

THE ECONOMIC TIMES

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Major export sector:

PURPOSEFUL INTERVENTION

The dominant position of the tea industry in the economy makes it necessary for the government to pursue a policy of purposeful intervention to ensure that tea estates which are almost wholly owned by the private sector, are maintained and developed in the national interest.

This is stated in review of the economy presented by the Minister of Finance along with the 1973 budgetary proposals.

Broadly the strategy could be summarised as follows:-

(a) increasing the productivity of tea lands by proper maintenance adequate replanting and modernisation of factories;

(b) promoting the increased consumption of Ceylon tea abroad;

(c) maintaining reasonable prices to the producer by appropriate fiscal measures and international arrangements;

(d) improving existing trade, marketing and financing channels in the producer's interest.

Sri Lanka was the biggest exporter of tea in the world in 1971. The pattern of exports however has changed significantly in recent years. Exports to the United Kingdom have fallen sharply and more teas are finding their way to the Middle East, U.S.A and Pakistan.

The prices at Colombo auctions have shown a significant improvement in the

last two years. Hence, there has been a shift from sales at the London auction to the Colombo auctions.

Replanting Scheme

The viability of Ceylon's tea industry depends to a large extent on the rate of replanting. To achieve this, a subsidy scheme has been in operation since 1957. The rate of replanting in 1970 and 1971 of 6,858 acres and 6,640 acres respectively, exceed the target for those years of 5,800 acres and 6,500 acres respectively. The target acreage under the Five-Year Plan has been raised to 7,500 acres per annum. The performance so far in 1972 indicates that the target could be achieved. A sum of about 3.65 million has been invested since 1970 on replanting subsidies.

It is proposed to ensure that every estate, unless exempted for special reasons, should replant at least 2 per cent of its acreage each year. The Government will be taking special powers to enforce, if necessary, that the estates which are Sri Lanka's primary economic asset, are maintained in the best possible manner.

Modernisation

A scheme of assistance for modernising the old tea factories of Sri Lanka has been in operation since 1970. Since September 1970 132 tea factories have been modernised and the total investment amounted to Rs. 32 million. In 1973, the investment tar-

get is Rs. 12 million of which Rs. 4 million will be paid by the government as a subsidy. As further incentive the government, recently withdrew the capital levy made on tea estates for the installation of power connections.

Production of new forms of tea has been actively supported by the government. With a growing demand for green tea in Japan, payment of FEECs on such exports is being considered. The export of packeted tea has been encouraged.

A government owned Tea Corporation has been established under the Sri Lanka State Trading Corporation Act, and this Corporation will very soon establish itself in selected markets for the sale of Ceylon teas. It is time that Sri Lanka changed over from passive to aggressive selling techniques in highly competitive world markets, and the Sri Lanka Tea Corporation will be such channel of direct sales.

Small Holdings

The estimated number of about 115,000 tea small holdings may be further increased with the implementation of the Land Reform Law. As this sector provides the sole means of livelihood for a large workforce, arrangements have been made to supply high yielding clones for replanting, pay a reasonable price for green leaf by the factory and expand the advisory and extension services.

One of the biggest problems facing the small holder is the lack of manufacturing facilities and the resultant exploitation by intermediaries. Hence, in 1973, the government would establish co-

operative collecting centres for the purchase and transport of green leaf for smallholders with the necessary financial and organisational assistance. Legislation will also be introduced requiring private tea factories to manufacture the produce of their small holding neighbours.

Finally, Tea Smallholdings Authority will be set up to look after the special needs of smallholders.

Rubber

Despite a fall in world prices, natural rubber still remains a major foreign exchange earner for Sri Lanka. The need for an integrated plan for replanting in order to improve Sri Lanka's competitive position is important. In 1971, only about 8,500 acres were replanted, and in 1972 the current trends indicate a lower figure. This is well below the necessary targets of about 15,000 acres a year. The poor world prices

and the long gestation period has been the main contributory factors for this situation.

As rubber has to be replanted systematically over its 35 year old economic lifespan, the Plantation Ministry took urgent measures to assure a minimum price to rubber producers, and thus remove uncertainties over the future. From September, 1972, a floor price is being paid for RSS 1, and RSS 11 grades irrespective of world prices. Further improvements will be made in this scheme from time to time. Meanwhile a loan scheme providing a maximum of Rs. 500 per acre has been introduced with the assistance of the State Mortgage Bank. This will be addition to the replanting subsidy. It is also proposed to have a fertiliser subsidy scheme for smallholders.

(Contd on page 10)

U.S. Flour Agreement extended

The Secretary of the Ministry of Planning and Employment, Dr. H. A. de S Gunasekera, and the United States Ambassador to Sri Lanka, Mr. Christopher Van Hollen, signed last week an exchange of notes amending the wheat flour agreement signed in December 1971. The Amendment will effect an increase of \$10,000,000 (Rs. 63,650,000) in the amount to be loaned to Sri Lanka — from \$15,428,000 to \$25,428,000 — and extend the supply period from December 31, 1972 to June 30, 1973.

With the signing of the new Amendment, the United States

will have provided a total of over \$70,000,000 to Sri Lanka in the form of long-term credits for the purchase of foodstuffs, mostly wheat flour since 1967.

The terms of the December 1971 agreement are more favourable to Sri Lanka than those of previous agreements. The repayment period of the loan is 40 years, including a 10 year grace period during which payments on the principal of the loan are not required. Interest during the grace period will be at two per cent. Thereafter it will be at three per cent.

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LARGEST SELLING FORTNIGHTLY FINANCIAL JOURNAL

MARKET PRICES

COLOMBO

CLOSING PRICES 28-11-72

TEA (Rs. Cts. Per lb.)

Approximate range of prices (including teas sold Ex, Estates)

	B.O.Ps		B.O.P.Fs	
	Rs. Cts	Rs. Cts	Rs. Cts	Rs. Cts
High Grown:	1.80	3.65	1.90	3.50
		1 at 4.10		1 at 3.60
Medium-Grown:	1.65	2.15	1.80	2.10
Small Leaf Low-Grown:	1.75	2.08	1.70	1.82
Tea For Price:	1.15	1.50	1.35	1.50
Leafy Low-Grown:	1.80	2.12		
	F.B.O.Ps		F.B.O.P.Fs	
Tippy Teas:	1.85	2.30	1.75	8.60

RUBBER

PRICES FOR THE WEEK ENDED. 28.11.72.

	Rs. cts.—per lb.		Avg. to Same Period	
	Closing	Quotations	Avg. to date	
			1972	1971
RSS No. 1	87	79 1/2	80	1 1/4
RSS No. 2	81 3/4	72 3/4	71	1 1/2
RSS No. 3	80 4/1	71 1/2	69	1 1/2

COPRA

	Opening Price	Clos. Price
Estate Copra No. 1	216.50	216.50
OCCONUT OIL (Rs. per ton)		
November	1,250.00	1,250.00
December	1,250.00	1,250.00

DESSICATED COCONUT

	Opening price	Closing Price
November	.54	.55
December	.55	.56

PRICES OF THE WEEK ENDING 26.11.72

Commodity	Buyers	Quotations	Export DUTY
	(Per lb)		
Cardamoms ...	18.00	19.50	40%
Cardamom Seeds ...	8.75	9.05	on true
Cloves ...	18.00	21.00	F.O.B.
Cloves Stems ...	4.00	4.25	value.
Mace ...	unquoted	—	—
Nutmeg (Shelled) ...	4.25	4.52	—
Nutmeg (Unshelled) ...	2.50	—	—
Pepper (Black) ...	5.75	—	—
Papain (White) ...	27.00	28.00	—
Papain (Brown) ...	24.00	25.00	—
Cinnamon H/1 ...	3.40	3.45	20% on
Cinnamon H/2 ...	3.30	—	true f.o.b
Cinnamon Quilings No. 1	unquoted	—	value
—do— No. 2	—	—	—

	Per Cwt.	Export Duty
	Buyers Quot.	
Cocoa ...	266.00	270.00 40% on
Coffee (Arabica) ...	370.00	true f.o.b
Kapok (Clean) ...	140.00	value
Kapok (Unclean) ...	36.00	—
Croton Seeds ...	150.00	—
Essential Oils	Per oz. lb.	—
Cinnamon Leaf Oil	unquoted per 25 ozs	—
Cinnamon Bark Oil	Per oz. unquoted	—
Citronella Oil Estate Quality	Per lb.	10% on
Citronella Oil Ordinary	Per lb.	true f.o.b

SUBSIDIARY CROPS .. WEEKLY PRICE LIST WEEK ENDING 26.11.72

The undernoted quotations are the Wholesale Buyers Prices paid in Colombo and is maintained as a guide to the trade Every effort has been made to be as accurate as possible

Cereals	(Per Bag 154/15)	(Per bushel)
	Unquoted	
—Paddy ...	—	—
—Other varieties ...	—	—
—Rice Per Boiled ...	—	—
—Country Rice No. 1 ...	—	—
—Country Rice No. 2 ...	—	—
—Samba Rice ...	—	—
—Kora ...	—	—
—Maize ...	Per Cwt. ...	52.00—

TEA REPORT

Auction No. 47 held on 27th and 28th November, 1972.

