ECONOMIC REVIEW

February 1994

ECONOMIC RECESSION

A People's Bank Publication

ECONOMIC REVIEW - A REDEDICATION

Over the last two decades the People's Bank Economic Review has established itself as the leading development journal in Sri Lanka. This bilingual publication, perhaps the first of its kind in this country fulfilled a much felt need for reading material in development and international affairs, specially for our vernacular readers. This monthly socio-economic Review, through its thought-provoking cover stories, features, columns, illustrations and statistical presentations documented the main under currents and trends of the turbulent decades of 1970's and 1980's, and became one of the most quoted source material in the mainstream media and the academic circles.

The Economic Review covers a large spectrum of development issues both from a Sri Lankan, as well as international perspective. The issues that it has raised form an integral part of the national debate on development. Its feature articles section is today a major outlet for academics and researchers of the country. A regular special theme deals indepth with a particular development issue and gives our readers a comprehensive picture on the current state of the subject, including the latest research.

The People's Bank with a sincere feeling of commitment to the community it serves, and with an intention of enhancing and improving the knowledge and awareness of our youth in the latest developments in the fields of human knowledge, has generously allocated its financial resources to this publishing venture during the last 19 years. The Bank, whilst bringing its warmest greetings to the millions of young men and women of Sri Lanka, pledges its continued support and encouragement to this much worthy cause.

In keeping with the past tradition, the future issues of our journal will carry some of the important current topics for all those interested in obtaining an indepth knowledge of Sri Lankan development in particular, and Third World development problems in general.

The Economic Review enters its twentieth year of existence with the publication of our April 1994 issue. At this important juncture, we express our heartfelt gratitude to the long list of eminent national and international contributors who enriched the pages of this journal. Last, but not the least, we sincerely thank our readers and earnestly look forward for their continued co-operation and encouragement. Once again, we invite them to send their comments and suggestions to improve the quality of this journal.

We at **Economic Review**, while rededicating ourselves to our objectives, wish to record our sincere appreciation to Ms. Tissaranee Gunasekera who edited this journal for a period of four years (1990-1993) and left the People's Bank recently.

- Dr. L. Siriwardene
Director of Research, People's Bank
Editor, Economic Review

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Cover : Designed by Shantha K. Herath

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.
THE ECONOMIC REVIEW is a community service project of the People's Bank. Its contents however are the result of editorial considerations only and do not necessarily reflect Bank policies or the official viewpoint. Signed feature articles also are the personal views of the authors and do not represent the institutions to which they are attached. Similar contributions as well as comments and viewpoints are welcome.
THE ECONOMIC REVIEW is published monthly and is available both on subscription and on direct sale.

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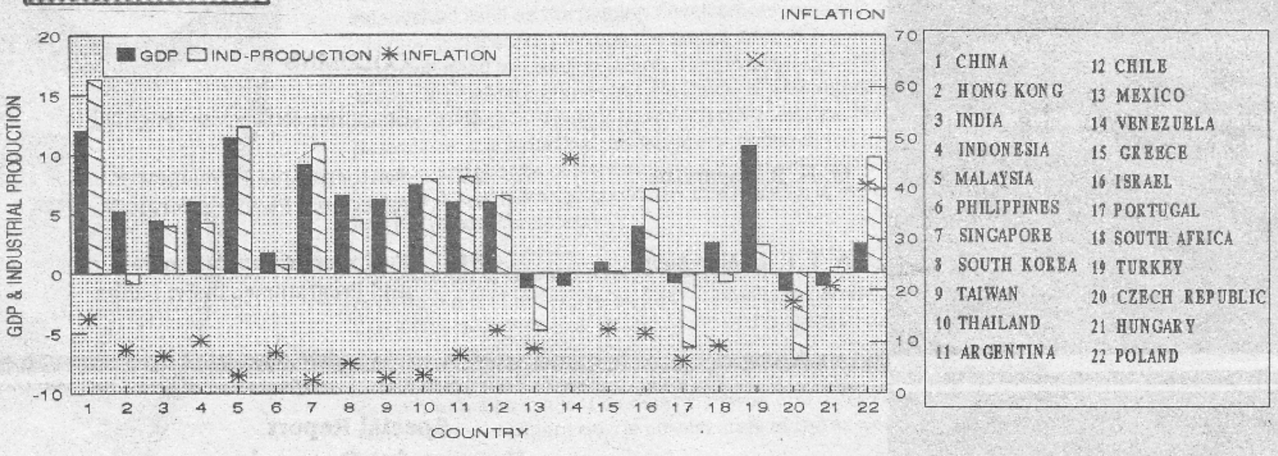
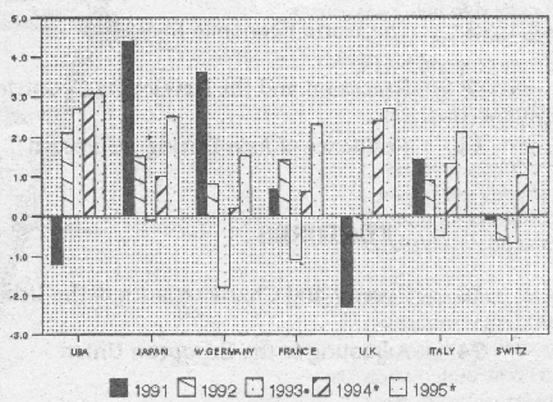
HIGHLIGHTS

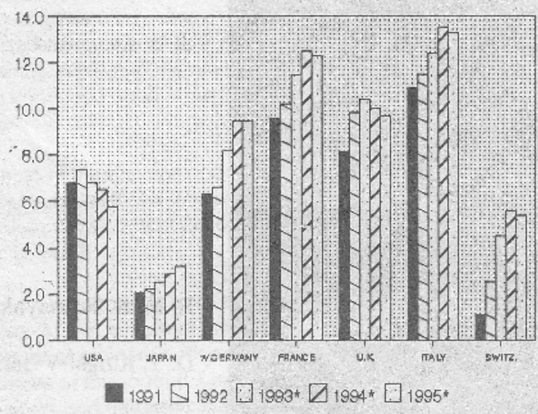
THE ECONOMY - 1993
(Percentage change on year earlier)



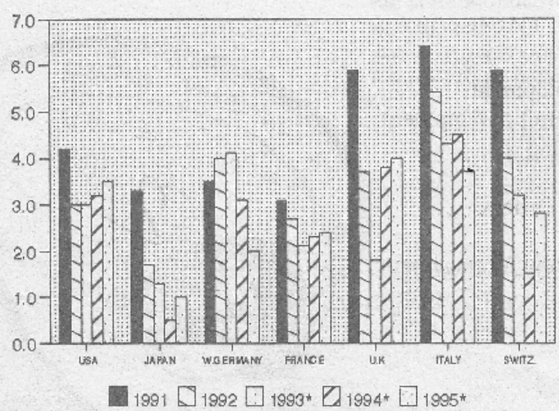
REAL GDP GROWTH
(AVERAGE GROWTH FOR YEAR)



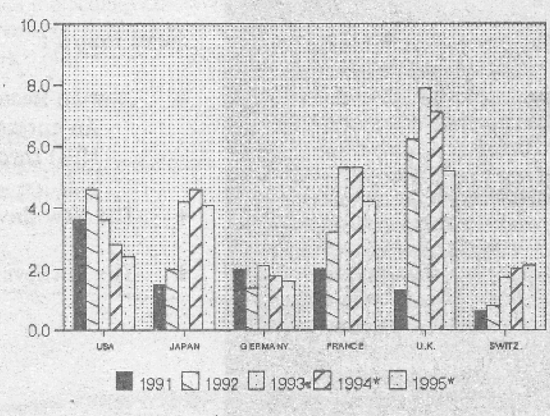
UNEMPLOYMENT
(% OF LABOUR FORCE)



INFLATION
(AVERAGE GROWTH FOR YEAR)

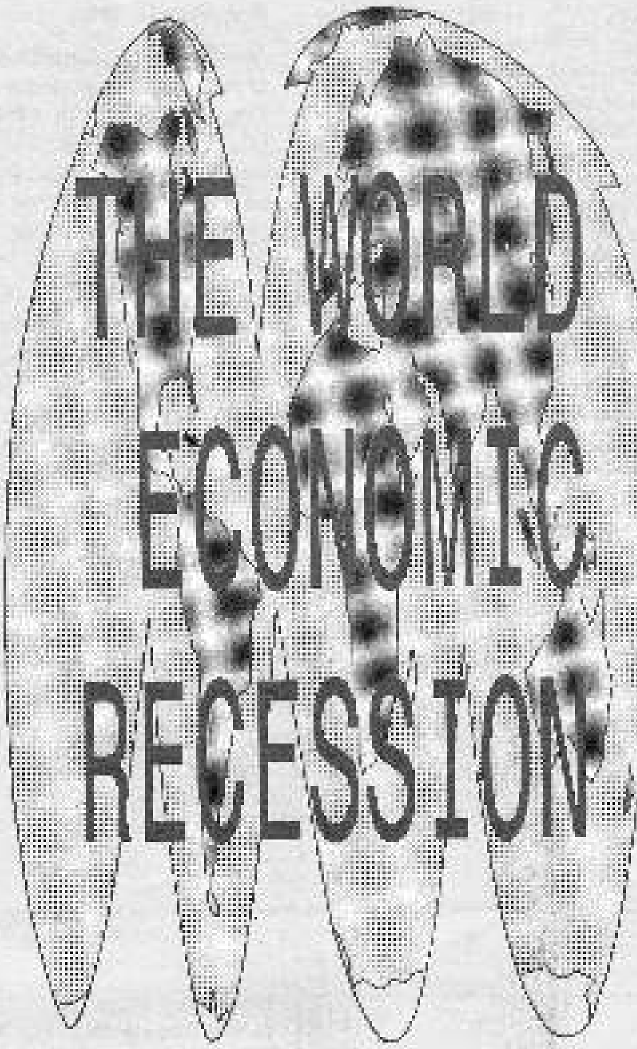


GOVERNMENT DEFICITS
(IN % OF GDP)



* SWISS BANK CORPORATION ESTIMATES

SOURCE : THE ECONOMIST JANUARY 15TH 1994, SWISS BANK CORPORATION/PROSPECTS 6/1993.



Dr. J. B. Kelegama

All the major industrialized countries are either in recession or are recovering, albeit sluggishly, from recession. Growth of real GDP in these countries (G-7) fell from 3.4 per cent a year in 1982-89 to 1.5 per cent in 1989-92 with that of USA falling from 3.5 per cent to 0.5 per cent and that of Japan declining from 4.2 per cent to 3.7 per cent. As a result of the recession in industrialized countries world economic growth fell from 3.5 per cent a year in 1982-89 to 1.4 per cent in 1989-92 while the growth of world trade fell from 4.5 per cent a year in 1985-90 to 3.3 per cent in 1990-92.

Earlier economic forecasts pointed generally to a higher growth in 1993 and 1994 but these forecasts have been revised downwards from time to time and growth prospects have become largely uncertain. U. N. forecasts in early 1993, for instance, estimate an economic growth rate of 2.0 per cent in 1993 as against 1.5 per cent in 1992 for the industrialized countries but the forecast by OECD in June this year gives a much lower figure 1.2 per cent - which is even lower than in 1992. Economic growth is estimated to rise in USA from 2.1 per cent in 1992 to 2.7 per cent in 1993 and in the UK from minus 0.5 per cent to 1.7 per cent, but growth prospects in other major industrialized countries are less favourable. For example, France, Germany and Italy are experiencing negative growth; between 1992 and 1993 growth in France is estimated to fall from 1.4 per cent, to minus 1.1 per cent, in Germany from 0.8 per cent to minus 1.8 per cent in Italy from 0.9 per cent to negative 0.5 per cent. In Japan, growth was earlier expected to fall from 1.5 per cent to 1.2 per cent but the latest forecasts indicate a negative growth rate of 0.1 per cent. In addition to its recession, Japan's recovery is impeded by the appreciating yen which is reducing the competitiveness of her exports.

The recession in the industrialized countries is aggravated by the unprecedented economic collapse of former Soviet Union and Eastern Europe. These countries are experiencing falling production; their economic growth as a group was minus 16.0 per cent in 1991 and minus 16.4 per cent in 1992 with that of former Soviet Union being minus 17 per cent in 1991 and minus 23 per cent in 1992. They are all expected to have negative growth in 1993 too but perhaps lower than in 1991-92 on account of some success in economic stabilization measures which are being adopted in Czechoslovakia, Hungary and Poland. There is little evidence of any recovery in the former Soviet Union with its economic chaos, massive poverty and deprivation.

Declining Business

All major businesses are facing flagging demand and laying off workers. The largest industrialized firm in the world - General Motors - for instance, has run at a loss for three consecutive years 1990-92 -- the total loss exceeding $ 7 billion by the end of 1992 -- and has announced that it will cut 74,000 jobs. It is estimated that 1 in 6 American employees is affected by the business of General Motors from tyre designers to advertisers and stock analysts. Similarly IBM operating at a loss, has reduced its global workforce from 440,000 to 300,000 and plans to cut additional 25,000 this year. Proctor & Gamble likewise plans to eliminate 13,000 jobs and close 30 of its 147 manufacturing plants worldwide over the next three years.

Car sales in Western Europe in 1993 are estimated to fall by 2 million or 15 per cent over 1992. General Motors estimates its sales in Europe in 1993 to be 14.3 per cent less than in 1992; Ford estimates its European sales to fall by 18.8 per cent and Volkswagen by 20 per cent. French car output in the first four months of 1993 was 13.6 per cent lower than that in the same period previous year while Italian Fiat's profits fell from

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$ 280 million in 1991 to $ 11 million in 1992. All Japan's major trading companies except Itochu Corporation experienced a substantial fall in their earnings, up to 41 per cent, for the period April 1992 to March 1993 and their investment losses amounted to billions of dollars, Marubeni Corporation alone losing $ 2.2 billion. They all project a flat performance in 1993-94.

Rising Unemployment

There are now over 32 million unemployed in the industrialized countries (OECD area) about 20 million of which, forming 11 per cent of the workforce, is in Western Europe. Already more than ten European countries have unemployment rates above 10 per cent of their labour force, for example Italy 12.4 per cent, France 11.5 per cent, and UK 10.4 per cent. In Germany it is expected to rise from 6.6 per cent in 1992 to 8.2 per cent in 1993.

About 36 million people are likely to be unemployed in the industrialized world by the end of 1993 as compared to 32.5 million at the end of 1992. Unemployment is estimated to increase further in 1994 in Europe despite projected higher economic growth - to 9.5 per cent in Germany, 11.5 per cent in France and 13.5 per cent in Italy. In the United States, unemployment which rose to 7.4 per cent in 1992 is expected to fall slightly in 1993-1994, but the situation is not yet clear. Japan has the lowest rate of unemployment - about 2.4 per cent now but it is higher than in 1990-91 when it was 2.1 per cent and it is expected to rise to 2.9 percent in 1994.

Recovery in 1994

The recovery which was to take place in 1993 is now expected to occur in 1994. Economic growth in 1994 according to OECD and the Swiss Bank Corporation forecasts will be higher than in 1993 for all major industrialized countries but they will not be higher than in 1990 except for the USA and the UK as shown in Table 1.

