vis the competitors would have eroded. However, since 1984 they too had recorded a depreciation. Yet except for the Philippines peso, others had not reached the 1981 level.

As discussed earlier, the depreciation is indicative of the fact that the Sri Lankan exporters get more Rupees for their foreign exchange earnings, provided the Dollar price or the price in terms of foreign currency remains the same.

In the short term, the profitability will be increased. It will undoubtedly be a signal for the exporters to increase their supply levels.

Export Price Indices

If the international prices remain the same, theoretically when there is an appreciation, the export price index should show a decline. With a depreciation, the export price index should reflect an upward trend.

However, according to the empirical evidence, at the height of the appreciation, the export price index had reached a peak in 1984 especially in respect of tea, rubber and

coconut. (Table 2). This is an indication that the international prices were very favourable during that period.

In spite of a depreciation, the price indices had declined for precious stones, coconut products, and tea in 1985 and 1986. The price indices of minor agricultural products, and the industrial products had shown an upward trend throughout the period under review, indicating that the exchange rate had not shown much of an impact on the price even when the Rupee was appreciating. It is evident that Sri Lanka is a price taker.

However, some of the exporters claim that when there is a depreciation they reduce the prices to be more competitive. If this measure is not coupled with an expansion in the supply level the depreciation will result in a decline in foreign exchange earnings. This is not desirable considering the chronic Balance of Payment problems the country is confronted with at present.

Export Volume Indices

With the depreciation of the Rupee the desired result should be an expansion in the export supply levels. This trend has not been reflected in product sectors such as rubber, and minor agricultural products during the period as they had depicted a continuous decline. Even in tea, the increase had been marginal. The supply of agricultural products are more dependent on the weather patterns of the country.

The supply position had reflected positively an upward trend in the product sectors, such as precious and semi precious stones and in industrial sector products. However, precious stones being high value items, it is the price index more than the volume index that should be considered an indicative factor. (Table 3)

Analysing the real exchange rate, export price and volume indices, we could deduce that a depreciation

Table 1A

INDEX OF REAL EXCHANGE RATE (1981 = 100)

	US\$	UK£	DM	J.YEN	FRENCH FRANC
1981	100.0	100.0	100.0	100.0	100.0
1982	100.3	90.3	99.3	100.0	93.5
1983	95.4	78.9	81.9	87.5	77.6
1984	81.3	56.6	61.3	62.5	64.3
1985	99.4	83.4	84.3	88.3	90.3
1986	102.9	103.1	118.8	118.7	122.3
1987	117.7	112.5	133.5	125.1	135.8

Source: IPS, Central Bank

Table 1B

INDEX OF REAL EXCHANGE RATE (1981 = 100)

	Indian Rupee	Korea Won	Pakistan Rupee	Phillip- pines Peso	Sing- apore Dollar	Thai Baht
1980	108.0	90.0	94.3	97.9	94.5	105.5
1981	100.0	100.0	100.0	100.0	100.0	100.0
1982	94.8	96.7	79.4	97.4	89.7	99.2
1983	89.6	86.7	76.2	69.4	80.5	95.1
1984	69.8	70.0	61.7	69.7	65.1	65.1
1985	90.1	81.0	73.7	98.3	77.7	84.5
1986	98.1	83.3	80.0	103.3	68.4	84.8
1987	94.8	84.0	77.1	103.5	73.3	93.2

Source: IPS, Central Bank

Table 2										
EXPORT PRICE INDICES (1981 = 100)										
Category	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
1. Tea	89	95	100	99	147	218	167	123	146	155
2. Rubber	89	97	100	81	101	119	97	108	125	169
3. Coconut Products	90	104	100	80	101	171	127	89	116	163
4. Minor Agricultural Products	85	93	100	110	130	137	141	148	154	180
5. Precious and Semi-precious Stones	111	105	100	95	83	84	99	43	53	31
6. Industrial Products	80	89	100	111	122	123	140	203	222	263
7. Petroleum Products	55	76	100	96	120	131	143	69	92	71
All Exports	82	92	100	98	125	160	142	126	146	166

Source: Central Bank of Sri Lanka

does not necessarily mean an improvement in the export prices. If the depreciation is not reflected in the prices, the benefit of the depreciation would have been transferred to the buyers abroad. In the alternative there is a possibility of exporters under-valuing their invoices in order to retain foreign exchange in the importers country or transfer it into an account in another developed country. Either way, it will definitely be a strain on the foreign exchange earnings of Sri Lanka.

With a depreciation in the Rupee, if the supply of export goods remains inelastic, the desired results would not be achieved in the long run. In fact, the Balance of Payments problem will further deteriorate.

Import Indices

If the rupee is appreciating, imports will be comparatively cheaper while a depreciation will

cause the prices of imports to escalate. This trend is not quite apparent when examining the exchange rate indices and import price indices. During the period when the Rupee was appreciating against major currencies in 1981-1984, the price indices for the intermediate and investment goods reflected upward trends. (Table 4)

The import price indices had increased at an accelerated rate for all import product sectors after 1984 due to the depreciation. There was an exception in the case of the intermediate goods which recorded a downward trend in 1986, inspite of the depreciation. This could have been caused by the declining international price trends of Petroleum Products, Which constitute a major portion of the intermediate goods.

The volume indices (Table 5) pertaining to consumer goods and intermediate goods, has recorded a continuous increase during the

period under review. Even the depreciation since 1984, had not been able to arrest this upward trend. The decline in the volume index of investment goods may not necessarily have been due to the exchange rate depreciation. It can be attributed to the deceleration of the development activities in the Mahaweli and construction sectors.