The Total quantity offered was 8,609,289 lbs., comprising 4,685,731 lbs. Leaf Grades, 948,671 lbs. Dusts, 353,365 lbs. Reprints 55,183 lbs. Sundry Lots and 2,884,004 lbs. Ex Estate. Although quality was only slightly brighter from the Western slopes, and Uvas were fairly plain, there was a very strong demand and competition once again increased at the end of Sale.

High-Grown Teas: Western teas were a little brighter and although the limited selection of best liquoring Invoices were rather irregular but generally above steady, others, and especially those with some colour, advanced

appreciably. BOPF's were also dearer by about 10/20 aents and Pekoes sold well.

Medium-Grown Teas: Most of the Uvas now come into this elevational category. There was a good demand with the poorest firm and better teas dearer and Medium Fannings also gained 5/10 cents.

Low-Grown Teas: Demand was strong for all grades. The better BOPF's improved bw 5/10 cents, others were fully firm Small Leaf BOP's advanced 2/5 cents although stalky teas were barely steady and BOP's moved up 5/8

Commodity Commentary

cents. Leafy grades opened a cent or two dearer but closing prices were easier. **Tippy Teas:** FBOP's gained 5/10 cents. Small Leaf Flowery Fannings lost 10/20 cents. but the attractive bold leafy Invoices were irregularly dearer.

RUBBER REPORT

Week Ending

25th November, 1972.

RSS NO: 1 opened 3 4/3 cents easier at 87 4/3 cents per lb. partly due to the increase in duty by 2 cents per lb., declined further to 87 4/1 cents per lb. the following day but after a temporary recovery to 88 4/1 cents per lb. mid week, drifted lower once again in line with overseas advices to close at 87 cents per lb.

Approximately 435 Tons of LATTX CREPES were offered at the Two Sales held during the week under review, an increase of 89 tons compared to the previous week's total. At the First Sale, latex crepes hardened by 1/2 cent whilst the FAQ offerings too were about 2 1/2 cents per lb. better. The duller types also marked up by 1/2 to 4 1/2 cents per lb. and the inferior grades by about 2 cents per lb. At the subsequent Sale, the market was softer and consequently best latex crepes were 1/2 to 2 cents easier whilst the EAQ offerings declined by 1/2 to 1 1/2 cents lb. The duller types were marked down sharply by about 5 cents per lb. whilst the inferior grades too were 3 cents per lb. lower.

Approximately 99 Tons of SCRAP CREPES were offered at the Two Sales held during the week under review, a decrease of 13 tons compared to the previous week's total. At the First Sale, light brown scrap creps declined sharply by 4 cents per lb. but the dark brown types improved by 2 cents per lb. The darker sorts were irregularly dearer. Flat Bark too was 1/2 to 2 cents per lb. better. At the subsequent Sale, light brown scrap crepes declined further by 2 cents per lb. The dark brown and darker sorts, however, were again 1/2 cents per lb. Flat Bark was irregular.

FORWARD SALES

SOLE CREPE: A large quantity of Sole Crepe No. 1 changed hands for delivery during the period January/June, 1973 at Rs. 1/95 per lb. A small quantity was also negotiated for December 1972 delivery at Rs. 2/10 per lb.

Produce Report

WEEK ENDING
26th November 1972,

CARDAMOMS: 3,892lbs. of Cardamoms were offered, an increase of 625 lbs. compared to the previous week's total. The market was somewhat irregular with No. 1 quality being quoted at Rs. 18/- to Rs. 19/50 per lb. a decrease of -75 cents per lb. Next best grades were slightly easier at Rs. 17/75 to Rs. 18/25 per lb., whilst No. 2 quality remained at previous levels of Rs. 16/75 to Rs. 17/75 per lb. with Off grades continuing to be quoted at Rs. 10/- to Rs. 15/- per lb. Seeds were slightly dearer at between Rs. 8/75 to Rs. 9/05 per lb.

COCOA: Approximately 186 cwt. of Cocoa were on offer, an increase of 118 cwt. The market was slightly easier with No. 1 quality being quoted at Rs. 226/- to Rs. 270/- per cwt. Next best grades were also easier at Rs. 250/- to Rs.

260/- to whilst Off grades were slightly dearer at Rs. 230/- to Rs. 250/- per cwt. with Poorer sorts closing at Rs. 160/- to Rs. 220/- per cwt.

COFFEE: Approximately 15 cwt. of Coffee were on offer with Arabica fetching Rs. 270/- per cwt. and Robusta fetching Rs. 240/- per cwt. respectively.

PEPPER: 4600 lbs. of Pepper were on offer with one lot of good quality being withdrawn with a bid of Rs. 5/70 per lb., whilst Off grades were disposed of at Rs. 4/80 per lb.

MACE: 4 lb. of average quality Mace which were on offer fetched Rs. 5/- per lb.

CLOVES: 881 lbs. of Cloves which were on offer were withdrawn due to lack of sustable bids.

CINNAMON: 2 lots consisting of 680 lbs. of Cinnamon H/1 were transacted at Rs. 3/40 and Rs. 3/45 per lb. respectively.

Pulses	Per Cwt
—Red Gram —Toor Dhal) ...	40.00 — 45.0.
—Black Gram (Undu) ...	61.00
—Bengal Gram ...	46.00
—Green Gram ...	53.50
—Bombay Cowpea ...	40.00

Millets	Per Bushel
—Finger Millet (Kurakkan) ...	15.00—16.00
—Sorgum ...	Unquoted
—Soya Beans ...	850.00 (per ton)

Spices Condiment	Per lb.
—Mustard ...	2 80 2.85

Chillies	Per Cwt
—Dried Long ...	unquoted —
—Dried Round ...	—
—Off Grade ...	—
—Goraka ...	68.00—
—Vanilla ...	Per lb ...
—Tamarind ...	Per cwt ...
—Ground Nuts ...	Per 80 lb ...
—Cashew ...	Per lb. ...

Targets for agricultural products

The Mahaveli, Walawe and Lunugamvehera irrigation schemes would provide water to 180,000 acres now cultivated only in one season, and to 100,000 new acres of paddy.

Subsidiary Crops

A booming internal market

in onions and chillies is now available to the producer as a result of stopping the importation of these items.

Expected production in 1972 of approximately 335,000 cwts. of chillies, 1.3 million cwts. of red onions and 81.5

thousand cwts. of Bombay onions. The targets for 1973 is approximately 392,000 cwts of chillies and 1.57 million cwts of red onions and 108 thousand cwts. of Bombay onions.

Due to increased production these items would become progressively cheaper to the consumer.

PLANTATION INDUSTRY

Local rubber statistics

Rubber Production During January/June, 1972 totalled 69,168 tons, an increase of 376 tons compared to the corresponding period in the previous year.

Consumption of Natural Rubber during January/June, 1972 was 2,811 tons, substantial increase of 540 tons

compared to the corresponding period in previous year.

Actual Exports of Rubber During January/June 1972 was 71,267 tons, a substantial decrease of 3,066 tons compared to the corresponding period in the previous year.