Factors Underlying Stagnation

The leading industrialized countries thus are not growing rapidly enough to pull the world out of its recession. The recovery is anaemic and modest and economic growth in the nineties in general is not expected to reach the high rates of the eighties. The World Bank, in fact, projects only an average annual growth rate of 2.0-2.7 per cent for the G-7 countries in 1992-2002 as compared to 3.4 per cent in 1982-89. Several factors underline this unfavourable trend.

Table 1

Real GDP Growth Rates %

	1990	*1991*	*1992*	*1993*	*1994*
USA	0.8	-1.2	2.1	2.7	3.1
Japan	5.2	4.4	1.5	-0.1	1.0
W. Germany	4.9	3.6	0.8	-1.8	0.2
France	2.5	0.7	1.4	-1.1	0.6
UK	1.8	-2.3	-0.5	1.7	2.4
Italy	2.2	1.4	0.9	-0.5	1.3

(a) Some of the causes of the current recession such as repayment burdens of large debts incurred by firms and households in the economic expansion of the 1980s sustained by liberalized financial markets, excessive private borrowing and exorbitant increase in asset prices as well as the loss of consumer confidence and more cautious lending by banks are expected to slow down the growth of aggregate demand for some time to come.

(b) The post- World War II reconstruction boom caused by pent-up demands of the war period has now ended.

(c) The decline in European birth rates and the slow growth of population will

Recession in western Germany?

For some time now, the question whether western Germany is in a recession has been a controversial issue. Whereas from the analytical standpoint this is a matter of definition, use of this term in public debates is bound up with expectations that are directed towards economic policy and above all with pressure on the Government to spend; this makes it necessary to use terms with great care.

The popular definition of recession as two successive quarters of declining real GDP is inadequate. It is only possible to speak of a recession if a phase of economic weakness far exceeds what is normal in terms of its length, depth and breadth. The best indicator is macroeconomic capacity utilization, which is admitttedly difficult to measure, or industrial capacity utilization, which may only account for roughly a third of GDP but registers the strongest fluctuations during the business cycle.

Western Germany's industrial capacity utilization has been receding from its unusually high level since early in 1991. Yet up to late summer last year it was above its long-term average. In view of the solid expansion at the end of the 1980s and the unification boom from mid-1990 onwards, a substantial correction was both inevitable and desirable.

As the tendency towards weakness grew unexpectedly stronger during last autumn and macroeconomic activity is likely to contract until well into 1993, the criteria for a recession have probably now been met. However, a careful and responsible use of terms has hitherto made us refrain from characterizing the situation as a recession. It is hardly possible to say with any degree of reliability today whether we have a mild recession which will make way for a recovery by the second half of 1993, or whether such a development may not be expected before 1994.

Courtesy: Commerz bank Research

Japanese Economy - Recover?

[illegible]

By Steven Brull

Courtesy: International Herald Tribune

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result in fewer people (producers) joining the workforce on the one hand and fewer new families (consumers) purchasing houses, automobiles and consumer durables. (Population growth in Germany for instance will be zero in 1991-2001.)

(d) Labour productivity which grew at about 4.0 a year before 1973 is expected to increase modestly --by about 1.5 per cent a year now. Rapid post-war rise in educational levels pushed up worker productivity but as higher education has been widely available since the 1960s, a significant rise in labour productivity seems unlikely.

(e) **Fall in Savings**

World Savings have fallen from an average of 24.8 per cent of GDP in 1971-80 to 22.4 per cent in 1981-90 and further to 21.5 per cent in 1991. In G-7 countries savings have fallen from 21.7 per cent to 21.1 per cent in the same period and in USA from 17.5 per cent to 14.8 per cent. Poor savings performance has resulted mainly from large budget deficits in most countries led by the United States on account of reluctance of governments to curb social welfare expenditure and raise taxation. The low supply of savings tends to keep real interest rates high and thereby discourage investment. The increasing demand for funds on the other hand for German unification, reconstruction of Eastern Europe and former Soviet Union, rehabilitation of Afghanistan, Vietnam, Cambodia, Iraq and Kuwait, strengthening of capital bases of American and Japanese banks and development programmes in developing countries is likely to reinforce the tendency for the real interest rates to remain high.

(f) **Decline in Investment**

The low supply of savings is also expected to affect capital investment. Global Foreign Direct Investment (FDI) after a rapid growth in the second half of the 1980s declined from a peak of nearly \$200 billion in 1989 to \$182 billion in 1991 and further to \$159 billion in 1992. The greater part of the fall has come from Japan whose FDI declined from \$48 billion in 1990 to \$ 31 billion in 1991 and then to \$17 billion in 1992 as a result of the fewer surplus funds available to firms. Japanese multinationals may not increase their private investment much in the near future in view of their overinvestment in factories and equipment both at home and abroad while Japanese banks saddled with substantial bad debts, and not expected to be big international lenders. United States FDI which averaged about \$ 50 billion a year in the 1980s fell to \$ 27 billion in 1991 and rose thereafter to \$35 billion in 1992.

(G) **High Labour Costs**

High and rising labour costs in Western Europe resulting in labour intensive production being farmed out on sub-contracts to Asia and Eastern Europe on the one hand and in adoption of labour saving techniques of production on the other, will tend to reduce investment and increase unemployment. For instance, wages in Germany, France and Italy are higher than in the USA and Japan and a recent survey of corporate executives in Germany found that 35 per cent were seriously considering moving production abroad as compared to 6 per cent last year. High labour costs which undermined European competitiveness result in cheaper imports which too tend to reduce employment opportunities. East European steel for instance undercut European Community's steel prices by 25 per cent or more and the number of European steel workers has fallen from 887,000 in 1974 to 370,000 in 1992. France lost 50,000 jobs in the clothing and designing sector alone in 1991 and expects to lose 200,000 more jobs in the near future.

Jobless Growth

A salient feature in industrialized countries is "jobless growth" - economic growth without creating new employment - resulting from productivity increases through robotization and automatization of production involving use of less labour per unit of production. It has made possible vast increase in productivity and economic growth using little labour. While manufacturing has increased its share in the GDP of Europe, USA and Japan, its share in total employment is shrinking. Thus, in the period 1973-1987 Japan's GDP rose by an average annual rate of 4.6 per cent but her average annual rate of growth of employment was only 0.9 per cent. In the case of France, Germany and UK, employment actually declined when their economies were growing in this period at 1 to 2 per cent a year. In UK for instance, steel production was raised between 1980 and 1990 whereas the steel workforce was cut from 166,000 to 52,000; similarly, Europe proposes to reduce her steel production by shedding about 100,000 jobs by the end of 1994. Increasing unemployment means less consumption and prolongation of the recession. Of course, while technology destroys jobs it also creates them in new and expanding sectors, but this process is likely to be tardy in time of recession. For instance, some 45 per cent of unemployed Europeans have gone a year or more without a job and furthermore most of the new jobs created are mainly part-time and are taken up not by those on unemployment rolls but by women, older workers and immigrants.

Lack of Expansionary Policies

It is not clear whether the leading industrialized countries will let their economies grow sluggishly and increase unemployment in order to avoid inflation or counter recession by adopting expansionary macro-economic policies as there are wide differences of view among them on the appropriate mix and stance of policies. In the United States, the Clinton administration proposes to spend an additional \$ 220 billion over four years on infrastructure improvement, worker training and other social programmes but whether this will be large enough to offset the weakness of private spending remains unclear. At the same time, federal budget deficit growth is to be reduced by \$ 496 billion over five years. In Japan, the government has embarked on a rescue package of \$ 87 billion to reflate the economy but this is not expected to prevent the economic slide as consumer debts ae high and banks remain burdened with substantial bad debts consequent to the recent stock

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market collapse and fall of property prices. The failure of economies of both USA and Japan to respond to lower interest rates, reflect the crisis in confidence which deters household spending and investment.

It appears that Germany which has been Europe's locomotive in the past can no longer play that role. As shown earlier, it will have lower and negative growth and higher unemployment this year but it is opposed to reflationary policies in fear of inflation. Germany's main problem is the need to divert about 5 per cent of West Germany's GDP to rebuild the eastern part and to do so by public borrowing necessitating higher interest rates. In addition, she has to face the possibility of wage inflation as real wages have risen at a higher rate than productivity in the past two years. This is compounded now by the raising of wages consequent to strikes of East German workers recently with no corresponding increase in their productivity. Consequent to the high level of financial integration between Germany and other European economies, the other members of the European Community have also been forced to keep their interest rates at a level higher than is justified by domestic economic considerations. The conflict between Germany's policy of maintaining high interest rates to prevent inflation and the desire of other European Community members to take appropriate measures to overcome the recession caused by such tensions within the European Monetary System centred round the European Exchange Rate Mechanism (ERM) that they led UK and Italy to suspend their membership in the ERM and letting their currencies float while Ireland, Spain, Denmark and Portugal devalued their currencies. To fend off speculation against the other weaker currencies in the system, the ERM rules were relaxed in August to permit such currencies to float within a wider band. This gives them greater freedom to pursue their own economic policies but it is doubtful whether this alone is sufficient when Germany still remains determined to maintain high interest rates and to support the Mark by continuing with the recession.

Growing Protectionism

The recession and the decline in world trade are mutually reinforcing. World trade has been increasing in volume at an average of more than 4 per cent a year for the past two decades and this contributed to and reflected the high economic growth in this period. In 1991-92, there has been a marked slowing down of growth in the trade of industrialized countries. Their exports which grew at 6.7 per cent in 1989 and 5.7 per cent in 1990 expanded by only 3.0 per cent in 1991 and 3.1 per cent in 1992 while their imports which rose by 7.5 per cent in 1989 and 4.6 cent in 1990, increased by only 2.9 per cent in 1991 and 3.7 per cent in 1992.

The slowing down of trade, recession and growing unemployment have led to increasing trade wars, particularly regarding subsidized agriculture trade between USA and the European Community and the successful penetration of American and European markets by Japanese goods, which have tended to strengthen protectionist tendencies in the industrialized countries. These in turn tend to restrict world trade further and delay economic recovery longer. This explains why the industrialized countries were dragging their feet in concluding the Uruguay Round of trade talks to liberalize world trade, which is expected, according to US estimates, to result in an economic upsurge and the creation of 1.4 million jobs worldwide in the year following the conclusion. Such bright prospects do not appear, however, to have convinced some countries who fear trade liberalization as a threat to some of their protected economic sectors. The protectionist sentiments have been strongly expressed in countries like France where angry fishermen frequently destroy stocks of imported fish and farmers dump fruits imported from Eastern Europe into the river, and in Japan where rice farmers vehemently oppose rice imports. The establishment of the North American Free Trade Association (NAFTA) by USA, Canada and Mexico with its restrictive rules of origin to protect particular industries would also appear as a protectionist device to divert trade. Such restrictive rules of origin could adversely affect component outsourcing, for instance the existing system of incorporating picture tubes made in Asia with TV sets assembled in Mexico for the US market and divert trade from Asian to North American producers.

They could also disrupt the intra-firm trade between Asia and America in horizontally integrated industries.

Recession and the Developing Countries

Developing countries being heavily dependent on industrialized countries for trade, investment, aid and credits, are generally affected by their economic conditions and policies through several channels such as demand and market access for exports, terms of trade and terms and flows of external finance. The World Bank estimates that a one per cent decline in economic growth in the industrialized world results in a reduction in economic growth of the developing world by 0.4 per cent a year in the short run and 0.7 per cent in the sustained medium-term. Thus the sluggish recovery and slow growth of the industrialized countries is estimated to cost the developing countries in the next two years as much in lost export revenue as they receive in official development assistance.

Economic growth in the developing countries as a whole in 1991-92 does not appear to have been much affected by the recession in the industrialized countries and their performance in 1992 was in fact better than in all the three previous years. There were three main reasons for this. The first was that whereas trade growth in industrialized countries declined in 1991-92 it increased in the developing countries from around 8 per cent a year in 1989-90 to about 10 per cent in 1991-92--both exports and imports - mainly on account of the increasing intra-trade among the developing countries themselves which reduces their reliance on industrialized country markets. The second was the marked rise in foreign direct investment in 1991-92 even when global FDI was falling, and the third was the domestic upsurge of growth in China from about 5.2 per cent in 1990 to 7.0 per cent in 1991 and to 13.0 per cent in 1992.

It is important however to make a distinction between middle - income and low-income developing countries, particularly as the latter's performance appears to have been adversely affected by the recession. The 50 low-income developing countries, other than China, in contrast to the middle-income countries, experienced both lower economic growth and reduced net resource flows (less loans, FDI and grants) and consequently a further deterioration in their poverty and deprivation in 1991-92.

Commodities

The recession and slow growth in the industrialized countries has adversely affected the developing countries by slowing down the growth of demand for their exports. Primary commodities which still constitute about half the exports of developing countries have felt the impact of the recession perhaps more than other sectors. Non-fuel primary commodity prices which declined in real terms by 51 per cent between 1980 and 1992 were at the lowest level since the starting point of the World Bank index for commodity prices in 1948; real prices of agricultural exports were down by 39 per cent - cocoa and coffee prices 70 per cent down, sugar 60 per cent and cotton and natural rubber 50 per cent. Between 1989 and 1992 alone non-fuel commodity prices in current dollar terms fell by about 22 per cent and between 1990 and 1992 export earnings declined by more than 20 per cent in coffee, sugar, pepper, cotton, jute, sisal, natural rubber and hides and skins. World Bank projections indicate that commodity prices will remain more or less at the present depressed levels until about 1995 and possibly thereafter if the recession is protracted, recovery is less than expected and there is no decline in the production growth of coffee and cocoa.

The dampening effect of the recession has come at a time when there are secular forces operating to keep commodity prices low in the long-term. Firstly, there is a tendency to oversupply as developing countries are forced to increase production and exports to repay their heavy external debts. This is compounded by new producers entering the market and new techniques raising productivity such as new clones and hybrids in palm oil and cocoa and new technology in mines.

In the industrial countries on the other hand, the process of manufacturing cheap substitutes by technological improvements to replace natural raw materials goes on, e.g. synthetic fibres to substitute for cotton, silk and jute, synthetic for natural rubber and glass fibres for copper cables in communication networks. In addition, more efficient industrial processes are resulting in the use of less raw materials and energy per unit of output which means that raw materials form a smaller proportion of the selling price of an article. Japan, for example, has reduced both raw materials and energy used to produce a unit of GDP by some 40 per cent since 1975. This process of "dematerialization" naturally tends to reduce the demand for commodities.

The decline in commodity prices has been paralleled by rising prices of manufactured imports of developing countries and consequently their terms of trade have deteriorated. Despite the recession, prices in all industrial countries are rising year after year and this is compounded by the appreciation of currencies of countries such as Japan, Germany and France. UN price index of manufactures shows a rise of 16.1 per cent between the average of 1987-89 and 1992.

International attempts to stabilize prices of primary commodities and provide some relief to producers have failed. Of the five commodity agreements - coffee, cocoa, sugar, tin and rubber - only that for rubber remains; others collapsed partly due to lack of resources and partly on account of disagreements between producers and consumers. Compensatory finance extended by international financial institutions to cushion the impact of commodity price fluctuations is inadequate; besides they only provide relief not a solution to secular decline in commodity prices. The long-term remedy is diversification of production which some middle-income developing countries have successfully achieved, but this requires substantial investment in physical capital to develop new industries and in human capital to train the workforce to new skills in new fields which many low-income countries cannot afford without substantial external aid. In the meantime, low prices result in reduced income, higher unemployment and poor maintenance of plantations or mines in the developing countries.