These observed trends, the volume increase combined with the depreciation, would undoubtedly have brought about a leakage in foreign exchange from the country. Furthermore, the depreciation since 1984 is not reflected in the volume indices of imported products. The volume indices in respect of intermediate and consumer goods indicate a general upward trend. It is an indication that the increase in import prices is not a curtailing factor.

Import Intensity

According to the Government's

Table 3.										
EXPORT VOLUME INDICES (1981 = 100)										
Category	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
1. Tea	85	100	100	99	88	112	111	117	113	123
2. Rubber	97	93	100	99	98	96	91	84	80	75
3. Coconut Products	131	83	100	130	132	86	165	171	123	61
4. Minor Agricultural Products	76	70	100	92	81	71	61	68	72	98
5. Precious and Semi-precious Stones	147	144	100	240	376	280	292	1,385	1,424	3,954
6. Industrial Products	58	74	100	107	123	188	173	148	173	168
7. Petroleum Products	116	130	100	102	74	84	87	114	85	113
All Exports	89	95	100	105	99	116	120	128	130	130

Source: Central Bank of Sri Lanka

programme document "PUBLIC INVESTMENT 1988-1992" the dependence on imported raw materials in the manufacturing sector in 1985 was 89 percent, (page 62). The policy-makers or the economists who advocate the depreciation/ devaluation for the development of the export sector may have to bear in mind the import intensity of the non-traditional export product sector, which is approximately 65 per cent.

If we consider certain fiscal incentives, namely the Duty Rebate Scheme, the Manufacturing-in-Bond Scheme and the Machinery Exemption Scheme for exporters, it has been accepted that imported inputs are quite vital to the production of export goods. Therefore, a depreciation will make such inputs more expensive, thus increasing the cost of production.

Category	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
1. Consumer Goods	65	85	100	96	91	93	101	107	126	149
1.1 Food and Drink	53	81	100	87	80	75	75	80	96	117
1.2 Other Consumer Goods	94	93	100	118	118	137	164	173	202	229
2. Intermediate Goods	62	83	100	105	112	119	128	98	111	126
2.1 Petroleum	43	77	100	103	105	108	113	63	78	71
2.2 Fertilizer	69	85	100	91	121	138	140	113	132	114
2.3 Chemicals	84	94	100	113	115	121	132	130	149	165
2.4 Wheat	61	76	100	101	102	114	110	108	91	117
2.5 Textile and Clothing	74	84	100	113	137	141	166	114	128/124	
3. Investment Goods	90	98	100	117	120	133*	173	187	265	
3.1 Machinery and Equipment	93	101	100	111	117	117	129	168	191	293
3.2 Transport Equipment	84	96	100	116	113	123	145	159	202	
3.3 Building Materials	76	82	100	117	122	127	136	207	203	219
All Imports	68	86	100	104	109	114	123	114	129	157

Source: Central Bank of Sri Lanka

It should also be noted that the escalation in petroleum prices will cause an increase in the general price levels of the country. It would erode the profit margins of the exporters.

In analysing the Trade Balance, inspite of the movements in the real exchange rate with regard to the major currencies, the value of imports has reflected a persistent upward trend. Ironically the Trade Balance had recorded a vast improvement at the height of the appreciation. Since 1985, with a depreciating exchange rate, there does not seem to be an improvement at all.

Category	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
1. Consumer Goods	150	149	100	94	142	125	147	156	144	163
1.1 Food and Drink	197	165	100	77	136	175	174	154	183	
1.2 Other Consumer Goods	84	116	100	124	151	113	115	136	133	136
2. Intermediate Goods	81	97	100	101	96	108	105	129	136	151
2.1 Petroleum	85	109	100	114	78	113	98	96	105	109
2.2 Fertilizer	83	129	100	43	35	53	73	80	73	134
2.3 Chemicals	96	94	100	98	113	142	130	194	166	177
2.4 Wheat	26	39	100	70	85	77	140	99	83	134
2.5 Textile and Clothing	81	83	100	84	88	95	107	199	220	340
3. Investment Goods	82	117	100	103	127	125	90	94	99	79
3.1 Machinery and Equipment	73	108	100	93	119	119	98	92	94	66
3.2 Transport Equipment	133	177	100	147	147	131	56	124	126	121
3.3 Building Materials	83	137	100	90	174	126	118	77	73	90
All Imports	94	111	100	100	110	114	109	124	127	130

Source: Central Bank of Sri Lanka

Even the Terms of Trade were very favourable in the year 1984, the best for the period under review. Therefore, it may require more concerted efforts of the Government agencies concerned with the development of exports to review the present policies to eliminate some of the conflicting aspects of the present policy package.

mance in terms of prices and volume.

However, the empirical evidence suggests that either an appreciation or a depreciation does not have a significant impact on the demand of imports or the supply of exports in the case of Sri Lanka.

Moreover, due to the high dependence on imported inputs, the cost of production of export goods escalates. Furthermore, more than 75 percent of the imports comprise intermediate and investment goods. Considering the limited resource endowments of our country, the curtailment of these goods would retard development efforts.

An exchange rate policy may not be the vital factor in the development of the export sector. A vigorous export marketing programme coupled with a concerted development effort of the supply base may improve export performance. A cohesive and a realistic export policy at the national level and a subsequent strengthening of the institutional structure may ensure better performance.

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