EXPORT INTELLIGENCE

Indian exporters get big orders

A private watch manufacturing unit in Bangalore has received an order to export 500,000 watches to its Swiss collaborator. The export will start next year. It will be gradually stepped up to 500,000 pieces a month.

SCOOTERS TO NIGERIA

Nigeria has emerged as the newest market for India made Scooters with a Poona firm securing an export order worth Rs. 2.5 million for the supply of more than 1000 scooters and parts.

TRADE ENQUIRIES

The following Japanese firms are interested in importing from Sri Lanka the products indicated below:

FOODSTUFFS

Daimaru Kogyo Kaisha Ltd.

Konaiki Bldg, 27 Kita kyuhojimachi 4 - chome, Higashi-ku, Osaka.

C. Itoch & Co. Ltd., 68 Kita-kyutaro-machi 4 chome, Higashi-ku, Osaka. P. O. Box: Central 117 Oeka

Talyo Fishery Co., Ltd. 41-1 Shimo-fukushima 2 chome, Fukushima-ku, Osaka Sekiya & Co., Ltd.

4 Bingo-machi 4 - chome, Higashi-ku, Osaka. P.O. Box: Htgashi 62 Osaka

Toshoku Ltd., 20 Minami-hommachi 4 - chome, Higashi-ku, Osaka

GRAPHITE

S. Kato & Co.

Daiichi Bldg., 11 Minami mori-machi, Kita - ku, Osaka. Okazaki Minerals & Refining Co., Ltd.

3 Utsubo - hommachi 2 chome, Nishi-ku Osaka

KAPOK

Ishida Company Ltd.

Kotani Bldg., 18 Edobori kita dori 1 - chome, Nishi ku, Osaka. P.O. Box Central 471 Osaka

Matsushita Industrial Co., Ltd.

44 Kawaraya - machi 2 bancho, Minami-ku, Osaka.

P.O. Box: Central 264 Osaka Nikko Sangyo Co., Ltd.

127 Tanabe- hommachi 3 chome, Higashi- sumiyoshi-ku, Osaka P.O. Box: Central 350 Osaka

NEW SUPER RUBBER CLONE

A new super clone capable, of producing 3000 lbs of rubber per acre is being developed by the Rubber Research Institute of Malaya.

The RRI had already increased production per acre from 600 lb. in the 1950s to 2000 lb in the 1960's and experiments on the new clone had proved that 3000 lb of rubber an acre was already possible. (Meis-Strait Times)

PAWNS & SHRIMPS

Daimaru Kogyo Kaisho Ltd.

Konoiko Bldg., 27 Kita kyuhojimachi 4 - chome, Higashi-ku, Osaka.

Daiei Taigen Co., Ltd. 9-4, Kozu-cho, Minami ku, Osaka.

PRAWN & SHRIMPS

Daiwa Koeki Kaisha Ltd. Osaka Bldg., 1 Soze-cho, Kita-ku, Osaka. P. O. Box: Central 413 Osaka.

Marufuku Trading Co. Ltd.

Yamajin Bldg., 18 Hommachi 1-chome.

Marumatsu & Co., Ltd., 71 Kyomachibori 4-chome Nishi-ku, Osaka. P.O. Box Nishi 74 Osaka

Naigai Boeki Kaisha Ltd., Edobori Bldg., 22 Edobori kita-bori 2-chome, Nishi-ku, Osaka. P.O. Box 392 Central Osaka.

Toho Sangyo Limited, Junkeimachi Sanwa Bldg., 25 Junkei- machi - dori 4 chome, Minami-ku, Osaka. P.O. Box: Central 43 Osaka

PRECIOUS STONES

Myoshi Shoten Co., 24 Higashi - shimizu - cho Minami-ku, Osaka.

Sohki Trading Co., Ltd., Sanwa Bldg., 55 Kawara machi 2- chome, Higashi-ku, Osaka.

Takisade & Co., Ltd., Osaka Branch

India's cashew exports up

India is the world's leading exporter of cashew kernel. During 1971-72 the export earning registered an increase of about 20 per cent as compared to the preceding year. The export value was Rs. 620 million as against Rs. 521 million in 1970-71.

Major Importers

The major importers that increased their intake during 1971-72 were USA, USSR, Canada, U.K., Japan, Netherlands, Hong Kong, Czechoslovakia and West Germany.

Besides cashew kernel, India exports cashew-shell oil in sizeable quantity. 1970-71 export of the oil was about 6925 tonnes valued at Rs. 7.86 million. U.K. was the major market with an intake of 3083 tonnes at Rs 3.45 million followed by Japan with 2005 tonnes at Rs. 2.47 million and U.S.A. with 1282 tonnes at Rs 1.13 million. For the first three quarters of 1971-72 the export of cashew shell oil amounted to about 4273 tonnes valued at Rs. 4.8 million-

RUBBER CRUDE

Kasho Co., Ltd., Osaka Dojima Bldg., 50 Kinugasa- cho, Kita - ku, Osaka Kyoshin Industrial Co., Ltd.

16 Hirano-machi 2 chome, Higashi-ku, Osaka.

Mitsubishi Shoji Kaisha Ltd. Osaka Mitsubishi Bldg.,

15 -1 Dojima-hama-dori-1 - chome, Kita - ku, Osaka

P. O. Box: Central 240 Osaka

Sanyo Trading Co., Ltd.

Chiyoda Seimel Bldg.

35 Hirano, machi 4 chme Higashi-ku, Osaka. P.O. Box: Central 425 Osaka.

31 Bingo-machi 3 - chome, Higashi - ku, P. O. Box: Higashi 79 Osaka.

SEAWEED

Chuo Kanbutsu Co., Ltd. 1-1 Juroku-cho Fukushima ku, Osaka.

Daido Co., Ltd., Okazakibashi Bldg., 90

Utsubo - hemmchi 3 - chome Nishi-ku, Osaka. P.O. Box:

Nishi 55 & 67 Osaka.

SHARE MARKET REPORT

The Share Market which was open only for 4 days because of the Poya holiday remained quiet, according to the Report of the Colombo Brokers' Association for the week ended 24-11-1972.

	Previous Price	Price on 24-1-72	+ or -
	Rs. cts	Rs. cts	Rs. cts
Teas			
Dickoyas.....	5.00	5.00	
Great Westerns.....	7.50	5.00*	- 2.50
Lucky Lands,....	.90	.75	- .15
Tea - cum - Rubbers			
Udabages. . . .	4.00	3.50	- .50
Commercial:			
Diesel & Motor Engineering	5.25	5.25	
Rowlands..	4.00	4.00	
Cargills. . .	6.00	6.00	
Ceylon Theatres	8.50	7.00**	-1.50

There was no business in Rubbers; Coconuts; Preference Shares and Govt. loans.

The following dividend announcements were made:- Gestetner of Ceylon Ltd:- 15% Final on 21. 12. 72. E. B. Creasy and Co. Ltd.-4%. Final on 21. 12. 72. Attampettia Estates Ltd-5% Interim on 23. 11. 72. Lambretta (Ceylon) Ltd.- 1 1/2% Final on 22. 12. 72

THE ECONOMIC TIMES

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Tartaric acid from tamarind leaves

Tartaric acid is a very important chemical intermediate. It is used in textile and medicinal industries. The Regional Research Laboratory for that has developed a process for the manufacture of tartaric acid from tamarind leaves.

The process consists of digestion of leaves under suitable conditions, the precipitation of acid as calcium tartrate. The crystals are then broken down by sulphuric acid, decolorised with charcoal and recrystallised. RRL work has indicated that tartaric acid can be isolated in a yield of 7% or more from the leaves.

Tamarind leaves which are the essential raw material for the manufacture of tartaric acid are available in plenty in South India. Other chemicals required for the manufacture of this chemical are also indigenously available.

This process should be an attractive proposition in view of the large demand of tartaric acid and high market price. Boiler, ex-

traction tanks, precipitation tanks, filter acidification tanks, evaporating pans, and vacuum evaporation pans are the major items of plant and equipment that can be indigenously fabricated.