Access to Markets

Recession and growing unemployment and the consequent weakening of faith in free trade and strengthening of pressures for protection have resulted in the industrial countries raising their trade barriers against developing countries precisely at the same time when developing countries are embarking on liberalization of trade and export oriented development. Of the 24 industrial countries 20 are more protectionist than they were ten years ago and their effective rate of protection against developing country exports is much higher than against industrial country exports. Average levels of tariffs in industrial countries which developing countries face are 7 to 10 per cent and they escalate with the level of processing, for instance, 2 per cent on raw sugar but 20 per cent on refined sugar, thereby discouraging processing of agricultural products by developing countries.

Further, about 28 per cent of industrial countries' imports from developing countries are affected by non-tariff barriers which have increased by about 20 per cent between 1987 and 1990; non-tariff measures are imposed mainly on more competitive labour-intensive exports of developing countries such as textiles, clothing and footwear. Among the non-tariff measures are export restraint arrangements numbering 284 in 1990, price restraints, health and safety regulations and countervailing and anti-dumping measures. To these must be added the trade barriers that may arise from the North American Free Trade Area (NAFTA) to low-cost exports of developing countries. Although GATT was created to remove trade barriers it has little influence and many areas such as agriculture, tropical products and textiles do not conform to its principles. In fact, only about 7 per cent of world trade is in full conformity with GATT principles.

Trade barriers which restrict access to markets of industrial countries cost the developing countries at least $40 billion a year in foregone exports, the Multi-Fibre Agreement alone denying them about $24 billion. Sri Lanka, for instance, faces an average tariff of 8.3 per cent on her exports to industrial countries; in addition, 63.9 per cent of her exports are covered by non-tariff measures. The removal of these trade barriers would enable her, according to World Bank estimates, to double her exports and earn over one billion dollars a year. It is in this context that developing countries attached great importance to the successful conclusion of the Uruguay Round as an essential prerequisite to global trade liberalization.

Apart from trade barriers there is another threat to developing country exports of manufactures. New and emerging technologies, which are beyond the reach of most developing countries, are not only producing substitutes for the raw materials and minerals of developing countries as stated earlier, but are also through increased automation and technological efficiency reducing the significance of labour costs of products and thereby reducing the competitiveness of labour-intensive manufactures exported by developing countries to industrial country markets.

Debt Burden

Total external debt of developing countries rose from $1531 billion in 1990 to $1608 billion and then to $1703 billion in 1992 but their negative transfers on debt (excess of debt service over debt disbursements) which were as high as $ 35 billion in 1988 fell to $19 billion in 1990 and further to $ 4 billion in 1992. There has thus been some progress in reducing debt burdens and improving creditworthiness in recent years, as a result of debt reduction agreements and debt conversion arrangements in middle-income developing countries, particularly Latin America, but the debt crisis persists for many developing countries most of whom are among the poorest. According to World Bank figures, 44 developing countries were severely indebted in 1992 and 33 moderately indebted. In the severely indebted income countries, positive debt transfers became negative from 1989 to 1992.

The ratio of debt to GNP, for example, which was 40 per cent for middle-income developing countries in 1987 declined to 35 per cent in 1989 and remained at that level till 1991 whereas in the low-income developing countries it rose from 30 per cent in 1985 to 38 per cent in 1989 and further to 45 per cent in 1991. While the debt to GNP ratio fell in Latin America and East and South East Asia it increased in Africa and South Asia: in Africa it rose from 56 per cent in 1985 to 103 per cent in 1989 and to 110 per cent in 1991 while in South Asia it increased from 25 per cent in 1985 to 29 per cent in 1989 and to 34 percent in 1991.

The burden of servicing debt has increased for severely indebted low-income countries - whose debt to GNP ratio was 117 per cent in 1991 - for several reasons; the higher real interest rates on account of decline in public savings in industrialized countries, higher risk premiums charged by commercial banks, the decline in commodity prices forcing them to export greater volume to service debt and IMF imposed devaluation of their currencies which raise local currency costs of debt service. Several developing countries have obtained debt relief through the Paris Club under official debt restructuring agreements: in 1991, for instance, there were 16 such agreements rescheduling $ 60 billion of debt. In addition, some countries have sought relief through commercial bank debt servicing reduction arrangements (under which they buy back loans at a discount or exchange them for securities that reduced debt or debt service). For many developing countries, however, such debt relief measures are insufficient and bolder action by official creditors is needed to restore their external viability.

Capital Flows

External finance for developing countries has shown an improvement in recent years. Aggregate net resource transfers, which were negative in 1986 to 1988 have become positive and rose from year to year from 1989 to reach $57 billion in 1992. This has been made possible by domestic reforms, liberalization, privatisation and debt reduction measures which resulted in an increase in foreign direct investment (FDI) and portfolio inflows. Between 1981 and 1991 the share of commercial bank loans in total external finance to developing countries dropped from 46.1 per cent to 17.4 per cent while the share of FDI, bonds and portfolio equity together rose from 9.6 per cent to 25.0 per cent. It is important to note however that net resource transfers increased mainly in middle-income countries whereas they actually declined in 1991-92 in the low-income countries, particularly the severely indebted.

Net resource flows to developing countries in 1991 comprised loans - 37.1 per cent, FDI - 33.5 per cent and grants 29.4 per cent, but their relative importance varied from country to country. FDI for instance, was more important in middle income countries where it formed 47.5 per cent of the net resource flows as compared to 17.8 per cent in low income developing countries whereas grants were more to low income countries where they formed 38.4 per cent of the net resource flows in contrast to 17.4 per cent in middle income developing countries.

F.D.I.

Foreign direct investment at current prices in developing countries rose from $23 billion in 1989 to $31 billion in 1991 and then to $ 38 billion in 1992, although global FDI declined in this period as shown earlier. It formed 22.1 per cent of global FDI in 1991 as compared to 12

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per cent in 1987 but was slightly below the ratio of 22.8 per cent in 1981. FDI formed 1.1 per cent of GDP and 4.5 per cent of the gross domestic investment of all developing countries in 1991 but its importance varied from country to country. Thus, while it accounted for only 0.4 per cent of GDP and 1.0 per cent of gross domestic investment in the Republic of Korea, it formed 7.4 per cent of GDP and 20.5 per cent of gross domestic investment in Malaysia.

A disquieting feature however is that FDI by Japan which accounts for one-third of all FDI in developing countries fell from the peak of $ 14.5 billion in 1989 to $ 11.6 billion in 1990 and to even lower levels in 1991 and 1992. This is of special relevance to Asia which accounts for over 60 per cent of Japan's FDI in developing countries. Japanese companies invested $ 37 billion in the rest of Asia between April 1986 and September 1992 and shifted a substantial part of their operations to cheaper countries. Partly because they are not strong financially to go on an investment spree now as in the late 1980s and partly because there is little incentive to expand operations with slack demand caused by the recession, there will be little FDI by these companies in the next few years. In fact, a survey in March 1993 of 3477 leading Japanese companies revealed that 80 per cent of them have no plans to invest abroad in the next five years while the rest indicated that should they decide to invest they would give preference to China and ASEAN.

It is important to realise that FDI is concentrated in relatively a few developing countries, mainly the middle income developing countries which account for 75 per cent. In the period 1980-89 about 74 per cent of the $ 16 billion of FDI went to 10 countries - the better off and faster growing ones - whereas the Least Developed Countries received only 2 per cent. In recent years FDI has shown a distinct bias towards East and South East Asia; in fact, over one-third of all FDI now goes to six countries - China, Republic of Korea, Indonesia, Singapore, Malaysia and Thailand. Latin America's share of FDI has declined from two-thirds in the early 1980s to one-third in 1989. FDI is guided by profits and this changing pattern of investment reflects the varying profitability of the regions. Thus, average real rate of return on FDI in East and South East Asia is 13.5 - reflecting her higher level of technology, labour productivity and infrastructure - as compared to 11.1 per cent in Latin America and 6.8 per cent in sub - Saharan Africa The real return is of course highest in developed countries - 17 per cent - and this explains why nearly 80 per cent of global FDI goes to those countries.

Increasing capital investment also reflects increasing private portfolio flows - both bonds and equity - which rose from an average of under $ 6 billion a year in 1982-88 to $ 34 billion in 1992. This has resulted from the improved creditworthiness of the developing countries which have carried out extensive economic reforms as shown earlier and opened up their stock markets and privatized business enterprises to direct participation by foreign investors. The main benefit from the equity portfolio flows is the reduction in the cost of capital to the host developing country. Prices in developing country markets have risen sharply consequent to opening to foreign investors which has resulted in a fall in the domestic rate of return. Portfolio investment flows however are directed to a few developing countries and more than two-thirds of it went to five countries. They are further volatile being guided by the equally volatile international interest rates and the developing countries need to be fully geared to meet the risks of their pulling out unexpectedly.

Aid (ODA)

While FDI has been rising there has been a decline in development assistance to the developing countries. Net Official Development Assistance (ODA) from OECD at current prices rose from $ 46.7 billion in 1989 to 55.6 billion in 1990 but fell to $ 55.5 billion in 1991 and in real terms from $ 47.6 billion to $ 45.7 billion. Both in 1990 and 1991 ODA remained at 0.33 per cent of the GNP of donor countries which is less than half the agreed target of 0.7 per cent. Only five countries reached or exceeded the target in 1991 - Norway, Denmark, Sweden, Finland and Netherlands; the ratio of USA was only 0.20 per cent and of Japan 0.32 per cent. As about 70 per cent of ODA is bilateral, it is influenced by political considerations and allocated in accordance with the priorities of country donors and not necessarily according to needs. For instance, in the period 1986-90, 59 per cent of US bilateral aid went to five recipients - Israel, Egypt, El Salvador, the Philipines and Pakistan - while 48 per cent of Japan's bilteral aid went to Indonesia, China, the Philippines, Thailand and Bangladesh. ODA per capita to Arab states is $43 but to South Asia $ 5; India $ 1.8 and Pakistan $ 8.8. Further, ODA as a proportion of GNP is as high as 17.2 per cent for Egypt but as low as 0.5 per cent for India. The figure for Sri Lanka is 9.1 per cent, for Pakistan, 2.8 per cent, for Bangladesh, 10.5 per cent.

The arbitrariness in the allocation of ODA is further illustrated by the fact that the ten countries which together have more than 70 per cent of the world's poorest people receive only quarter of global aid and further that only about 6.5 per cent of ODA on a bilateral basis goes for human priorities. Further, about 44 per cent of ODA from OECD-DAC in 1989 was tied to purchases from the donor countries. World Bank estimates that if all aid is untied, the economic benefits to developing countries would be worth as much as $ 4 billion a year. There is also a change in donor objectives of aid with environmental protection and observance of human rights being given high emphasis in the guiding criteria for allocation of aid.

There has been a general decline in the share of aid going to South Asia perhaps on account of the fall-off in Arab aid, particularly to Pakistan. This share may fall further on account of new claimants to aid such as Eastern European countries and former members of Soviet Union, Angola, Mongolia, Afghanistan, Cambodia, Iran, Jordan and Vietnam.

Prospects for the Nineties

The World Bank forecasts a 5.3 per cent average annual growth in GDP for all developing countries for the decade 1992-2002. This is higher than the growth rate of 3.8 per cent a year in 1982-92. Higher growth in developing countries, despite lower prospective growth in the industrialized countries, is based on the assumptions that world trade will grow faster, real interest rates will be lower and commodity prices will stop declining. Further, the higher growth will reflect mainly the persistent rapid growth of East and South East Asia, particularly China which will be discussed in the next article. Growth of GDP per capita in East and South East Asia is estimated at 5.9 per cent in 1992-2002 as compared to 2.1 per cent in Latin America, 1.6 per cent in the Middle East and 0.6 per cent in sub-Saharan Africa. The outlook for sub-Saharan Africa seems to be especially fragile with the possibility of continuing worsening of terms of trade in combination with continuation of political unrest.

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Resilience of Asia During Recession

The recession in the industrial countries does not appear to have weakened the developing countries of Asia and the Pacific as a whole. On the contrary, they were resilient, with economic growth rate of 6.1 per cent in 1991 and 6.9 per cent in 1992 and are expected to achieve 7.0 per cent growth in 1993. This resilience is mainly the result of remarkable buoyancy of the region's external trade whose performance in 1991-92 with average annual growth in volume of around 15 per cent surpassed even that of 1989-90. Increasing competitiveness of exports, diversification of export markets, domestic reforms to achieve financial and monetary stability, liberalization of trade and investment regimes and higher productivity have all contributed to this impressive growth in trade. A major underlying factor however is the fact that one-third of the exports of the developing countries of Asia and the Pacific find markets among themselves (intra-regional trade) thereby reducing their dependence on industrialized country markets.

The resilience of the developing countries of Asia is not a new development. In fact, it was demonstrated in the eighties, which are described as the "Lost Decade" for the developing countries as a whole, when they fared better than other developing countries. Both Latin America and Africa suffered from negative growth of GNP per capita in the eighties but Asia had positive growth; in East and South East Asia growth was 3.3 per cent a year, only a little lower than in the seventies but in China and South Asia, growth in the eighties was actually higher than in the seventies. Asia's growth in this period exceeded that of the industrialized countries as well.

East and South East Asia is undoubtedly the most rapidly growing region in the world. In the decade 1982-92 its GDP increased at an average rate of 8.0 per cent a year as compared to 1.6 per cent in the Middle East North Africa, 1.9 per cent in Latin America and the Caribbean, 2.0 per cent in Sub-Saharan Africa and 5.2 per cent in South Asia. Further, its GDP per capita rose by 6.4 per cent a year when it rose by only 2.9 per cent in South Asia and declined in Latin America, sub-Saharan Africa and the Middle East. East Asia, embracing China, Hong Kong, Taiwan Province and the Republic of Korea has been growing more rapidly than South East Asia covering Indonesia, Malaysia, Philippines, Singapore and Thailand.

Chinese Economic Area

China, Hong Kong and Taiwan Province of China which together have been described as the "Chinese Economic Area" occupy the central place in the rapidly growing East and South East Asia. Their exports to the world in 1991 constituted 57 per cent of the total exports to the world of all developing economies of Asia and the Pacific. China and Hong Kong are the largest traders in the intra-regional trade of Asia: they accounted for 52 per cent of the intra-regional trade among the developing countries of Asia and the Pacific in 1991: China exports 57 per cent of her total exports to developing Asia while Hong Kong exports 37 per cent. It is inevitable therefore that on account of the heavy weightage of these two countries in Asian trade, their pace of development and trade must exert a powerful influence on the region. The resilience of the developing countries of Asia is in large measure the result of the rapid growth of Chinese Economic Area in recent years.

The importance of the Chinese Economic Area in Asian trade and economic development is estimated to be even greater in the years to come. The World Bank estimates that this Area will have the highest economic growth rate in the world in the nineties - 7.8 per cent a year; if its output of goods and services are valued at standard international prices, rather than through the official exchange rate, it would overtake Germany's and Japan's and would approach U.S.A.'s by 2002; if it continues to import as at present, its level of imports is expected to exceed Japan's by that year. Thus, China, Hong Kong and Taiwan Province are likely to be the "Fourth Growth Pole" in the global economy (the others being North America, European Community and Japan) and will no doubt influence the trade and economic trends in Asia in particular and the world in general.

The resilience of the Chinese Economic Area is demonstrated by the fact the China, Hong Kong and Taiwan accel erated their economic growth in 1991-92 in spite of the recession; between 1989-90 and 1991-92 average annual growth rate of China rose from 4.2 per cent to 10.3 per cent, of Hong Kong from 3.0 per cent to 5.1 per cent and of Taiwan from 5 per cent to 7.0 per cent. In the case of China and Hong Kong, growth rates of both exports and imports were also higher. The only other Asian developing country which accelerated its growth during the recession is the Republic of Korea whose growth rate in 1991-92 was slightly higher than in 1989-90. China also reversed her current account deficits in 1988-89 to surpluses in 1990-91 and attracted more foreign direct investment in the latter period.

ASEAN

The four fast growing economies of ASEAN - Indonesia, Malaysia, Singapore and Thailand - also experienced high economic growth like East Asia, in 1991-92 - the growth rates ranging between 6 and 8 per cent - but it was lower than in 1989-90. Unlike East Asia, they were adversely affected by the recession; average growth rate fell in Singapore from 8.8 per cent to 5.7 per cent, in Thailand from 11.0 per cent to 7.8 per cent, in Malaysia from 9.3 per cent to 8.6 per cent and Indonesia from 7.3 per cent to 6.3 per cent. The fall was greatest in Philippines from 4.1 per cent to 0.5 per cent. The slow down in economic growth in ASEAN to a great extent was the result of the decline in their growth rate of export values, for instance from 18.0 per cent in 1990 to 12.7 per cent in 1992 in Singapore, from 17.3 per cent to 11.9 per cent in Malaysia, 16.6 per cent to 10.9 per cent in Indonesia, while in Thailand it fell from 23.1 per cent in 1991 to 17.8 per cent in 1992. In spite of the slow down however, growth in exports in ASEAN was still relatively high. This is partly due to the fact that one-third of ASEAN exports are sold in developing countries of Asia - the proportion exceeding 40 per cent for Malaysia and Singapore. The recession also does not appear to have affected much the flow of foreign direct investment (FDI) to ASEAN. Total FDI actually was higher in 1991 than in 1990; it was higher in Indonesia and Malaysia but a little lower in Singapore and Thailand.

South Asia

South Asia by contrast, shows lacklustre performance. In the period 1982-1992 as shown earlier, its average annual growth was 5.2 per cent as compared to 8.0 per cent in East and South East Asia. Average annual growth in 1991-92 in South Asia was also much lower than in East or South-East Asia; India 3.5 per cent, Bangladesh 3.8 per cent, Sri Lanka 4.5 per cent and Pakistan 6.0 per cent. In most countries - Bangladesh, India, Bhutan, Nepal, Maldives - economic growth in 1991 and 1992 was lower than in 1989-1990; in Pakistan, however, it was the opposite. Sri Lanka's growth which was poor -- 2 to 3 per cent in 1988-89-rose to 6.2 per cent in 1990 and then declined to 4.6 per cent in 1991 and 4.3 per cent in 1992. Export growth declined in 1991 in all the countries except Pakistan with India experiencing negative growth, but it recovered in 1992, although the recovery in both India and Sri Lanka was modest. In India negative export growth in 1991 was succeeded by a positive 5.1 per cent growth in 1992; in Sri Lanka it declined from 25.0 per cent to 2.8 per cent in 1991 and recovered to 7.6 per cent in 1992.

Commodities and Access to Markets

Two problems in trade which both South and South East Asia in particular are facing are the secular decline in commodity prices and the growing restrictions in industrialized country markets on their exports. Nearly all the primary commodities of export interest to South and South East Asia have declined in recent times: their dollar prices now are lower than in 1992 or even in 1990 as shown in Table 2.

Tariff and non-tariff barriers to exports of selected developing countries in Asia in the major industrialized countries are shown in Table 3.

Table 2

Commodity Prices in US$

Commodity	*Unit*	*1990*	*1992*	*1993 June*
1. Rice	ton	315	315	250
2. Maize	bushel	2.76	2.45	2.08
3. Wheat	bushel	3.22	3.52	2.74
4. Oil	barrel	15.70	21.12	17.30
5. Platinum	troy oz.	476	370	376
6. Gold	troy oz.	347	342	368
7. Silver	troy oz.	4.79	4.12	4.29
8. Tin	ton	6155	6575	5050
9. Copper	ton	2575	2278	1839
10. Aluminium	lb.	0.74	0.59	0.55
11. Nickel	ton	8550	7105	5541
12. Zinc	ton	1678	1379	919
13. Lead	ton	827	542	392
14. Wool	lb.	2.58	2.20	1.40
15. Cotton	lb.	0.77	0.59	0.54
16. Jute	ton	410	310	260
17. Rubber	lb.	0.46	0.47	0.44
18. Sugar	lb.	0.13	0.11	0.10
19. Coconut oil	lb.	0.16	0.29	0.21
20. Palm oil	lb.	0.15	0.22	0.21
21. Soya Bean	bushel	5.76	5.89	5.79
22. Tea	lb.	0.82	0.92	0.84
23. Coffee	lb.	0.77	0.48	0.52
24. Cocoa	ton.	1393	1047	1145
25. Lumber	1000 board feet	202	223	242

(*Asiaweek*, June 30, 1993)

Table 3

Average Tariff and Non-tariff Barriers to Developing Country Exports in OECD Markets

Exporter	*Average OECD Tariff %*	*Share of OECD Imports Covered by Non-tariff Measures %*	*Estimated Effect of Removal of Trade Barriers US$ million*
Republic of Korea	7.1	37.1	18,006
Malaysia	2.2	40.8	1,943
Thailand	3.3	51.4	4,613
China	5.4	43.4	12,313
Bangladesh	6.0	80.5	985
India	2.3	49.2	3,123
Pakistan	3.5	65.6	1,402
Sri Lanka	8.3	63.0	1,016

(World Bank)

Although the average tariff rate is relatively low, the coverage of non-tariff measures is extensive. It is significant that a greater part of South Asia's exports are under non-tariff restrictions than of East and South East Asian countries shown in the table.

Debt Burden and Resource Flow

Asia, unlike Africa and Latin America, had little difficulties in servicing its external debt and consequently was spared the pains of the debt crisis of the eighties. The low income countries including all the countries of South Asia as well as China and Indonesia avoided debt services problems; they had not over-borrowed and their debt service ratios were low. The middle income countries of Asia - Republic of Korea, Malaysia and Thailand - also escaped debt service difficulties by adjusting their economies adopting open growth-oriented policies. It is only the Philippines which failed to adopt such policies, that had to face debt service difficulties and negotiate debt reduction deals. Even at the height of the debt crisis in 1986 debt service ratio of East and South East Asia remained at 24 per cent and of South Asia at 30 per cent as compared with 44 per cent in Latin America.

External debt of Asia rose in recent years but its burden of debt service appears to have fallen. Between 1989 and 1991 the ratio of external debt to GNP rose from 92.8 per cent to 96.9 per cent in East and South East Asia and from 29.1 per cent to 36.3 per cent in South Asia, but net transfers on debt which were negative from 1985 to 1989 became positive in 1990-92 in East and South East Asia whereas they declined in 1990, rose in 1991 and dropped again in 1992 in South Asia. The ratio of debt service to exports of goods and services fell from 16.5 per cent to 13.3 per cent in East and South East Asia and remained constant at 25.4 per cent in South Asia in the same period.

Aggregate net transfer of resources which were negative from 1986 to 1988 became positive thereafter in East and South East Asia and rose from $ 2.7 billion in 1989 to $ 14.0 billion in 1991 and estimated $ 16.3 billion in 1992 largely as a result of a marked increase in long-term loans and FDI. It is significant that FDI which amounted to $1.3 billion in 1980 or only 10 per cent of the net resource flow into East and South East Asia reached $ 13.0 billion or 41 per cent of the net resource flow in 1991. Profits on FDI in 1991 formed 38 per cent of the net FDI in that year. In South Asia on the other hand, net transfers of resources which though always positive, remained almost at the same level for about six years: from $ 5.0 billion in 1989 they rose to $ 5.4 billion in 1991 and estimated $ 5.8 billion in 1992. This is because of the stagnation of both long-term loans and FDI during this period. FDI was insignificant; from 0.1 billion in 1980 forming only about 2 per cent of net resource flow in that year, it rose to only 0.4 billion in 1991 accounting for only 4.0 per cent of the net resource flow in that year. Profits on FDI in 1991 accounted for 20 per cent of the FDI in that year.

Growing inequality of income

Rapid economic growth in East and South East Asia has succeeded in reducing poverty in those countries to some extent. The proportion of the population living in poverty has been reduced in Indonesia from 60 per cent in the 1970s to 15 per cent in the early 1990s; in Malaysia from 20.7 per cent in 1985 to 17.1 per cent in 1990 and in Thailand from 30 per cent in mid eighties to 23 per cent in 1990. In China, too, there has been a dramatic reduction in the incidence of poverty. In South Asia, however, people living in poverty rose from 530 million in 1985 to 560 million in 1990.

At the same time, rapid growth has widened disparities in income by concentrating income and wealth in fewer hands. Thus, in the period 1988-90, the lowest 20 per cent of income earners received 5-6 per cent of the total income in China, Hong Kong, Malaysia, Philippines, Singapore and Thailand, while the highest 20 per cent received 40-50 per cent of the total income (the highest 10 per cent in fact receiving 25-38 per cent of the income). In South Asia on the other hand, income distribution is less unequal generally; in Bangladesh, India, Pakistan and Nepal, the lowest 20 per cent of the income earners received 8-9 per cent of the total income while the highest 20 per cent received about 40 per cent (the highest 10 per cent only about 25 per cent). The exception is Sri Lanka which in 1985-86 had perhaps the most unequal distribution of income with the lowest 20 per cent of income earners receiving 4.9 per cent of the total income and the highest 20 per cent accounting for 56.2 per cent!

South Asia's Mediocre Performance

The mediocre performance of South Asia is the outcome of a combination of

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factors. Firstly, nearly all the countries in South Asia have been slow to improve the institutional and policy framework and to undertake structural economic reforms, liberalise their trade and investment regimes, achieve fiscal and monetary stability, reduce the size of the public sector, increase savings and utilize foreign capital. They are all in the process of making those adjustments now with inevitable destabilizing effects in the short-term. Secondly, most of the countries still rely on primary commodities for a substantial part of their export earnings and their prices have been unfavourable for quite some time. Thirdly, their intra-regional trade is limited: in 1992 only 17.1 per cent of their total exports were sold within the Asian region or among the developing countries of the region as compared to one-third in East and South East Asia. This makes them more vulnerable to the recession in industrialized countries and renders them less resilient than East and South East Asian countries. Fourthly, savings and investment levels are low. Savings and investment form 30-40 per cent of GDP in both East and South East Asian countries (except Philippines) whereas they are 5-25 per cent in South Asian countries.

A major factor underlying rapid economic growth of East and South East Asia is the rise in total factor productivity or the increasing efficiency of both labour and capital, partly as a result of liberalized trade and investment and partly as a result of the increase in the level of education and skills of the labour force. Open economic policies have by creating new export opportunities pulled capital and labour into the most productive occupations; allowed imports of machinery and equipment with higher technology: provided competition from imports to raise the competitiveness of export industries and enabled entrepreneurs to keep track of new products, production and managerial techniques and shifts in market and consumer trends. Continuing improvements in education and skills of the work force are essential to remain competitive in international markets as better educated labour helps firms to absorb and adjust rapidly to changes in technology, product mix and work practices. It is significant that East and South East Asia had a higher growth of total factor productivity in the 1970s and 1980s when it was higher than that of other developing countries and was also double that of industrialized countries; in the 1980s it was 1.7 per cent a year.

Total factor productivity is rising very slowly in South Asia both on account of the obsolete technology used and the poor educational and skill levels of the work force. India, in particular, has found that her obsolete technology has reduced the competitiveness of her exports and it is mainly to upgrade her technology that she has opened the country for foreign direct investment. It was found, for instance, that India, in spite of her lower labour costs, has been producing steel at a higher cost than the Republic of Korea. The poor levels of education and skills are illustrated by the low adult literacy rates which are below 50 per cent in India, Pakistan and Bangladesh as compared to over 75 per cent in East and South East Asian countries; educational attainment and mean years of schooling are both less in South Asia: scientists and technicians per 1000 people are 3.6 in India as compared to 47.3 in the Republic of Korea and tertiary education enrolment ratio is 3.0 per cent in Bangladesh and 4.0 per cent in Sri Lanka in contrast to 16.0 per cent in Thailand and 39.0 per cent in Korea.

Foreign Direct Investment (FDI) finally, which is contributing so much to the rapid growth of East and South East Asia, plays only a limited role in South Asia. In 1991 for instance, total FDI in South Asia was about $564 million whereas it was $ 10,210 million in ASEAN or eighteen times more and $ 4344 million in China alone or nearly eight times more, (FDI amounted to $ 261 million in Pakistan, $ 200 million in India, $ 102 million in Sri Lanka and $ 1.4 million in Bangladesh). FDI promotes physical capital formation, brings foreign finance, transfers technology, upgrades managerial skills, develops export markets, stimulates local productivity through backward linkages to service suppliers and the labour force and serves as models of working practices and management techniques. By creating export-oriented manufacturing industries, they have generated new exports of manufactured goods which have contributed to the rapid development of East and South East Asian economies. Foreign firms for example, account for more than half the manufactured exports in Malaysia and the Philippines and nearly three-quarters in Thailand.

An important feature of FDI in Asia is the high proportion of intra-FDI among the countries themselves. Japan is the leading single foreign direct investor in Asia. In 1985-88 for instance, she accounted for 37 per cent of all FDI in Hong Kong, Republic of Korea and Taiwan Province, and 22 per cent of all FDI in the four ASEAN countries - Indonesia, Malaysia, Philippines and Thailand. The four newly industrializing economies - Republic of Korea, Singapore, Hong Kong and Taiwan Province - too have become important investors in Asia in recent years and they accounted for 23 per cent of the FDI in the four ASEAN countries mentioned above, which was even higher than Japan's in that period. One NIE - Hong Kong - alone accounted for 62 per cent of all FDI in China in this period. Both Japan and the NIEs however, showed little interest in South Asia in the eighties. In 1985-88, Japan's FDI in South Asia was about 2 per cent of her FDI in the four ASEAN countries and FDI by NIEs was about one per cent of FDI in the four ASEAN countries. Further, FDI by Japan and the NIEs formed only 6 per cent each respectively of the total FDI in South Asia.

Japan began to relocate her labour-intensive export industries in what are described as Newly Industrializing Economies (NIEs) (Republic of Korea, Singapore, Hong Kong and Taiwan Province) on account of rising labour costs and subsequently, the appreciating yen which made exports made in Japan uncompetitive in world markets. However, when with rapid economic growth, labour costs began to rise in the NIEs, Japan as well as the NIEs themselves relocated some of their labour-intensive export industries in lower cost South East Asian countries like Malaysia and Thailand. Apart from a few garment factories, South Asia failed to benefit from this industrial relocation process and consequently foreign direct investment (FDI) has been limited. South Asian countries have just begun creating

Cont. on page. 22

West German industry: Deep in recession

In 1993 the output of the West German manufacturing sector will decline by [illegible] per cent [illegible] of 3%.