Capital outlay needed

The total capital outlay for a plant capable of

producing 100 tonnes per annum of tartaric acid has been estimated at Rs. 13.50 lakhs (Rs. 9.75 lakhs on plant, land and fixed capital and Rs. 3.75 lakhs as working capital.) The cost of production comes to approximately Rs. 11.67 per kg. against the market price of Rs. 17/- to 20/- per kg.

SALT AS A WOOD PRESERVATIVE

Solikamsk (Urals) is the only town in the Soviet Union where you can see the salt works that were in use three or four centuries ago, says the English language monthly "Soviet Life." These wooden structures are in just about as good condition today as when they were built.

The wood has been protected against rot and insects by the salt solutions with which it was impregnated over the centuries. The boiling premises and brine towers were built of select timber. Logs 50 feet long went into the walls, which

were 15 to 20 feet high. Only a few of old Russia's churches were built of logs that long. The ware houses in which the salt was kept had double-layer walls 260 feet long. (APN)

Less noise from commercial vehicles

Britain's commercial vehicle manufacturers, who earned a record £226 million in export sales last year, have announced plans to make future British trucks and other commercial vehicles among the quietest in the world.

According to the Society of Motor Manufacturers and Traders the UK industry has already halved the noise intensity of new trucks in the last three years and is now looking at ways which halve it again by changes in basic engine design.

Adaptations

Two adaptations of the four wheel-drive Range Rover, an ambulance and police patrol vehicle, will

yes, what kind of people are made managers is one of the most important decisions to be made in a company.

A manager who is successful in getting decisions implemented by other people, must organize efficiently, communicate clearly, and secure people's willing cooperation. One danger is that many managers underrate the difficulties of communication, of conveying to their subordinates what they want done and why, or of getting reliable information from them. Hence, they may be startled when their actions and motives are misinterpreted.

Another danger is that the manager may fail to realize the need to enlist the cooperation of his subordinates. Yet another is that, although he is aware of the difficulties of doing so, he may search for some panacea such as joint consultation, profit-sharing, or incentives as the answer to his problems of winning cooperation.

SCIENCE AND TECHNOLOGY

New anti-pollution device for automobiles

An unique device that can purify exhaust fumes from cars burning liquefied petroleum gas at low cost has been developed by a Kyoto University scientist.

Tsutomi Kagitani, Professor at the Engineering Department of Kyoto University claimed that test application of the device to 60 taxicabs in Osaka and Tokyo proved the system was highly effective in reducing the levels of pollutants discharged by the cars.

He said further improvement would be added to the device so that it could be applied to gasoline-burning cars as well.

The system consists of a 'combustion purifying agent' a liquid mixture of acid compounds such as alcohol and ester, and a device that supplies the agent into the engine chamber. And it saves the consumption of fuel and gives the car greater power.

Outstanding feature

According to the inventor an outstanding feature of the device is that it can simultaneously purify carbon monoxide, hydrocarbon and nitric oxides - something that was considered technically difficult. According to Prof. Kagitani, the tests have proven that the level of nitric oxides was reduced to less than one-tenth, that of carbon monoxide to less than one fifth and that of hydrocarbon to one-half as compared to cars not equipped with the device.

MANAGEMENT

Getting the job done [3]

A wise manager knows the limits of his own authority and, as far as possible, avoids weakening his authority by trying to exercise it where it is likely to be challenged or ignored. One American firm, for instance, that was moving into a new building which had a fine, but damageable, floor, ruled that none of its female employees could wear stiletto heels at work. This rule was considered by many of the women to be an infringement of personal liberty. The opposition was such that, when last heard of, the management was worrying about how it could back down without loss of face.

Most of what we shall have to say concerns cooperation of workers, but the cooperation of other managers is also vital. Failure to obtain it may have more serious consequences than a failure with one's immediate subordinates. Subordinates who will not cooperate may resign or be sacked, but the other managers are likely to remain. Hence 'acceptability to colleagues' is now one of the prime criteria for management selection. Yet acceptability alone is sometimes too passive a quality to ensure successful implementation.

Persistence, drive, and political manipulation, supported by an understanding of other managers' motives and a correct assessment of the political situation in the company, may all be necessary to get implementation of some plans.

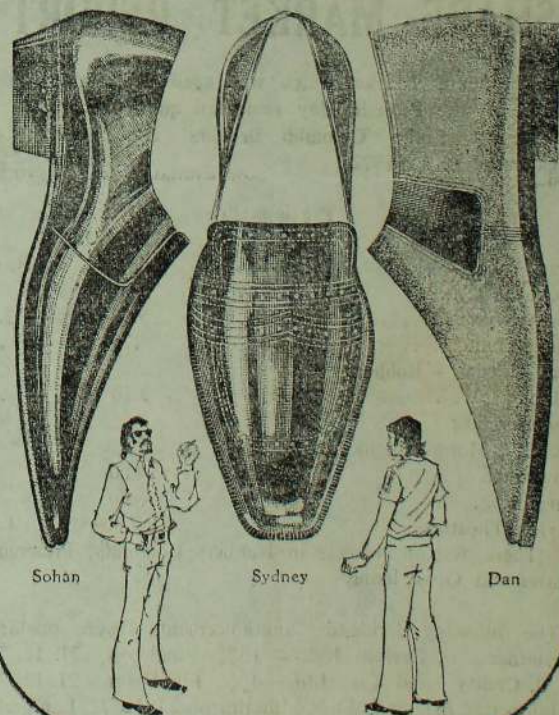
One problem that worries some top managers is how to make certain that their junior and middle managers have the same philosophy as themselves. This is particularly likely to be a problem when there is a change in top management, for instance, thorough nationalization or a merger.

A new, more progressive, top management may find that the middle managers, especially have quite different ideas of the way employees should be treated. Nor may top management be able to sack, or retire, even it wishes to do so, those managers who will not, or for personal reasons cannot, cooperate because the numbers involved may be too great. The problem will solve itself eventually as managers retire or leave, but as Keynes said, "in the long run we are all dead." This may be true for a company too.

Since the philosophy of management is vital to the relations which exist between management and its employ-

Take it in your stride

Bata



U. S. Companies eye mammoth Soviet gas deal

Washington

The gas that heats U. S. homes may one day flow all the way from Soviet Siberia in what could be the largest commercial venture in history.

Six U. S. companies and several Japanese firms are negotiating with the Soviet Union now on joint ventures to extract natural gas from beneath the Siberian Tundra, pipe it thousands of miles to the coast and ship it to Japan and both U. S. coasts.

However, U. S. officials warn against optimistic reports that this may happen soon. There are many hurdles left to cross—particularly in financing—they warn, and the process could take several years.

The idea, however, is very attractive to both the Soviet and U. S. governments. For the United States, it could go a long way toward solving the nation's growing energy crisis, Secretary of Commerce Peter Peterson estimates that by 1980 the nation will face a balance of payments deficit for energy purchases ranging from 15

to 21 billion dollars. In addition, the natural gas deal could create thousands of new jobs in the United States.

For the Soviet Union, there are many advantages. Moscow desperately needs foreign exchange, which would begin flowing into the Soviet Treasury after the huge initial investment is paid off perhaps in a decade from now.

The Soviet Union is however eager to conclude an agreement fast, by the year 2,000, experts say, nuclear power may replace Gas as a fuel. So if Soviet officials want to sell their vast supplies of natural gas, they must begin work on the project soon.

★ ★ ★

W. GERMAN FARM PRODUCE TO SET NEW RECORD

Bonn

Although the Federal Republic of Germany generally is thought of as a maker and seller of industrial goods farms are also an important part of the West German economy. This year the country's agricultural exports, which were valued at

DM 4,700 million in 1971, will exceed DM 5,000 million, thus setting a new record.

Countries that will help to account for the rising total of grown-in-West Germany agricultural produce in the years to come are expected to be East European states and Japan, but the major buyers will be, as now, within the European Economic Community. •

EXPANSION UPSURGE IN BRITAIN

London

The October monthly survey of the industrial sector opinion published in the London Financial Times last week says that a strong expansion of the British economy is now under way with a "dramatic upsurge" in orders and a further substantial rise in the investment promotions of industry generally.

The chances of sustaining the expansion over the next 12 months "must be reasonably good", says the survey, which is based upon detailed interviews with top executives.

Everything points to the conclusion that there should be a significant surge in capital investment during the



next 12 months and that the official forecast of an increase of between three and five per cent "might be on the lower side".

JAPAN-CHINA ECONOMIC ASSOCIATION

Tokyo

The 'Japan-China Economic Association', designed to promote Japan-China economic relations, will be formally established in Tokyo in mid-November by the Ministry of International Trade and Industry (MITI) and private business circles.

The association, to be made up of MITI officials and business leaders, will conduct research on the Sino-Japanese relationship and relations between China and Southeast Asian countries to work out Japan's long-term economic policy towards China.

Initially, it will have an operating fund of Yen 600 million, to be put up by MITI and business circles on an equal basis. In the future, the fund will be increased to around Yen 3,000 million.

Eventually, the Association will aim to become Japan's sole channel in economic interchanges with China by integrating the existing organizations for trade with that country, such as the Association for the Promotion of International Trade Japan (KOKUBOSOKU) and the Japan-China Memorandum Trade Office.

CZECHOSLOVAKIA'S GROWTH TARGET

Prague

The national income of the Czechoslovak Socialist Republic in 1973, is expected to grow by more than five per cent next year.

In view of the growth rate achieved in 1971, and of this year's trend, the plan for the next year anticipates an increase in industrial production by 6.5 per cent, i.e. more than envisaged in the plan for the whole five-year period (6.1 per cent).

The 1973 plan anticipates a 5.3 per cent increase in the national income of the Republic, personal

consumption will go up by 5.4 per cent while the share of new investments in this sphere will stay at the level of the current year.

National economic growth will be above all achieved by the means of higher productivity of labour: the plan for next year sets its increase in industry as a whole and in the building industry at 4.5 per cent respectively.

The retail turnover will go up by 5.7 per cent, the sale of foodstuffs and industrial goods by 4 and 7.5 per cent respectively. Over 100,000 new flats will be completed under the 1973 plan.

INDIA'S STC GETS BIG EXPORT ORDERS

New Delhi

The State Trading Corporation of India (STC) has secured orders worth about Rs. 166 million for supply of jute goods, shoes and cement in recent weeks.

Order for supply of jute goods worth Rs. 45 million has been placed by Sudan. Shoes worth about Rs. 26 million are to be exported to the Soviet Union and another order for shoes worth Rs. 7 million has come from Western Europe. Cement worth about Rs. 40 million will be sent to Bangladesh.

During the last five months S. T. C's exports have gone up by 14 per cent from Rs. 250 million in the corresponding period last year to Rs. 290 million while imports have increased 3 per cent from Rs. 480 million to Rs. 500 million.



Tourism occupies a key position in Sri Lanka's new export plan aimed primarily at earning foreign exchange. It has the added advantage of creating new employment opportunities in the hotel industry, trade, transport and other services. It also stimulates local travel enabling our people to holiday and relax in the beauty spots of our land.

Indigenous handicrafts and the gem trade in particular is given a filip in the process. Encouraging fauna and flora conservation and enhancing the scenic beauty of our land is another of its more important functions.

Largely reserved for the private sector, its success heavily rests on the enterprise of the private investor - with the Tourist Board laying down the broad policies and targets promoting and directing its development along desired lines. Investment here qualifies for the financial and other incentives given to investments in the New export sector, and the recent White Paper on Private Foreign In-

Largely for private sector

vestment specifically invites private foreign investment in the industry promising attractive inducements.

Plan Targets

The organised effort for its promotion begun in the 60's has resulted in tourist arrivals increasing from 15,300 in 1966 to 35,500 in 1970. The plan targets are 220,000 arrivals in 1976 with the total hotel accommodation to increase from 1,545 rooms now available to 4,340 in 1976. The number of arrivals during the period January to July this year was 29,548 with the projected number for this year being 60,000 and 80,000 for 1973. The projected foreign exchange earnings for this year are Rs. 30.9 million as against Rs. 20.27 million earned last year and Rs. 6.1 million in 1966. Plan targets are now being achieved.

During the plan period, resorts, hotels and other facilities would be developed along the South - Western and the Eastern coast, in the hill country, in our ancient cities and in the game sanctuaries of Yala and Willpattu.

The Tourist Board has completed the first phase of work at the Bentota and Sigiriya resorts, and would be completing the Giritala and Polonnaruwa projects by the year's end. Work on the Kataragama, Kalkudah-Pasekudah, Nuwara Eliya, Bandarawela and Dunhinda resorts is in progress. Construction of the Inter-Continental and Lanka Oberoi Hotels have begun. It is proposed to commence developing the Trincomalee and Hendala areas, and a safari camp at Amaduwa is planned. Whilst hitherto the accent was on hotel accommodation and transportation, ancillary facilities such as recreational amenities, shopping and sports facilities tended to be neglected. These deficiencies would soon be remedied.

The Ceylon Hotel School established to train educated young men in all aspects of hotel work including catering, room and bar, service, etc. helps to provide a continuous supply of personnel to man the expanding hotel sector. An efficient and courteous service is thus provided to visitors - The Budget review 1973.

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UNEMPLOYMENT IN SRI LANKA

The subject which forms the main theme of this Conference has received top priority in the Government Planning circles in recent times. As a result, two useful and very valuable publications have been issued, viz:

(1) The Report of the Dudley Seer's Mission sponsored by the I.L.O., World Employment Programme and

(2) the Five Year Plan issued by the Ministry of Planning and Employment. This report has to a large extent been based on the information available in these two publications.

For the purposes of this report, the term 'unemployment' has been defined to include those persons both male and female in the employable age group between 15 and 60, who are openly unemployed i.e. those who are unable to find work due to lack of demand for their labour and opportunities for their employment.

In this definition we have deliberately left out those persons, who can be categorised as being under employed i.e. those who are in seasonal employment or have only casual opportunities for work or whose remuneration compared with their qualifications is grossly inadequate. In our view under or unemployment in developing countries poses a very serious problem for which an answer must also be found in solving the problem of unemployment in general.

Remarkable Features

Statistics available show that in the 1960's more than 10% of the total active labour force of 3,800,000 have been openly unemployed and that by 1970 this figure has risen to 15%. This is indeed a very large percentage for a country of the size, resources and population of Ceylon.

A remarkable feature is that unemployment is highest in the age group 15 to 24 i.e. among those who have had eight to ten years of Primary and Secondary education from the Universities. The seriousness of this particular situation can be gauged from the fact that of the Ceylonese population of just over 12 million 50% is under the age of 25 years, which means that in the coming years the rate of growth of new labour coming into the market will be even higher than the average growth in population.

Another feature worth noting is that of the total population of just over 12 million with an active labour force of around 4 million two thirds of such a labour force is concentrated in the rural sector of the country and the balance is divided between the plantation sector and the urban sector.

Structural Imbalance

The I. L. O. Mission has traced Sri Lanka's unemployment problem to two types of imbalance.

1. The overall incompatibility between the total supply and demand for labour.
2. The structural imbalance in that the unemployed or underemployed are unwilling or unable to accept.

- a. the type of work available
- b. the seasons during which such work is available
- c. sites or work-places or
- d. otherwise do not find that the remuneration offered is attractive enough to accept the work offered.

Such a structural imbalance may be a common feature in developing countries and it could be attributed in Sri Lanka's case to a faulty education system, which prepares young people for 'White Collar' jobs rather than positions involved technical skills. In turn this has produced a social strata which relegates manual labour to a very low position in the general scale of values. Another inhibiting factor has been the highly developed net work of social and welfare services, which is provided by the Government and which assures citizens of a free secondary education, free medical treatment and even free rice, which is the staple diet.

Another important cause for the increasing unemployment is a feature applicable to most developing countries namely the unfavourable trade balance caused by continuing adverse terms of trade over the last 15 years, which in turn has led to the disappearance of valuable foreign exchange resources which could have otherwise been utilized on development projects. Faced with this situation of continuous balance of payment deficits the measures taken by the Government have been aimed in the past at achieving the following objectives:

- a. Increasing local agricultural output in order to

reduce considerable foreign exchange on food imports.

b. Setting up Import-Substitution Industries.