Foreign demand is decreasing [illegible] weak level of economic activity in Western Europe posing persistent problems. In addition, the D-mark has appreciated [illegible] within the European Monetary System. However, the external value of the D-mark should [illegible] in the second half of the year, particularly against the dollar.

Domestic demand is expected to decline further. Private consumption is being hit by falling employment, a decline in working hours and increased taxes [illegible] and uncertainty. Investment is being undermined by negative sales expectations and the waning confidence in economic policy.

Against a background of [illegible] production, high fixed costs and [illegible] pressure on high costs [illegible] profits will decline [illegible] 1993.

The current downswing in West German industry [illegible] than of the 1974/75 recession. In 1975 the first oil crisis brought the sharpest drop in output [illegible] experienced by the manufacturing sector in the 'old' Federal Republic. There are currently no signs of a recovery of similar strength to the upturn that followed the recession 1975–1979.

On the contrary, incoming orders do not indicate a trend reversal. This applies both to domestic orders, which have been falling sharply since the beginning of 1992, and to export orders which, apart from a temporary recovery in 1991, have tended to decline since the first half of 1990. For a long time, industry had hoped that export orders would provide new impulses to offset the [illegible] of the unification boom. However, export expectations probably kept output and employment at a level until well into 1992 which was no longer justified by the order backlog.

Last autumn's turbulence in the European Monetary System brought [illegible] with a bang. The upheavals [illegible] things almost immediately [illegible] that the longstanding stability of the [illegible] had been [illegible] with the fundamental data of the member countries.

Thus, the belief that Europe already had [illegible] and that European [illegible] proved an illusion. In [illegible] exchange rate [illegible] raised their heads again [illegible] it became clear that [illegible] because of the [illegible] of the D-mark against the currencies of Germany's major European trading partners. At the same time, countries such as Great Britain, Italy and Spain were able to improve their [illegible]

[illegible] markets [illegible]

The shock of the [illegible] German industry. Production [illegible]

[illegible]

What is the outlook for West German industry until the end of 1993?

Conditions will improve slightly for the export industry. The United States and Great Britain have overcome the recession, but there is no recovery in sight for the other west European countries [illegible]

[illegible] countries. The D-mark will probably devalue against the US dollar [illegible] by year's end [illegible]

In Germany, companies and economic policy will require [illegible] adjustments. Wage settlements must be below the inflation rate [illegible]

[illegible]

by Ludwig Heinz

Courtesy: Economic Survey
Hypo Bank: Economics Department

POVERTY AND CHARACTERISTICS OF THE URBAN POOR

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Introduction

Poverty, in a rather fundamental sense, is a relative and a subjective phenomenon. As poverty is multi-faceted, it may be perceived, differently according to places, cultures, attitudes, people and so on. Though poverty is multi-dimensional, most of the literature on poverty is obsessed with the issue of monetary deprivation where individuals or families are unable to secure resources to obtain goods and services which are considered necessities for a decent living by the society. However, although income deprivation is undoubtedly an important aspect of poverty, it provides only a partial explanation to deprivation.

Poverty is seen as the failure of some basic capabilities to function - a person lacking the opportunity to achieve some minimally acceptable levels of these functions (Sen, 1992). The functioning can vary from elementary physical ones as being well-nourished, being adequately clothed and sheltered, avoiding preventable morbidity, etc., to more complex social achievement such as taking part in the life of the community, being able to appear in public without shame and so on. The opportunity of converting personal income into capabilities to function depend on a variety of life-related (personal) circumstances and external factors such as living environment.

Poverty is a dynamic condition where, except for a small number of families, others cross the poverty line at least for a limited period during their life cycle. Thus any study on poverty, involves the definition of a norm or set of norms that distinguishes the poor from the non-poor. 'Both the poverty norm and the population will be distinguished by time and spatial dimensions' (Srinivasan, 1990).

Incidence of poverty is common among families who attempt to build up their own asset base at the very early stage of their family building or become poor during their old age. The poor, given the opportunities, will attempt to integrate with the mainstream of economic activities. This may be referred to as **terminal** poverty. Others may be poor during all their life time and may be identified as **chronically** poor. The second group may have individuals or families with disabled people i.e. blindness, mental retardation etc. The third group who are **acutely** poor will remain so even if the best market conditions prevail.

Many approaches have been suggested to measure the level of 'deprivation' or poverty at household or individual level. These include the **basic needs** approach, the **poverty line** based on a income criterion and the **nutritional adequacy.** However, all these methods face one problem or another in the identification of the level of deprivation (see Sen, 1982; Behrman, 1991).

The **behavioral approach**, the traditional methodology of estimating a poverty line, will estimate a per capita calorie consumption function and calculate per-capita expenditure level required to achieve the calorie adequacy based on the Recommended Dietary Allowances. This has now been widely used, but using level of income as a 'proxy' to consumption has caused some doubts. The norm of calorie adequacy or requirements vary from one person to other depending on many biological and behavioral considerations. The nutrient requirements are also controversial and there is a considerable debate about adjustment capacities of individuals (Payne, 1990).

The per capita poverty income per month derived by using the minimum cost food basket method which satisfy the minimum nutritional level of a household has been Rs. 281 in 1989 prices. This has been adjusted by using the changes in wholesale price index during 1989-1992. The adjusted per capita poverty income for 1992 has been Rs. 377.06. This would be equivalent to a monthly income of about Rs. 1,885 for a family of five persons. The poor are therefore defined as those who are unable to allocate a level of expenditure that would ensure a 'safe' level of consumption (calories) for enabling them to maintain an active and healthy life.

Though the poor in both urban and rural areas are facing similar prices for most of the food items, urban poor in particular has to pay higher prices for some of the other essential services needed for living. Thus the food to non food expenditure ratio of urban poor is about 70 percent compared to about 80 percent of the rural poor. Thus the poverty line in respect of urban areas are somewhat higher than that of the other two sectors in the economy.

Characteristics of the 'poor'

The poor are not a homogeneous group. The circumstances under which poverty occurs differ from one situation to another. Though there are some characteristics that may be commonly found among most poor households, the other characteristics may vary widely, depending on many other factors. However some commonly found characteristics are household size, demographic structure of the household, educational attainment, gender of the main income earner, etc.

Many people migrated to urban areas in search of work. In the urban slums and shanty towns only a small proportion of the population manage to find permanent and secure employment in the modern and formal sector. The majority of urban poor are working in the informal sector as casual labourers on construction sites, in factories, in retail trade, in transport, in personal service etc.

The circumstances where the occurrence of poverty in urban areas may have some unique features. The available evidence suggest that most of the poor are recent migrants to the urban areas and are engaged in petty trade or in other productive activities, where they are unable to secure an adequate income. Many of the urban poor who are engaging in petty trading activities are forced to live in shanties or they are simply squatter-dwellers. The available evidence also suggest that some of the recent migrants who secured employment in industrial enterprises run by the private sector (specially the garment factories in the Free Trade Zones around Colombo) are a new group of urban poor. Though they are 'employed' inadequate wages they earn through employment make them a group of employed poor. This group however over a given time period may move out of poverty provided that their condition of employment improves.

The transience in poverty is more true in urban areas where recent migrants who themselves are poor, attempting to engage in various types of income generating activities will become vulnerable due to failure of projects. As the evidence shows that about 90 percent of the small enterprises fail within the first year of its establishment, many of the new comers into the urban markets with little or no managerial skills may have to face severe consequences as a result. As the unorganized urban petty markets are growing slowly, the unemployed poor have limited access to employment opportunities in the unorganized urban sector.

Many of those who have migrated to urban areas in search of employment also become poorer during their early days mainly due to unsettled conditions. However most of the urban poor may have opportunities in finding employment as casual workers in construction industry or in the maintenance of roads etc.

The urban poor therefore comprise, among others the recent migrants, those who failed to successfully enter into the urban markets, employees in poorly paid industries, casual and seasonal workers and unemployed educated youths.

Though it is somewhat easy to find employment in the informal sector and in poorly paid industries in the private sector, those selected to work in these industries are not only poor but also vulnerable to the unpredicted changes in conditions of employment. For instance seasonal unemployment, lay off, temporary shutdown would lead to loss of income and poorly paid workers become poorer during such periods. The external factors such as price changes in essential foods as well as non food commodities would increase pressure on the poor. These seasonal and temporal variations are a regular pattern of the urban poverty.

In urban areas the non existence of the extended family network make poor vulnerable under certain circumstances. The single parent households which is an increasing phenomenon in urban areas, are more susceptible to the income losses due to loss of employment and to increased cost of child care. A child birth to a single parent household, put restraint specially on the mother to work and as such she may lose her income from employment. In the absence of a care system provided through an extended family network, the street children and old age people with no one to support will also become vulnerable due to loss of family or sources of income. Many of those groups form the beggar community in the urban areas.

The urban poverty to a greater extent is a relative problem where between groups disparity of distribution of income is much higher compared to the other two sectors (i.e. rural and estate) of the economy.

The Labour Force and Socio-economic Survey of 1985/86 indicate that nearly 80% of urban income receivers have a mean income less than the mean income of all income receivers in the urban sector. The mean income received by the highest 10% in the urban sector is remarkably greater than the mean income of the rest. This may be due to the fact that urban income receivers form a relatively heterogeneous group in terms of the sources of income.

The urban poor have relatively high cash income compared to the other two sectors of the economy while they have to pay higher prices for some of the services they receive. As non-monetary transactions are smaller or non existent, the urban poor spend more on non food items which are necessary for their survival in society. However the percentage

Table 1

Average Monthly Household Expenditure on Housing By Per Capita Income Deciles of Households All Island/Sectors

PER CAPITA INCOME DECILE

	Total		1st		2nd		3rd		4th	
	Rs	%	Rs	%	Rs	%	Rs	%	Rs	%
ALL ISLAND	148	14.1	52	10.2	54	10.8	68	12.0	67	10.8
URBAN	356	22.8	95	16.7	105	19.8	122	15.2	141	16.2
RURAL	84	13.6	45	9.3	52	11.4	51	8.7	57	9.6
ESTATE	61	6.3	31	4.7	37	5.1	54	6.5	49	6.1

Source: LFSES 1985/86, Dept of Census and Statistics share spent on food out of total expenditure by per-capita income decile, appears to be similar to the poor in the other two sectors (LFSES, 1985/86).

The urban poor allocate a proportionately high share of their household expenditure on housing, compared to those in the rural and estate sectors (Table 1).

The urban poor allocate on an average more than 15 percent of their monthly expenditure on housing. This is about 10 percentile points higher than the housing expenditure of rural sector and thrice the allocation that of the estate sector households.

A small number of the urban poor have self-owned houses. Those in the lowest category of income distribution do not have a shelter of their own and many of them share accommodation with others, mostly in urban shanties. Many of the urban poor live in small houses where average per person floor area is very small. Large number of urban poor live in households where total floor area do not exceed 25 square metres (SES, 1986/87). Many of these houses have a floor of prepared clay and a thatched roof. Most of these houses are constructed using leaves/cadjans or wattle and daub while smaller number of houses are constructed using bricks.

A large proportion of the urban poor receive their drinking water from common taps or common wells and most of them use common latrines constructed by the local authorities. Among the urban poor the main source of energy for cooking is firewood. For lighting many of the urban poor still rely on kerosene. However in some instances they have access to electricity from the national supply.

As the urban poor pay higher share of their income for housing, they spend a relatively lesser amount on other non-food items. The expected result of this high expenditure on housing is that they are forced to spend less on other basic necessities of living. For instance, the expenditure on fuel and lighting and also expenditure on textiles appear to be proportionally less than among the poor in rural and the estate sectors (Table 2).

Compared with the other two sectors, the poor in the urban areas have lesser amount of household amenities. The commonest valuable item available to them are the radio, the availability of which is also confined to those in the category of 'less poor'.

Table 2

Average Monthly Household Expenditure on Clothing and Textile by Per Capita Income Deciles of Households All Island/Sectors

PER CAPITA INCOME DECILE

	Total		*1st*		*2nd*		*3rd*		*4th*	
	Rs.	*%*	*Rs.*	*%*	*Rs.*	*%*	*Rs.*	*%*	*Rs.*	*%*
ALL ISLAND	112	10.8	62	12.7	63	12.6	82	16.4	81	13.1
URBAN	141	9.0	60	10.5	53	10.0	65	8.1	79	10.2
RURAL	102	11.4	62	12.7	60	13.0	81	13.7	88	15.0
ESTATE	141	14.4	52	7.8	89	12.2	96	11.5	84	10.4

Source: LFSES 1985/86, Dept of Census and Statistics

Table 3

Income Receivers in Poverty Group by Age Categories

Age Category (Years)	*Number in poverty (Percent)*
< 14	100
14-18	87
19-26	26
26-35	28
36-45	28
46-55	25
> 55	20

Source: CFS 1986/87, Central Bank of Ceylon

Many of the urban poor are relatively younger and less educated. The distribution of income receivers who are in poverty classified by age categories are shown in Table 3.

The data in Table 5 confirm the general finding that most of the poor in urban areas are new-comers and are in the period of adapting to the urban labour and/or production markets.

Household size may be a factor that relates closely with the incidence of poverty. The general observation is that the large families with greater number of dependents would have a higher probability of being in poverty. A sample study of the poor households shows that about 50 percent of the households had 6 or more members and about 40 percent of them are children under the age

Table 4

Incidence of Poverty and Distribution of Poor Households by Household Size: Sri Lanka 1986/87

Household Size	*% in Sample*	*% in Poverty*	*% Distribution of Poor Households*
1	1.62	10.53	0.62
2	6.38	13.75	3.18
3	13.58	16.34	6.00
4	15.98	20.46	14.01
5	22.43	27.51	22.37
6	15.31	33.36	18.52
7	10.00	40.20	14.62
8	6.34	44.42	10.21
9	2.84	45.77	4.72
10	1.43	42.57	2.21
> 10	1.20	35.29	1.54
ALL	100. 00	27.59	100.00

Source: CFS 1986/87

of five years (Hettige, 1991). The incidence of poverty and distribution of poor households by household size, calculated using data from the Consumer Finances Survey of 1986/87, shown in Table 4 support findings of the sample study (Edirisinghe, 1990).

The data in Table 4 shows that households with 1 to 4 members constitute 37 percent of all households but constitute only 25 percent of the total households in poverty. A large proportion of the poor households has family sizes ranging from 5 to 8 members. The data also show that 5 to 8 member households comprised of about 54 percent of the households in the sample and 65 percent of those falling under the category of poor households.

The **demographic structure** of the family appears to be influencing the level off poverty at the household level. As expected, poverty is concentrated among families who are in old-age. table 5 shows the incidence of poverty and distribution of poor households by age dependency ratio in Sri Lanka, 1986/87.

The age dependency ratio is defined as the ratio of persons 60 years of age and over to persons between the ages 15-59 (Edirisinghe, 1990) Data in Table 5 show that incidence of poverty among households in different age dependency categories is somewhat evenly distributed.

Though the marital status of the main income-earner has little relevance to the incidence of poverty when national sample data is considered, the smaller sample surveys among the poor show that it is an important determinant of poverty. The sample survey data show the incidence of poverty was high among widows, separated and women-headed households with one or more children under five years of age.

Female-headed households account for approximately 17% of all households. Data from micro-level case studies indicate that these households (at least those with no adult children) are among the poorest of the poor. They usually lack access to credit and access to employment, when there is less work for women.

Education attainment of the main income-earner is a important determinant of poverty. Data in Table 6 show a progressive decline of the number below poverty line with increase in the level of education from no schooling to the GCE (O/L), which is the public examination indicating the suitability of an individual for a higher level of education.

The Consumer Finances Survey of 1986/87 also indicates that nearly one

Table 5

Incidence of Poverty and Distribution of Poor Households by Age Dependency Ratio: Sri Lanka, 1986/87

Age Dependency Ratio (%)	*% in Sample*	*% in Poverty*	*% Distribution of Poor Households*
0	66.0	29.5	70.7
1 - 20	4.6	28.0	4.9
21 - 25	3.7	20.0	2.6
26 - 49	6.6	22.3	5.3
50	8.6	24.7	1.1
51 - 66	0	0	0
>66	10. 0	23.2	8.6
ALL	100.0	27.5	100.0

Source: CFS 1986/87

Table 6

Educational Attainment of the Main Income Earner of the Poor Households

		Below the Poverty Line
1. No Schooling	-	51.5%
2. Pass Grades 0-4	-	50.4%
3. Pass Grades 5-9	-	36.7%
4. Passed G.C.E. (O/L)	-	16.8%

Source: Labour Force and Socio-economic Survey 1985/86, Department of Census and Statistics.

Table 7

Incidence of Poverty and Distribution of Poor Households by the Level of Educational Attainment of the Main Income Earner : 1986/87: All-Island

	As a % of the Total Sample	*% in Poverty*	*As a % within the Poverty Group*
No-schooling Illiterate	9.6	40.47	14.16
No Schooling Literate	0.66	27.66	0.67
Primary[1]	37.2	36.44	49.10
Secondary[2]	48.5	20.20	35.50
Passed Grade 12	2.4	4.73	0.41
Graduate	1.4	1.33	0.10

1. Kindergarten to Grade 5
2. Grade 6 through Grade 10 (inclusive of those who passed Grade)
Source: CFS 1986/87

half of the main income - earners in the sample had a secondary level education.

Data in Table 7 also point to a decreasing level of poverty incidence as the educational attainment level of the main income earner increases. Nearly two-thirds of the households in poverty have main income-earners who have not exceeded education beyond primary level.

As there exist a greater relationship between unemployment and poverty, it is generally perceived that the employed are better off compared to the unemployed. The evidence however suggest that unemployed are not necessarily poor and the employed are not necessarily 'not poor', as many employed are unable to meet the basic needs of their families. Surveys indicate that nearly 90% of the households had their main income earners classified as being employed. The poor for the most part are the "working poor". On the other hand, households with main income earners falling within the category of the unemployed and 'not in labour force', comprised around 10 percent of the total poverty group. Of all the households with employed main income earners, nearly 20% were in poverty in 1978/79 and 28% in 1986/87.

On the other hand the proportion of the poor households with unemployed main income earners seems to have declined from about 26% in 1978/79 to 23% in 1986/87. This indicates that : (i) the poor engage themselves in activities of marginal low productivity, and (ii) labour productivity and real earnings seem to have been declining, bringing more of the 'employed' into the ranks of the poor.

The distribution of poor households by occupational category is shown in Table 8. Among the categories where the economic activities of urban nature are: professional technical and related workers and sales workers. Though a large number of occupational groups falls under the urban labour markets, the distribution of poor households falling under each of those categories is small. The type of occupation where a large number of urban poor may employ show a fairly high incidence of poverty among them. They include workers not classified elsewhere, service workers, clerical and related, chemical processes and related workers and food and beverage workers.

Table 8

Incidence of Poverty and Distribution of Poor Households by Occupational Category of the Main Income Earner : 1986/87 - All Island

Occupational Category	*% in Poverty*	*% Distribution of Poor Households*	*% in the Total Sample*
Agricultural and animal husbandry workers	38.17	25.90	18.72
Cultivators and Farmers	32.25	19.85	16.98
Professional, Technical and Related	16.06	9.20	15.95
Sales Workers	20.65	8.15	10.89
Workers not elsewhere classified (NEC)	43.40	8.30	5.30
Brick-layers, Carpenters, other Construction Workers	40.54	7.10	4.80
Service Workers	22.00	3.38	4.24
Clerical and related	8.21	1.42	4.82
Transport Equipment Operators	18.38	1.91	2.80
Miners, Quarrymen, Well Drillers and related	35.11	1.69	1.33
Wood Preparation Workers and Paper Workers	41.77	1.69	1.11
Chemical Processors and related Workers	37.51	1.53	1.11
Spinners, Weavers, Knitters and related	33.33	1.18	1.00
Food and Beverage Workers	24.77	1.38	1.54
Fishermen, Hunters and related	20.78	0.82	1.08
Livestock farmers	32.55	1.40	1.24

Source: CFS 1986/87

The incidence of poverty in those households where the breadwinner is employed as a professional, technical and related category accounts for about 16 percent. These households make up about 9 percent of all poor households. Incidence of poverty shown under the category of workers not elsewhere classified includes large number of employments found mainly in the urban areas. In this category of workers nearly 44 percent are in poverty. This comprised of about 8 percent of all poor households. Though poverty has seen in relation to large number of other employment categories the number of poor household falling under those categories, of employment is relatively small.

Incidence of poverty is also high among the occupational category of sales workers. In this category they have a poverty incidence of 20 percent and they constitute 8 percent of all poor households. The other sub categories falling under this group having high incidence of poverty are: Salesmen, Shop Assistants and related workers and working proprietors. The incidence of poverty in other categories of employment which falls under the sub group of sales workers are: Sales workers not elsewhere classified (30 percent in poverty) and managers of wholesale and retail trade (11 percent in poverty).

The incidence of poverty among the occupational category of brick layers, carpenters and other construction workers was 41 percent contributing 7 percent of all the poor households. The national estimates show that about 5 percent of households fall under this category.

The employment categories shown in Table 8 may be broadly grouped under six main occupational categories. These categories are : (a) Agricultural and Animal Husbandry Workers (b) Cultivators and farmers (c) Professional, Technical and related workers (d) Sales workers (e) Brick workers and other construction workers (f) workers not elsewhere classified. As the national data do not show the distribution of poverty by economic sectors, the incidence of urban poverty in the country may be identified by relating to the employment groups. The employment classification clearly indicates the employment of urban nature. They are: Professional, Technical and related workers, Sales workers, construction workers and a large proportion of employment not classified elsewhere.

Most of the employment where the urban poor households are employed do not offer regular employment. The availability of work depends much on the improvement and active nature of the general economy. This type of employment is common in printing trade, book binding, tailoring, hair dressing etc. These employments by their very nature are not only temporal but the income generated through them also are highly variable.

As shown in Table 9 employment of the bread-winner of the family is not a sufficient condition to assume that they would not be poor. The data in Table 9 indicate that about 27 percent of those employed are in poor households.

According to data made available from CFS 86/87, this category apparently includes the unemployed and those categorized as 'not in Labour Force.'

The Consumer Finances Survey data of 1986/87 (Table 9) shows that in the

Table 9

Percent in Poverty and Percent within the Poverty Group by Economic Status of the Main Income Earner - 1986/87.

	Employed	*Unemployed*	*All*
National Sample			
% in the Sample	93.5	6.5	100.0
% in Poverty	27.5	28.9	27.5
% Within Poverty Group	93.2	6.8	100.0
Urban Sector			
% in Sample	95.4	4.6	100.0
% in Poverty	12.5	5.2	12.16
% Within Poverty Group	98.0	2.0	100.0
Rural Sector			
% in Sample	94.2	5.8	100.0
% in Poverty	32.5	38.2	32.8
% Within Poverty Group	93.1	6.9	100.0
Estate Sector			
% in Sample	84.0	16.0	100.0
% in Poverty	13.6	13.0	13.54
% Within Poverty Group	84.6	15.4	100.0

Table 10

Incidence of Poverty and Distribution of Poor Households by Labour Force Participation Rates : Sri Lanka, 1986/87

Labour Force Participation Rates (%)	*% in Sample*	*% in Poverty*	*% Distribution of Poor Households*
0	11.2	22.3	9.1
1 - 25	36.7	30.4	51.2
26 - 49	26.0	27.3	27.8
50	11.5	17.8	7.8
51 - 66	2.8	21.7	2.2
67 - 99	5.6	9.7	2.0
100	1.8	1.4	0.1
ALL	100.0	27.5	100.0

Source: CFS 1986/87

Table 11

Distribution of the Unemployed Persons by Sectors and Zones Sri Lanka - 1986/87

	Percent Unemployed Persons In Sector/Zone	In Poor Households		Distribution of All Unemployed	
	%	%	*Number ('000)*	%	*Number ('000)*
Urban Sector	17.2	13.6	26.1	19.7	188.8
Rural Sector	15.9	28.9	204.2	73.6	705.5
Estate Sector	9.0	14.6	9.4	6.6	63.2
All[1]	15.5	25.0	239.6	100.0	958.6

Source : CFS 1986/87

1 - Assuming that the rates would not change significantly if zone 3 was surveyed.

urban sector 12.5 percent of those who are engaged in economicaly productive activities are fallen into the category of poor. However compared to the other two sectors of the economy incidence of poverty in the urban sector is relatively small.

Incidence of poverty appear to be high in households where the unemployment ratio is high. Table 10 shows that nearly 78 percent of the households are employed in some type of economic activity where about 22 percent are unemployed. About 28 percent of the households are found to be in poverty among households in which every one of the labour force is employed. This imply that a majority of those who are unemployed at present are from households where at least one member of the household is actively engaged in some form of economic activity.

The distribution of unemployed persons by sector is shown in Table 11. In urban sector 17.2 percent are unemployed, of which 13.3 percent of unemployed are from poor households. However as the propotion of the absolute number of the urban poor is small compared to the estate sector.

In conclusion it appears that the urban poverty problem in Sri Lanka is primarily a qualitative one and a problem of relative in nature. The number of absolute poor living in urban areas is relatively small compared to the other sectors in the country. As the policies of the government do not encourage the rural workers to migrate to urban areas, the growth of the urban population is rather slow.

It appears from the available information that the relative absence of extended family network in urban sector contributes to the occurrence of poverty specially among the single parent families, old age people where no family members to support and the 'street children'.

The foregoing analysis shows that the characteristics of the poor in general and the urban poor in specific are complex and multi-dimensional. For policy making purposes, poor need to be identified clearly in relation to their living environment. The change of time, place, living environment and the socio-economic factors that the poor at present may face, may change with the change of one or more of these factors affecting their life-styles.

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the liberalized industrial and policy framework to facilitate FDI but they are doing so at a time of recession, slow growth of demand and excess industrial capacity when countries like Japan are hesitant to invest abroad. Further, an important foreign investor in Asian developing economies - Taiwan Province - which was the biggest foreign investor in Thailand in 1988 and in Malaysia and Indonesia in 1991, has shown little interest in South Asia and is now increasing her investments in China and Vietnam. It appears uncertain therefore whether South Asia's liberalization policies will result in a foreign investment boom as in South East Asia in recent years.

Prospects in the Nineties

East and South East Asia, according to World Bank estimates, will have an average economic growth of 7.3 a year in the decade 1992-2002 which, though lower than that of 8.0 per cent in the previous decade 1982-92, will still be high. It is estimated to raise its real GDP per capita from $ 585 in 1992 to $ 1037 in 2002 or by about 77 per cent. South Asia on the other hand, is expected to grow at 5.3 per cent a year in 1992-2002 or more or less at the same pace as in 1982-92 which was 5.2 per cent and raise its real GDP per capita from $ 355 in 1992 to $ 498 in 2002 or by 40 per cent. These forecasts are, however, on the basis of favourable circumstances; if the scenario becomes unfavourable on account of prolonged recession, increasing unemployment, decline in public savings and growing protectionism in the industrialized countries, then growth rates will be lower; the estimated GDP per capita on the downside scenario will be $ 926 for East and South East Asia or 58 per cent higher and $ 438 for South Asia or 23 per cent higher than in 1992.

Thus, the economic gap between East and South East Asia and South Asia will widen in the next decade. Per capita GDP of the former which is about 65 per cent higher than that of the latter now will be about 108 to 111 per cent or more than double the latter in 2002. Even under favourable conditions per capita GDP of South Asia in 2002 - $ 498 - will still be lower than that of East and South East Asia now - $ 585! The main factor underlying South Asia's mediocre performance is India's moderate growth which is estimated by the World Bank to be 5 per cent a year in the nineties, which is even lower than its average growth of 5.4 per cent in the period 1980-91. The number of poor in South Asia is expected to decline in the next decade if the assumed growth rate takes place, but even in 2002 it is estimated there will be around 500 million poor and South Asia will remain with the greatest concentration of poverty in the world!

ADJUSTING TO THE EUROPEAN UNIONS (EU) ISO 9000 QUALITY MANAGEMENT SYSTEM (QMS) : THE IMPACT ON THE EXPORTS OF SRI LANKA TO EU

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The dependence of all countries in today's world, on the international community for their economic growth and survival has increased to unprecedented levels. This requires heavy adjustment on the part of each country, even to maintain their present relative position in the world economy, into the future.

Many threats are in the air. An effective strategy, to be implemented in order to convert these threats into opportunities, is to adjust fast to these environmental changes causing threats. This strategy is equally applicable in the context of the threats that come in the form of ISO 9000 QMS.

Introduction

Twelve member countries of the European Community declared a single European market; European Union (EU) from January 1993 onwards; thus doing away with inter-member cross-border barriers for trade. This is to ensure the free movement of products within the union. Another decision of the members of this large economic bloc was that of requiring uniform quality standards for the products to be admitted to the EU.

As a consequence of this decision, was born the "ISO 9000 Quality Management System"(QMS) outlined by the International Standards Organization (ISO) in Brussels. A majority of the member countries accepted this proposal with mixed feelings since the ISO series imposes strict quality measures for the products to be imported into the EU.

The Sri Lanka Export Development Board (EDB) is assessing the possible impact of the imposition of the ISO 9000 QMS on Sri Lanka's exports to the EU. The objective of this paper is to evaluate the impact of the imposition of the ISO 9000 QMS upon Sri Lanka's international marketing capabilities into the future and to identify the benefits of adjusting to these environmental changes, early.

SRI LANKA'S TRADE WITH THE EU

At present the EU is the second largest market for the products of Sri Lanka. Exports to the EU accounted for 31.6 percent of Sri Lanka's total export value during the period 1988-1992. During this same period the value of Sri Lanka's exports to the EU grew at an average annual rate of 34 percent. Table I below shows the value of exports to the EU during this period.