In these two fields there has been a considerable amount of development which to a certain extent has been able to absorb part of the labour force coming into the market but on the whole the impact made has been small as such economic development has been achieved through capital intensive methods which have not generated sufficient opportunities for employing human labour. Further it has been found that the Import substitution Industries which have been set up are geared mainly to utilise imported raw materials which in the context of the shortage of foreign exchange had led to fluctuations in industrial production and the prevalence of excess capacity, both of which have led to restrictions in the labour employed.

Summary of the Country Report on unemployment in Sri Lanka presented by A. K. NESARATNAM at the XXth session of the Commission on Asian and Far Eastern Affairs, International Chamber of Commerce (CAFEA-ICC) held recently.

The Five Year Plan now prepared by the Government has attempted to formulate programme designed to achieve the maximum development of national resources including labour through restructuring the economy particularly in the agricultural, industrial, construction and service sectors. At the same time in order to correct the chronic imbalance in Foreign Exchange the development programme prepared is based on a system of priorities which places emphasis on the following:

- (a) The adoption of labour intensive methods as opposed to capital intensive forms in all sectors of productive development.
- (b) An immediate and concentrated effort to increase food production not only in the rice but also in subsidiary crops.
- (c) A fuller and more efficient utilisation of existing plant and machinery and the expansion of such industries as will give optimum benefit to the development programme as a whole through incentives provided for the use of local raw materials.
- (d) The building up of an

entirely new export sector.

(e) The development of the present import substitution industries not merely to satisfy the domestic market but also to look towards exports particularly in the CAFEA-ICC (Commission on Asian and Far Eastern Affairs, International Chamber of Commerce Region).

(f) Expansion of Service Industries like tourism and building construction.

The additional employment expected to be created when the plan is implemented will be in the region of about 800,000.

At the same time in order to bring the present high rate of population growth under control the plan also gives high priority to making available family planning advice and services to the population in the urban, plantation and rural sectors.

To ensure the co-operation of labour and to make manual labour attractive, steps will be taken to change the educational structure incorporating training in agricultural and technical skills in the normal primary and secondary school curricula. Wage scales will also be remodelled in order to remove the existing disparities between manual labour and white collar employment. These together with social insurance and provident fund benefits, with guarantee to the rural worker a standard of living comparable to that of the urban employee.

Other important policy decisions made by the Government in this connection are:

- * the provision of incentives for voluntary savings,
- * introduction of a compulsory savings scheme tied up with a ceiling on income, and
- * introduction of a ceiling on land and house property.

While it is commendable and indeed prudent, for any developing country to endeavour to accomplish its own investment targets by generating domestic savings it would be unrealistic to plan on the basis that all or most developing countries — and Sri Lanka is no exception — can get by without substantial injection of external assistance.

Such assistance must include intra regional co-operation in trade and aid. Our National Committee would therefore in conclusion, like to suggest that the areas of such co-operation be fully explored in the forum of the CAFEA-ICC so that maximum benefits can accrue to participating countries as a result of their mutual efforts at understanding regional problems.

The basic cause for the inelastic nature of the tax revenue is related to certain structural characteristics of the tax system.

A most significant feature of the tax structure in Sri Lanka is its dependence on foreign trade sector. It has been found from empirical evidence that the dependence of tax system on international trade is greater in less developed countries than in developed countries. As the economic development proceeds, the share of foreign trade sector in national income tends to decline and, consequently, the dependence of tax system on foreign trade sector too declines.

An attempt is made here to test empirically the relative importance of international trade and per capita income in determining the tax revenue of Sri Lanka. A multiple regression analysis is used in this study and the period covered is the decade from 1961/62 to 1970/71. The size of the foreign trade sector termed as 'openness' illustrates the share of imports and exports in the economy.

The significance of "openness" as a determinant of the tax revenue is mainly due to the fact that the tax system has tended to rely largely on customs duties. As shown in Table A more than 30 per cent of the total tax receipts collected during the financial year 1970/71 was from customs duties. In spite of being the major determinant of the tax system, the annual receipts from customs duties have not increased at a sufficient rate; this inadequate growth is mainly a result of the structural factors pertaining to exports and imports experienced in recent times. Under the export promotion programmes, a portion of new export commodities were exported at a lower duty or without duties. Furthermore, the volume of exports has not increased substantially during the past.

As a consequence of these two factors, the receipts from export duties remained at a stable level. On the other hand as a remedial measure for the deteriorating position of the balance of payments various direct and indirect restrictions on importation of non essential consumer goods have been imposed since the early sixties and the ultimate result was the considerable decrease in the volume of imports. In the meantime, intermediate and investment goods were imported at a lower duty rate or without duties with a view to promote capital investment. The outcome of these tendencies is that they have tended to check the growth of the tax revenue as

TABLE A

Sources

1. Customs duties
2. Excise duties
3. Income tax
4. Licences and income revenue not otherwise classified

Total

well as the Government revenue.

Apart from customs the revenues of the income tax and excise have not expanded.

FISCAL CAPACITY

TABLE

Items

1. Purchase of goods
 - (i) Administration
 - (ii) Social Services
 - (iii) Economic Services
 - (iv) Other
2. Transfers
 - (i) To
 - (ii) Of which: Subsidies
 - (iii) Total

sufficient rate in the income tax system. In the economy it is the expansion of the tax base. A realistic assessment of the income has been made on account of the existence of a large employed sector in the economy. Furthermore, the degree of mobility in the agricultural sector remains at a lower level. An assessment becomes difficult. Although the income tax evasion can be measured precisely, the scale of revenue evident throughout the economy; This may be due to the fact that a million of additional tax payments (even allowing for a cap) were collected as a result of the demonetization adopted in October 1970. Taxable income in respect of income in less developed countries is inevitably lower than the capacity in developed countries due to the level of per capita

SOURCES OF TAX REVENUE

	1960/61		1962/63		1964/65		1966/67		1968/69		1969/70		1970/71	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	Rs. Mn.	%	Rs. Mn.	%	Rs. Mn.	%	Rs. Mn.	%	Rs. Mn.	%	Rs. Mn.	%	Rs. Mn.	%
Customs duties	659.8	54.6	606.8	48.9	673.5	46.7	692.7	45.7	754.2	43.8	625.0	34.1	610.6	32.0
Excise duties	207.0	17.1	272.0	21.9	336.7	23.3	402.1	26.5	524.1	30.4	671.7	36.6	751.6	39.4
Income tax	314.0	2.59	323.8	26.1	349.5	24.2	353.8	23.3	397.1	23.1	495.2	27.0	494.2	25.9
Corporation tax														
Profits tax														
Stamp duties and internal revenue														
Other taxes														
Total	1209.5	100.0	1240.3	100.0	1442.2	100.0	1516.6	100.0	1721.4	100.0	1834.8	100.0	1909.1	100.0

Sources: Accounts of the Revenue and Expenditure of the Government and Estimates of the Revenue and expenditure of the Government.

Overall current and the narrowness of the tax base in the former group of countries.

Unlike other taxes, the receipt from business turnover

the entire tax structure together with a rapid increase in non-developmental expenditure have resulted in low Government savings to finance capital development.

tion during the period 1960/61 to 1971/72 was financed by way of borrowing from domestic and foreign sources.

Policy Constraints

Certain policy constraints should be taken into account in considering the role of Government borrowing programmes and deficit financing policy in the context of public sector investments.

The prospects of utilizing foreign borrowing as a source of financing capital expenditure may be limited by the debt servicing capacity of Sri Lanka and the ability and the willingness of the lending country or international organization to grant loans. On the other hand, it is evident that a substantial portion of foreign loans has been utilized for non-developmental purposes (i. e. for consumption.)

Apart from foreign borrowing, domestic borrowing, too, faces certain limitations. A major bottleneck in increasing domestic borrowing is the inadequacy of private savings. Large part of domestic borrowing has been subscribed by Government and Semi-Government institutions (i. e. captive market); direct contributions by the public remained at a low level.

The need to step up private savings not only to provide a larger base for the Govern-

the Five Year Plan. As depicted in this Table, about 60 per cent of Government capital expenditure is expected to be financed through Government and private savings in 1972 and this ratio reaches the level of 70 percent in 1976. There appears to be an immediate need, therefore, to expand domestic savings considerably. The Five Year Plan indicates that savings rate should rise from the present figure of 13.5 per cent of Gross Domestic Product to about 17 per cent, if investment targets envisaged in the Plan are to be realized.

Hence, suitable measures should be adopted to enhance Government savings as well as private savings.

Drastic changes needed

It has been shown earlier that the disparity between the growth rates of current revenue and current expenditure has tended to effect the Government savings adversely. On the other hand, it is imperative that a development strategy aimed at higher rate of growth requires a higher level of Government savings. Thus, drastic changes in the budgetary policy in respect of Government savings, which are necessary to coordinate fiscal policy with a programme designed for higher level of growth have become obligatory. The Five Year Plan has drawn special attention to this problem. "... this situation reflects the serious inadequacy of budgetary resources for investment. More specifically, the Government's budget should have a substantial surplus of revenue over current expenditure so that such savings could be directed into public sector investments. Past policies have to be drastically revised".

The I. L. O. Mission has suggested two basic remedial measures to eliminate this critical position of the budgetary policy as follows:

1972		1973		1974		1975		1976	
Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
Rs. Mn.	%	Rs. Mn.	%	Rs. Mn.	%	Rs. Mn.	%	Rs. Mn.	%
112	10.17	123	10.08	197	14.36	288	18.48	383	21.43
129	10.90	145	11.88	176	12.83	214	13.74	272	15.22
560	50.85	611	50.08	672	48.98	779	50.00	906	50.70
309	28.06	341	27.95	327	23.83	277	17.78	226	12.65
1101	100.00	1220	100.00	1372	100.00	1558	100.00	1787	100.00

Source: Five Year Plan, 1972-76

1. Includes compulsory savings contributions.

turnover taxes. The impressive growth of the turnover tax receipts, however, was not sufficient to offset the inelastic impact of other tax receipts on current revenue.

The inelasticity of the tax revenue, narrowness of the tax base, heavy dependence on export and import duties in

particular rate of growth and the level of such investment financed through Government savings. The importance of Government borrowing in Sri Lanka as a financing technique of capital formation is rejected in the fact that as much as 87.3 per cent of Government capital forma-

tion borrowing programmes but also to meet the targets of the Five Year Plan 1972-76 need hardly be emphasized.

Table C shows the methods of financing Government capital expenditure during the period 1972 to 1976 under

1. Raising current revenue, by adopting the following measures—

i. Rates of income tax and rates of indirect taxes on luxury goods could be raised and tax incentive granted for investment purposes should be removed. It is expected

in the Report that these measures would yield an additional revenue of Rs. 700 million.

ii. FEECs rate should be raised and the coverage of this scheme should be expanded to certain other equipments and non-essential goods which are presently imported under the official rate. An additional receipt of Rs. 200 million is expected from this measure.

2. Curtailing the progressively necessary current expenditure, by cutting the food subsidy.

Unless some effective measures are taken to curtail current expenditure, the immediate adoption of new tax revenue measures appears to be necessary. Although a drastic reduction in social services and transfers may help to increase Government savings, it has its deleterious repercussions on the welfare objective. Satisfaction of collective wants such as food subsidy and social overhead provisions for education, health and housing has become a policy matter.

As shown earlier, the income elasticity coefficient of tax revenue in Sri Lanka has remained less than unity in recent years. Suitable measures should be adopted, therefore, to increase the tax receipts by way of increasing the rates and extension of the coverage pertaining to domestic indirect taxes.

Measures that have already been taken to raise investments made by private individuals in Government securities need to be continued. Interest rate policy in respect of Government borrowing is necessarily a part of the integrated fiscal-monetary policy which aims to achieve a higher level of capital formation.

There has been a rising tendency of interest rate on Government borrowing. During the period 1966/67 to 1970/71 the rate on 5-7 year bonds increased from 3 1/2 per cent to 6 per cent representing an increase of 2 1/2 per cent. During the same period the rate on 12-15 year bonds increased from 3 1/2 per cent to 6 1/2 per cent representing an increase of 3 per cent and the rate on 21-25 year bonds rose from 4 1/2 per cent to 6 1/2 per cent showing an increase of 2 per cent. Meanwhile, the current rate on 10-12 year bonds stands at 9 per cent. Since private savings held in such financial institutions as the National Savings Bank are invested in Government securities a high bond rate would automatically enable these

Contd. on page 9

FISCAL POLICY AND CAPITAL FORMATION(11)

By S. S. COLOMBAGE

CURRENT EXPENDITURE

	1962/63—1966		1967/68—1971/72	
	Rs. Mn.	%	Rs. Mn.	%
Government services	5457.1	57.2	7739.4	54.5
Administration	1332.8	14.0	2182.1	15.4
Services	2435.6	25.5	3526.7	24.8
Public Services	490.8	5.1	652.2	4.7
Transfers	1197.9	12.6	1368.4	9.6
Current	4077.7	42.8	6458.1	45.5
Accounts	3733.5	39.2	5841.4	41.1
Subsidies	(2247.4)	(23.6)	(3037.8)	(21.4)
Transfers	343.5	3.6	616.7	4.3
Total	9534.1	100.0	14195.5	100.0

Source: Central Bank of Ceylon.

tax have increased notably in recent years. Turnover tax receipts rose from Rs. 16 million in 1963/64 to Rs. 325 million in 1970/71. The basic reason for such enhanced receipts was the rate increased and the extension of the coverage pertaining to

1972		1973		1974		1975		1976	
Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
Rs. Mn.	%	Rs. Mn.	%	Rs. Mn.	%	Rs. Mn.	%	Rs. Mn.	%
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National Day of the Socialist Federal Republic of Yugoslavia (29-11-1972)

MESSAGE FROM THE AMBASSADOR

Today Yugoslav peoples are celebrating their 29th Anniversary of the founding of the Socialist Federal Republic of Yugoslavia.

During the world war II people's representatives, members of the Anti-fascist Council of the National Liberation of Yugoslavia, approved on November 29, 1943, the legal acts concerning the future socio-political system of a multinational community as the socialist democratic Republic.

For nearly three decades now, the country is being built; at the same time, its

socio-political system and structure have been built and when necessary adapted and reshaped. The most adequate and applicable solutions for various problems are sought. By introducing the self-management in economic, political and all other spheres of social life, the man, in fact, governs such a society. Yugoslavs are aware of the complexity of such social processes. But they know that their socialist self-managing society is capable to fight all conflicts and difficulties. Therefore, they are determined to persist. At the same time they are ready to talk openly about all problems confronting them, including their own weaknesses before the Yugoslav and world's public opinion.

about 250 higher educational institutions and universities.

The peoples of Yugoslavia are fully aware of the fact that the further development socialism in their country, in a way, is depending on the state of affairs in the world. Therefore, the guideline for the general orientation of Yugoslavia in foreign policy and for her activities in international matters is a continuous struggle for peace and security, for sovereignty and equal cooperation between all states, for overcoming the difficulties in economic development of the underdeveloped. Hence, the maximal engagement in solving of world-wide problems is the constant characteristics of such a policy. Those are the postulates of the Yugoslav foreign policy which is in full conformity with principles of the active peaceful coexistence and non-alignment.



Madame Olga Strujic
Ambassador of the Federal
Republic of Yugoslavia.

Under such conditions the positive results have been achieved in economic development of the country. Also, in education, culture arts and sports.

From a relatively underdeveloped country, whose pre-war national income per capita was only about 200 dollars and today it already reaches about 700 dollars, an industrially developed country emerged. The annual rate of economic growth is 7.3%; the total output of production, comparing with the pre-war period, has been increased by 11 times. Many new factories have been built; also, hydro-electric power projects and new roads schools and hospitals, etc. For the last 10 years, the foreign trade volume was enlarged by three times, or per annual rate of 11.7%. The living standard of all population is in overall increase. Education for all citizens is free; over one million of students attend about 1,850 secondary schools and

Yugoslavia and Sri Lanka are maintaining very friendly relations and fruitful cooperation for many years. Both countries are striving for a faster economic development and building of socialism; by doing so, the specific conditions are guiding them to seek for specific solutions, the solutions which lead to the same aims. The cooperation in international matters is basically determined by many common interests, and therefore, their stands on many international problems are identical or very similar. Constant activity of Yugoslavia and Sri Lanka in non-aligned movement and in the UNO, is the most adequate expression of their foreign policies.