Table I

The Value of Sri Lanka's Exports to the EU during the period 1988-1992

YEAR	*RS.MN.*	*SDR MN.*
1988	11,037	249
1989	14,037	265
1990	19,661	343
1991	22,460	369
1992	34,826	550

Source: Sri Lanka Customs

Business with the EU countries has hitherto been very beneficial to Sri Lankan entrepreneurs than to any other regional grouping who export a wide range of products[1] to the EU.

Currently, more than 500 items are marketed in the EU with the aboe mentioned items being in the forefront of the export picture. The major twenty export items and export values during 1992 are shown in Table II.

THE IMPACT OF THE EU'S ADOPTION OF THE ISO 9000 QMS ON THE EXPORTS OF SRI LANKA TO THE EU

The ISO 9000 QMS enunciates relatively stringent and elaborate quality requirements. The standards are applicable at various stages of manufacture. This involves Sri Lanka having to upgrade production - marketing processes at each stage in the flow of products to the hands of consumers. The application of the ISO 9000 QMS extends far beyond the final stage of manufacture. These standards include packaging, storage, transport, as well as after-sales services. The various aspects to which these ISO quality systems apply may be summarized as follows:-

* Design of product,
* Documentation procedure[2]
* Stages of input purchase
* Process control,
* Inspection & testing,
* Handling, storage, packaging and
* Delivery.

All the aforementioned stages in the manufacture of a product are subject to these quality control measures. In addition, the ISO 9000 QMS requires other conditions of an obligatory nature such as :

* Efficient management practices,
* Personnel training,
* Quality auditing,
* After sales services.

The quality restrictions at each of the above stages illustrate how the ISO 9000 QMS provides guidelines for controlling the entire processes of production and marketing of all export products. These specific features are not found in any other quality system developed by a country or a trading bloc in the world.

This paper will discuss a few product categories of interest to Sri Lanka in its international trade with the EU. The product categories discussed here were selected so as to represent a fair cross-section of Sri Lanka's exports to EU.

THE IMPACT OF THE ISO 9000 QMS ON SELECTED PRODUCT CATEGORIES

Garments

Garments are the largest single export (by value) from Sri Lanka to the EU market. They accounted for at least 19 percent of the share of total export earnings in the world during 1992. The impact of the ISO 9000 QMS on the garment sector is expected to be moderate: the majority of garment factories in Sri Lanka follow fair quality control measures, already.

The ISO 9000 QMS will now require local businesses to document, and even systematise the maintenance of records, for the application of the ISO 9000 QMS standards. They will, therefore, have to maintain records covering the entire production processes so as to facilitate quality measurement. The industry is now required to bear the costs of all necessary adjustments from the initial raw material stage up to the finished product, if it is to be viable in its export marketing to the EU countries.

Desiccated Coconut (DC)

The domestic supply of raw material for DC production is not constant throughout the year. Biological patterns and weather conditions impinge on the regularity of coconut output. Non-availability of appropriate machinery for uniform disintegration of coconut kernel into DC in local mills, also creates problems of quality maintenance. The large number of mills in varying sizes and capacities lead to outputs of different quality standards of DC.

The introduction of the ISO 9000 QMS, therefore, will impose the need for re-adjustment of the DC industry. The costs involved in upgrading the machinery to the required standards for the production of quality DC of uniform grades and specifications would involve significant costs of adjustment. Upgrading of machinery and the improvement of production standards are instances that have to be faced.

Rubber

In 1992, Sri Lanka's total exports of natural rubber was to the value of Rs. 966 mln. The EU is one of the largest natural rubber importers from Sri Lanka. At present, this industry is undergoing various quality related problems. Lack of consistency of outputs and poor quality in packaging are just some. As a consequence, Sri Lanka has lost its market share to countries like Malaysia, Thailand and Philippines during recent years.

The situation will be aggravated with the implementation of the ISO 9000 QMS. Producers of natural rubber will have to follow the quality guidelines and modern machinery will have to be used in production. This too, will impose costs in changing to the new requirements.

Fruit & Vegetables

In 1992, Sri Lanka exported nearly Rs. 400 mln. worth of fruit and vegetables to the EU countries. Although the EU is not one of the major importers of Sri Lanka's agricultural products, the EU is projected as a profitable market for tropical fruit and vegetables. Since, there is a growing concern for health food products, Sri Lanka may have potential for the supply of organic foods to health conscious consumers in the EU.

At present, fruit and vegetable production is done in the form of home garden cultivation; Sri Lanka has not yet practised extensive farming systems. As a result, the industry lacks regular year-round supply. There is no uniformity of output, and quality problems are being experienced.

Sri Lanka's post-harvest technology is poor. Ensuring quality of the final product will thus be difficult. The ISO 9000 QMS will impose such requirements thus entailing additional costs to producers and exporters. If the industry does not adjust to suit the requirements of the EU, it will certainly lose marketing opportunities vis a vis the EU.

Private sector manufacturers have so far made fair attempts to grow fruit and vegetables on a commercial scale during recent years, particularly in the Mahaweli areas. Part of the EDB's mission is to develop this sector through encouraging small and medium scale producers. The EDB is attempting to evaluate the conditions for the implementation of the Export Trading House Scheme. It is envisaged that this strategy will be of some assistance to small scale producers.

Other Agro-based Export Industries

The international marketing of spices appears to show fair potential. However, producers of cinnamon, cardamom, etc., do their cultivation in scattered plots. The type of cultivation adopted is also traditional; it is associated with low levels of scientifically accepted agri-horticultural practices. Use of fertilizers is low, pest and disease control is absent. Nor is timely harvesting adopted. Techniques and practices in primary processing appear to be inadequate to meet the required quality standards.

These very features are found in other areas of agricultural export production such as horticultural products and other minor export crops. Perhaps, more resources and energy may have to be allocated to bring these product sectors in line with the requirements of the ISO 9000 QMS requirements. Therefore, adjustment problems associated with the upgrading of production of these agro-based export products may be expected.

GENERAL IMPLICATIONS ON EXPORT TRADE

The costs of quality adjustment

There will be considerable costs to be incurred as a result of quality adjustment processes to be adopted by the local industries. Expenditure may be necessary for the purchase of equipment, tools and machinery for testing quality standards.

Furthermore, industrialists will have to incur expenditure for converting or re-arranging existing production processes to suit the requirements of the ISO 9000 QMS. The other areas where they will have to bear additional costs are in (a) the training of staff, (b) quality certification, and (c) quality auditing. Already, exporters are having to pay heavy fees to foreign organizations for purposes of quality certification.

Price Uncompetitiveness

The additional costs that will, therefore, be added to the final product, will tend to make our products less competitive, thereby leading to a drop in our market share in exports to the developed countries. This is likely to be for a limited time period during the adjustment processes. Once these are overcome, it is hoped that prices can be reduced to the original levels. The category that will be affected are small and medium scale exporters and producers.

Shortages of raw material supply and other inputs

The ISO 9000 QMS imposes strict quality control measures in respect of raw materials and other inputs required in the production for exports. Some locally produced raw materials are not up to the required quality levels due to poor attention being paid to them. This may pose problems in the short run. Price levels of quality inputs may sometimes tend to rise as a result, causing the final product to be more expensive for the buyer.

Institutional Arrangements for Accredited Certification Processes and Technical Advisory Services

A national accreditation system for certification bodies in accordance with ISO 9000 QMS have still to be established in Sri Lanka. Sri Lanka Standards Institution (SLSI) needs to develop such accreditation for Sri Lanka to be on par with other acceptable accreditation bodies in the developed countries so as to be able to deal with the certification requirements of the EU.

Even with the presently accredited certification systems, it is necessary to receive recognition, especially in the EU, in order to assist CE mark for the products covered by the directives issued by the EU. At present, exporters obtain such certification through foreign agencies contacted through their own buyers. This method of course is quite costly but will have to continue until the necessary accreditation is obtained by the SLSI.

THE ROLE OF THE SRI LANKA EXPORT DEVELOPMENT BOARD (EDB)

The EDB is aware of the implications of the enforcement of the ISO 9000 QMS. It anticipates active participation in this context in the following areas:

1. Updating the knowledge of exporters in regard to what the ISO standards will be, the adjustments that will be required from the various market participants, the technical requirements, etc., through conducting training programmes.

2. Working with manufacturers and exporters to implement quality assurance systems that conform to the ISO 9000 QMS.

The EDB is taking necessary steps to make the export community aware of the ISO 9000 QMS with the assistance of the SLSI and other relevant organisations.

Table II

Sri Lanka's Exports to the EU - 1992

Rs. Mn.

1. Garments	16,275
2. Diamonds	3,903
3. Bulk tea	1,847
4. Unmanufatured tobacco	1,631
5. Desiccated Coconut	1,236
6. Other Textiles	817
7. Natural Rubber	966
8. Footwear - Rubber	533
9. Electrical Machinery & parts	467
10. Tyres & Tubes	443
11. Toys	299
12. Iron & Steel Products	432
13. Rubber Gloves	348
14. Leather garments, gloves etc.	318
15. Wooden craft items	297
16. Ceramic & Porcelainware	282
17. Tea in packets	252
18. Spices	201
19. Paper & paper products (Brochures, pads etc.)	210
20. Coconut fibre & fibre products	347
21. Vegetables	91
22. Fruits	287
23. Processed Food	35
24. Marine Food	160

These activities will be introduced gradually in order to carry the message more effectively to parties that are likely to be affected by these impositions.

The changes required in respect of industrial exports are likely to be greater than those for the other types of business organisations. It is expected that the export oriented domestic businesses will have to bear additional costs in purchasing precision instruments, testing apparatus and tools for upgrading the quality standards of their products.

CONCLUDING REMARKS

Sri Lanka's international marketers and related organisations are aware of the importance of switching over to total quality management systems. Quality management imposes certain strains on a company's resources. In the early stages, the call for such domestic change

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SOUTHERN AREA DEVELOPMENT: A REGIONAL PLANNING STRATEGY

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Background

During the first three decades of post-independence period, Sri Lanka's development efforts have been a national level and a growth-oriented one, which brought about **inter-regional disparities and unequal distribution of income**. The impact of this top-down development approach did not reach the remote and rural areas, resulting in backward areas and poverty pockets.

This trend began to change in early 1970's, with the introduction of **De-centralised Budget** and **Divisional Development Council System**, which laid the foundation for district or local level development planning, implementation and administration. Although this change did not show efficient results during the initial period owing to lack of coordination and integration of activities undertaken and lack of experience in decentralised work among the local level officials. As a learning process, however, this notion of decentralisation of financial resources and utilisation of local physical and human resources paved way to a long term development base, which provided the much needed planning and implementation discipline among the district level development planners and administrators.

The **Integrated Rural Development Programme** (IRDP) approach, which was introduced in 1978 served as a strategy to fill a development gap at the district level, in terms of its integrated planning and implementation mechanism, resource utilisation and efficient management. IRDP approach has assisted to integrate resources available to different agencies into an efficient and coordinated management system aiming at the development of **backward areas and rural poor**. It has also evolved several development traditions like **area-based development, people's participation, social mobilisation, environmental considerations and sustainable development**. IRDP's were firstly introduced to those districts where national programmes like **Mahaweli and GCEC** did not have any direct impact. Today, there are 14 districts that enjoy the benefits of IRDP.

Whilst the integrated and coordinated project planning, implementation and management are ensured under IRDP strategy, it was constrained by the issues pertaining to inter district level or sub-national level which call for regional considerations beyond mere administrative boundaries. IRDP could not find sufficient solutions for problems like increasing unemployment and depletion of available resources within these limitations. Therefore, **rational utilisation of human and physical resources** was a challenge for regional level to reckon with.

Regional Development for the South

The Government has launched a programme for **multi-faceted development of the South** giving attention to the resources of the region. A prime consideration is the need to provide employment opportunities, and thus a meaningful future for the educated youth of the South.

The South was selected as the first part of the island to be treated in this manner for a number of reasons. In spite of several sectoral development projects and programmes including the above-mentioned IRDPs in a few districts, the southern region has not witnessed much development over the past 3 decades. This has been due to the stagnation or decline of some of its traditional economic activities and to the greater part of national resources being developed for development elsewhere in the country. The South, however, retains its importance in the economy of the country on account of its able entrepreneurs, its educated and skilled labour force, its developed agriculture and partially developed industry and tourism.

The area identified as the South closely resembles that of the ancient **Ruhuna**, the centre of a flourishing civilization. It comprises the **Southern Province**, a large part of the **Uva Province** and small parts of the **Sabaragamuwa and Eastern Provinces**. It covers 50 DS divisions. The area of the South as shown on the map is approximately 10,500 sq. km. with a population of about **2.5 million**. As a natural region, it contains some **15 major river basins**, from the Bentota Ganga to Heda Oya and more than **300 km of coastline** from Bentota to Pottuvil.

The physical and human resources in the South show a wide diversity since the region covers whole cross section of land forms, agro ecological zones, soil groups and human settlements. The South falls into all three climatic zones, wet intermediate and dry, more than half of it is in the dry zone, which constitutes the most deprived area of the region **'South East Dry Zone'.**

The South has relatively high level of unemployment but this will be seen as an under-utilized resource for further development in agricultural, industrial and related services. According to the unemployment status survey of 1990 the total unemployed population in the South was 145,408.

With the initial establishment of some lead projects for the South, a regional development strategy has been introduced under a nationally executed **High Level Committee** which has the function to examine linkages between projects, to remove bottlenecks and to sort out problems of inter-relationships among agencies.

Six major programmes/projects have been introduced to the South with increasing emphasis on regional development. These programmes/projects, at present, are in various stages of the project cycle; some are on-going whilst the others have been finalised detailed feasibility studies for financing which is being negotiated. These six lead programmes which have been originated based on the Government priority, are **Koggala Export Promotion Zone, Extension of Southern Railway Line, Development of the Port of Galle, Alternate Southern Highway, Southern Province Rural Development Programme and South-East Dry Zone Development.**

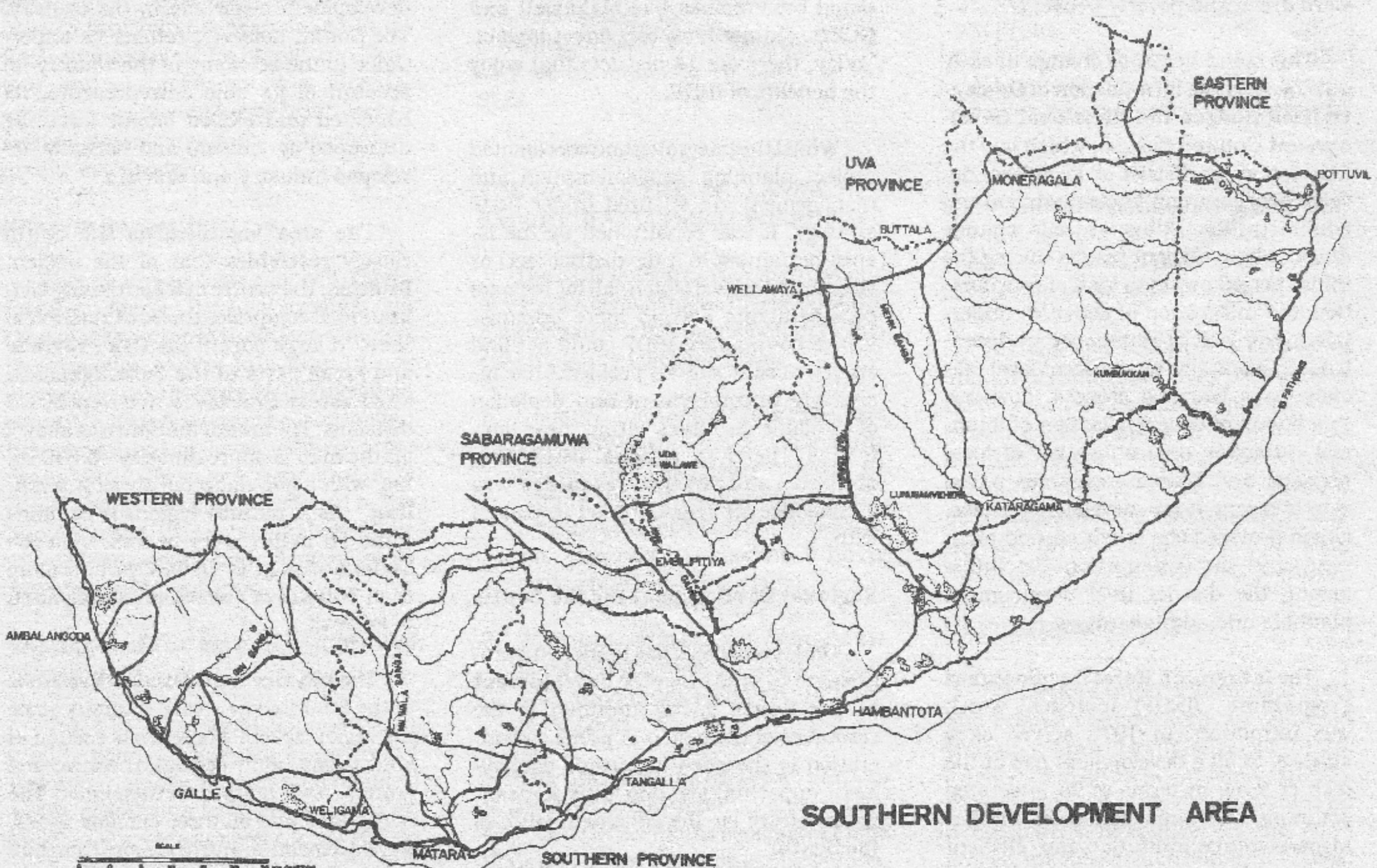
Regional Development Strategy of the South

A Southern Area Development Unit was established in the Regional Development Division of the Ministry of Policy Planning & Implementation, as the secretariat for this regional development programme, with technical assistance from UNDP, which is operational since mid 1991. This unit has been working as the secretariat of the High Level Committee, which has established a few subject specific sub-committees to examine issues in more detail, looking beyond sectoral concerns to the gaps, potential linkages and planned future prospects. The High Level Committee has been reorganised at present, as the National Steering Committee under which seven sub-committees have been established to deal with the subject level issues.

The achievements hitherto gained under this exercise are given below:

a) Identification and development of a mechanism to coordinate and monitor the lead projects that are operational in the South. The Southern Area Development Unit has been engaged full-time in coordinating activities and finding and introducing linkages for these projects which has facilitated the coordinated project implementation and input monitoring.

b) The sub-committees that have been operational have generated additional inputs towards achieving integrated development in terms of activities, funding and management; eg. (i). under the Sub-committee on Koggala Airstrip Upgrading, a project proposal has been prepared for the use of possible donors, investors and implementing agencies and negotiations are under way. (ii). under the Sub-committee on Roads, the issues of road bottlenecks, traffic management and new



rehabilitation work have been coordinated with relevant line agencies and provincial councils.

c) The South East Dry Zone (SEDZ) has been subjected to a separate study for integrated development as a major part of the South. The Programme Document of SEDZ and the work of the Sub-committee on SEDZ has generated a number of studies and projects in SEDZ area. Work on one such project (viz. Rainfed Farming) is under way and work on project oriented studies (viz. Minerals, Unemployment & Under-employment, Natural Areas and Water Balance) will be commence in 1994.

d) Development of an outline of a strategy for the South which is now published under the title of 'A Future for Ruhuna' in both Sinhala and English. This document will necessarily be a consultative document, the content of which will be improved and enhanced through consultation at a series of seminars and workshops at national, regional and sub-provincial levels.

Strategy Components

The outlined strategy is constituted of five components which are as follows:

a) **Make the most of the considerable development activity** that is already going on in the South, many of these activities create benefits by themselves, but much greater benefits can accrue by relating them to one another and integrating them with other activities.

b) To achieve more comprehensive of the South, promote the **integration of urban and rural development** by improving the linkages between them, physical, functional, social and commercial; ensuring that the activities in one are complementary to those in the other.

c) Develop a complementary strategy for **development in the rural areas**; it will vary according to the natural conditions, and population density, but in all cases it will be closely related to market demands.

d) **Development of tourism**, both for Sri Lankans and foreigners, in both urban and rural areas.

e) Incorporation of the national **poverty alleviation strategy** into all development areas to complement the economic growth created by the other components.

The strategy and the approach outlined in the 'A Future for Ruhuna' will be refined and elaborated, after broad discussion at national, regional and divisional level.

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may have adverse effects on the competitive abilities of local companies. For adjustments to ISO 9000 QMS will entail heavy additional costs on the organisation.

Implementing quality management systems to suit the requirements of the ISO 9000 QMS will, however, be beneficial to all domestic export organisations in the long run. They will tend to improve product quality as well as the efficiency of the entire organisation. As a result it will be in a position to reap the full benefits of implementing these quality management systems. This will, in turn, pave the way to fulfil foreign customer requirements all over the world in a more meaningful manner, thus ensuring long term business growth.

It can, therefore, be concluded that the impact of ISO 9000 QMS on Sri Lankan exports will be favourable in the long run.

It is also evident that all major trading blocs are seriously considering the imposition of strict quality standards. It is also likely that the North American Free Trade Association (NAFTA) will introduce quality standards similar to the ISO 9000 QMS series. Therefore, it is imperative that Sri Lankan exporters pay serious attention to quality adjustments of the international community even for mere survival.

Footnotes :

1. This includes garments, tea, natural rubber, desiccated coconut, footwear, toys, ceramics and porcelain ware, fruit & vegetables, spices, marine products, etc.

2. To be applied at each stage of the flow to facilitate the appraisal of standards.

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EVOLUTION OF POPULATION POLICIES AND PROGRAMMES IN SRI LANKA

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Introduction:

The governments of nearly all countries are committed to improve the welfare and living standards of their people. Population policies are one of the tools available to the governments for this purpose. Generally, two kinds of population policies can be identified. (a) Population - responsive policies or indirect policies and (b) Population - influencing policies or direct policies. Policies concerning educational expansion, food supply, development of towns and cities and resource development are in the first category, while family planning programmes to reduce fertility, public health and nutrition programmes that lower mortality and transportation and industrial planning to influence internal migration are in the second.

1. Migration

1.1 International Migration

(a) Immigration

Immigration to Sri Lanka on a large scale commenced in the early 1830s with the opening of the hill-country areas for coffee and subsequently for tea. For a long time, the flow of Indian labour into the country was to a large extent determined by the prosperity of the plantation industry. During the period 1871 to 1901, immigration contributed as much as 58 per cent to the total population growth of the country. The Immigrants and Emigrants Act of 1948 for the first time controlled the population movement into the country. Subsequently, the Citizenship Act of 1948 and the Indian and Pakistani Residents Act of 1949 clearly defined the terms and conditions under which non-nationals could obtain citizenship in the country. With the gradual enforcement of these acts and other restrictive measures adopted after 1948, immigration ceased to make a significant contribution to the growth of population in Sri Lanka.

(b) Emigration

In the period prior to independence, a small number of Sri Lankans migrated to different parts of the British Empire. Of these migrations, the outflow to the Malay Peninsula for employment was quite significant. Others migrated to Singapore and Hongkong to undertake business and trade.

The outflow of Sri Lankan professionals for employment reached significant proportions in the late 1960s and early 1970s. The migrants were mostly medical doctors, engineers and accountants. The outflow was mainly to countries such as United Kingdom, Western Europe, Australia, New Zealand, Canada and the United States. Also, a considerable number of school teachers, university lecturers and scientific personnel migrated to East and West Africa for employment. The emigration of Sri Lankans between 1970 to 1976 resulted in a severe depletion of professionally qualified manpower. It is estimated that more than 15 per cent of the total number of doctors and engineers emigrated during this period. As a response, the Government implemented policies designed to restrict this emigration. The policies included legislation requiring compulsory service for some professionals such as medical doctors and engineers, whose training was borne by public funds.

On the other hand, the Government also took action to accelerate the emigration of non-nationals working in the plantation sector in the hill country. In 1964 an agreement was reached between the Governments of Sri Lanka and India to repatriate to India about 525,000 persons of Indian origin while citizenship was to be conferred to another 300,000 over a period of 15 years. The implementation of this agreement over the years has been slow.

The more recent emigration to the Gulf States which commenced in the mid 1970s has been entirely different to the earlier outflows. The temporary nature of the migration has been more strictly regulated by the host countries. Unlike the previous emigrations, the migration to the Middle East has contributed substantially to the country's balance of payments through the remittances of workers. In recent years, the Government has realised that migration to the Middle East has wide-ranging social and economic benefits and costs.

1.2 Internal Migration

Policies that influenced internal population movements can be grouped under direct and indirect policies.

The direct policies include colonization schemes, and new settlement schemes. The colonization programme started in the 1930s with the primary objective of relieving population pressures in the densely populated south-west quadrant of the country. The land development ordinance enacted in 1935 provided crown land to landless peasants who lacked capital and resources needed to obtain and develop land on their own. Under the Land Development Ordinance, the main criterion in selection of settlers was landlessness or social need.

Since the 1960s due to the growing problem of unemployment among educated youth, priority has been given in some settlement schemes to selection of educated youth, particularly in collectively operated settlements such as youth schemes, co-operative farms, divisional development council projects and settlements established on estates acquired through land reform. More recently, settlements have taken place in newly irrigated land under the Mahaweli development programme.

Under indirect policies the eradication of malaria and rural development programmes can be included. Undoubtedly endemic malaria was one of the key factors in the de-population of the dry zone. Successful eradication of malaria through a special campaign not only brought about a rapid decline in mortality but also facilitated the movement of people from densely populated wet zone to the sparsely populated dry zone.

Since the early 1950s, the rural sector received priority in Government development plans and programmes. Among the policies that had an impact on rural living conditions were free medical and health services, producer subsidies and pricing policies. A nation wide network of roads and institutions equitably distributed these services and facilities to all parts of the country. This resulted in narrowing the disparities between rural and urban living conditions and turned the terms of trade more favourable to the rural sector. As a result the pace of urbanization in Sri Lanka has been slow.

2. Mortality

The decline in mortality in Sri Lanka can be attributed to both direct and indirect policies. The public sector expansion and development of health services was the key factor in the decline of mortality. Even prior to independence, the Government recognition to improve public health facilities was evident by the measures taken to control communicable diseases. Sri Lanka contained cholera successfully from the 1870s, mostly through quarantine measures. Preventive and curative medicine was amalgamated under the Ministry of Health in 1926. The successful implementation of campaigns to control communicable diseases was also a key factor. The Anti-Malaria campaign in the late 1940s was able to almost eradicate malaria and thereby bring about a sharp decline in mortality.

Since the early 1940s there was a gradual expansion of primary health care facilities. Considerable expansion of the cadre of medical and para medical personnel took place. The number of traditional birth attendants progressively replaced by trained midwives. The introduction of medical technology such as application of DDT, immunization against communicable diseases, and antibiotics further strengthened the health services. Sanitary improvements such as provision of safe drinking water, sanitary methods of sewage disposal and public health regulations also contributed to the decline in infant and child mortality.

Socio-economic factors also have indirectly influenced the reduction of mortality. The economy based on the exports of primary products made it possible to import food which contributed to improvement in nutritional levels among certain segmants of the population and eliminated periodic famines that were characteristic among subsistence farmers.

The food subsidy programme which operated for more than three decades also resulted in the improvement of nutritional status of the poor. This no doubt would have had its effect on infant and maternal mortality and the general improvement of the health status of the population.

The rise in educational attainment of females has been another factor leading to mortality decline in Sri Lanka. The female literacy rate increased from 8.5 per cent in 1901 to 83.2 per cent in 1981. This has resulted in more mothers making use of modern health facilities for preventive and curative purposes.

3. Fertility

Policies with regard to fertility can also be grouped into direct and indirect policies.

Strong Government commitment to reduce fertility has been a key policy concern since family planning became a national programme in 1965. The formulation of a national population policy and the importance of population planning received serious government attention in the latter part of 1970s. Therefore in 1977, the subject of population policy formulation and implementation was assigned to the then Ministry of Plan Implementation.

The national population programme became more supply-oriented by the end of 1980s with motivation for family planning becoming strong among married couples. Therefore, in 1989, the subject of population policy formulation was assigned to the Ministry of Health and Women's Affairs, thus bringing population policy planning, information, education and communication (IEC) strategy implementation and service delivery under the purview of one Ministry.

For the first time the Government established a national goal for the population programme by setting a target of achieving a total fertility rate (TFR) of 2.1 equal to replacement level fertility by the year 2000, with a view to stabilizing the population at about 25 milllion around the middle of the 21st century. In September 1991, the National HealthCouncil which is chaired by the Hon. Prime Minister, issued a population policy statement to this effect.

The service delivery programme was stregthened by upgrading medical institutions to carry out sterilization and provide other clinical temporary methods of family planning. At the same time medical and para medical personnel were given training in the delivery of services.

In 1979, the Government introduced an incentive payment scheme to medical teams that carry out sterilizations and in 1980 an out-of-pocket allowance was given to acceptors of sterilizations who qualified under certain stipulated conditions with regard to age and number of living children.

The population information, education and communication (IEC) activities in Sri Lanka have contributed to creating a favourable climate for acceptance of family planning and in sensitizing the community to change behaviour in an informed and responsible manner. The IEC activities have functioned at two levels; first in providing basic information for motivation and second in assisting in the decision making process. While mass media have been used for the first purpose, interpersonal efforts played a dominent role in the latter.

The government also established central policy and monitoring mechanisms to effectively coordinate and implement the above programmes.

The National Co-ordinating Council on Population (NCCP) chaired by the Secretary, Ministry of Health, co-ordinates and monitors the national population programme. The Population Division of the Ministry of Health is responsible for population policy planning, co-ordination and monitoring the national population programme and acts as the secretariat to the NCCP. The implementation of the family planning service delivery programme is the responsibility of the Family Health Bureau of the Ministry of Health. The National Health Council chaired by the Hon. Prime Minister is the highest policy making body on health and related subjects. Population and family planning issues are discussed and policy decisions are taken at the council meetings which are held regularly.

Socio-economic factors have also indirectly influenced fertility decline in Sri Lanka. Educational policies have contributed to the rise in female educational attainment. In 1981, nearly 50 per cent of women in the reproductive age group had eight or more years of schooling. It has, no doubt, influenced both the age at marriage and contraceptive use in a favourable manner.

Reduction of infant mortality has been another strong motivating factor to reduce fertility. Since the early 1960's it became evident to married couples that survival chances of their new born infants were much higher than what it was two decades before.

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