Friendship and mutual respect, which for years exist between the Prime Minister of Sri Lanka, Madam Sirimavo Bandaranaike and the Yugoslav President Josip Broz Tito, contribute, in particular, to a very fruitful bilateral cooperation.

I am taking this opportunity to convey to the people and the Government of Sri Lanka my most sincere wishes for further successes in building their country and attaining overall wellbeing.

Foreign Exchange from "invisibles"

According to the statistics provided by the Yugoslav National Bank, the inflow of foreign exchange into the Yugoslav economy, from invisible non-trading sources, has reached 1,125.6 million dollars in the first nine months of this year. In comparison to the last year, it represents an increase of 25%. The large foreign exchange inflow is mostly contributed to the transfers of savings by Yugoslav labourers abroad and tourist trade, 973.9 million dollars.

INGRA

Business Association for
Designing, Construction and Sale
of Projects, Plants and Equipment-
ZAGREB (Yugoslavia)

The twenty associated Member.

Companies of INGRA perform the following:

- Construction of civil engineering works
(Irrigation, power and Industrial projects)
- Geological, Mining and Civil Engineering investigations, Groutings etc.
- Supply and erection of Power and Industrial Plants.

Foreign economic relations of Yugoslavia

One of the basic factors of the economic development as a whole, foreign economic relations, has been given an important place also in the social plan of development of Yugoslavia up to 1975. The degree of the entire economic development depends for a good part on the degree of efficacy and breadth and complexity of the incorporation of Yugoslavia's economy into the contemporary stream of the world's economy, especially international trade.

One of the pre-eminent aims of the further development of foreign economic relations is the expansion and intensification of the existing commercial relations which Yugoslavia already has and the opening of new possibilities and fields of cooperation (joint capital investments, industrial cooperation deals and business technical cooperation etc) between Yugoslavia's economy and the economy of other countries. All this should be based on and be harmonious with the planned internal courses of the economic development and its foreign component.

As a beginning, the basic principles of the transitional, and later ramified foreign-exchange and foreign trade system have been determined. The main ten-

dency is towards the liberalization of foreign exchange and foreign trade transactions and the realization of the convertibility of the dinar as one of the pre-requisites of Yugoslavia's complete integration into participation on the world market on terms of equality. The bearer of the foreign economic relations continues to be the economic organization, while conditions are gradually being created which will equalize the domestic with the world market in regard to criteria and conditions of business. The transitional solutions for the foreign-exchange and foreign trade system went into force in 1972. The new measures of monetary credit policy should contribute to the faster growth of exports of goods and services. Besides this, the positive trends in this field will also be effected by a more up to date and adequate system of taxation. The machinery of duty refunds will also be perfected, which indirectly means incentive to exports, while domestic production will be protected to a required degree and volume by means of a ramified system of customs and non customs regulations.

Basic Tasks

The basic Tasks in the development of the foreign

economic relations up to 1975 are the following:

Further dynamic growth of volume and value of overall foreign trade, with the faster growth of exports than the growth of production and imports, with a high degree of growth of invisible revenues (the tourist trade, workers remittances, etc.), imports ensuring the rational supplying of production and the market with indispensable raw materials, equipment and consumer goods.

The lowering of the deficit in the trade and payment account and increasing of foreign-exchange reserves:

More harmonious rational structure, greater participation of developing countries in Yugoslavia's overall trade, efforts to expand trade with the hard currency area, while lowering the trade deficit; finally, intensification and the further development of trade with the East European socialist countries.

In addition to the strivings for the stabilization of internal economic courses, changes will be made in the foreign-exchange and foreign trade system which should be backing for these strivings. These are also the conditions for the realization of the convertibility of the dinar. Owing

to all this, administrative influences upon the foreign economic relations will be removed, and a realistic policy of the per rate of the dinar will be pursued.

During the period between 1971 and 1975 an average growth of exports of goods and services is put at about 12 percent annually, compared with 11.7 percent during the previous five-year period. On the other hand, imports should grow at the rate of 10 percent.

Invisible Earnings

It is realistic to presume the further development of the tourist trade and inflow of foreign exchange from the tourist trade and a greater demand for services in transportation construction engineering and international trade. Upon these grounds the foreign-exchange inflow will be increased at the rate of 14 percent to 16 percent or from 814 million dollars in 1970 to about 1.6 milliards in 1975. The share of earnings from invisible transactions with other countries in covering the costs of imports should be increased from about 29 percent in 1970 to about 37 percent in 1975. This will also make for another important goal - a lower share of foreign loans in covering imports.

The planned trends of exports and imports of goods and services should make for a cut in the deficit in the balance of payments of Yugoslavia to about a third of the deficit in 1970, which

would no longer be an excessive burden upon Yugoslavia's entire balance of payments in view of the considerable increase in the overall foreign trade (by 1.7 times).

The utilization of foreign resources (loans, etc) will increase steadily in volume until 1975 (although the share of these loans in covering imports will diminish in relative terms). Greater and more significant joint investments of capital by domestic and foreign enterprises are also planned (along with improving the pattern and method of utilizing resources aimed at modernizing and reconstructing the industry), while a special effort will be made to increase the participation of united resources special effort will be made to increase the participation of united resources in the overall foreign resources. Credits are likely to be utilized to a greater extent for the importation of equipment, which will especially contribute to hastening the modernization and reconstruction of the present industrial plant, better foreign liquidity and easier and more flexible transactions with foreign countries.

Much greater use should be made of foreign resources on the basis of contracts on joint capital investments founded on longterm manufacturing cooperation.

If the basic aims of development of foreign economic relations are reached, it is expected that the countries liquidity in relations to other countries will be better, relations will be liberalized, and the dinar will be made convertible in the near future.

Foreign capital in the Yugoslav economy

The law to unite the means of the Yugoslav and foreign firms was enacted five years ago giving the green light to the investment of foreign capital into the Yugoslav economy.

Fifty two agreements between the Yugoslav enterprises and the foreign firms were registered in the Federal Ministry of Trade upto August 1972. The total pre-calculated value of the joint investments per above agreements come to some 4,800 million dinars, 1200 million dinars of which has been accounted for by the participation of the foreign partners (rate: 1 dollar 17 dinars)

In 1968, the first year of the implementation of this programme, there were five agreements registered, with the participation of 210 million dinars of the foreign capital: twelve agreements in 1969, with 344 million dinars: eleven agreements in 1970, valued at 286 million dinars: 17 agreements in 1971, reaching the sum of



Picture shows an industrial complex in Yugoslavia

270 million dinars; and during the first five months of 1972, there were 7 agreements concluded, with 150 million dinars of the foreign capital invested.

In the 18 out of the concluded agreements, the foreign partners participation amounted to a maximum of 49 per cent, as prescribed by law. The most frequent partners of the Yugoslav enterprises are the firms from the Federal Republic of Germany and Italy.

Actually, some 14 firms from these two countries have taken the lead, participating primarily in the construction of facilities and the improvement of industrial production.

CAPITAL...

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institutions to pay a higher rate of interest to their depositors. Though it is not possible to work out a direct link between interest rates and

savings, the increase in interest rates and savings after the deposit rates were raised is a pointer in this direction.

Within the existing framework of public debt operations in Ceylon, higher interest rates on Government borrowing seem to serve as the basic medium for achieving the borrowing targets envisaged in the Five Year Plan.

Problem of Capital Formation

The effectiveness of fiscal policy as an instrument of capital formation in Ceylon has been reviewed in the preceding sections in the light of the overall economic objectives.

Public sector capital formation has increased at a rapid rate during the past decade, mainly on account of the substantial provisions for economic and social overheads. It is evident that public sector investments have played a significant role in stimulating the rate of economic growth. A simple regression analysis which covered the period 1962

to 1971 reveals that public sector investments have a very high multiplier effect on Gross National Product.

The problem of raising resources for enhanced public sector capital formation has become critical and in vogue in recent times. The effectiveness of Government savings in this process has been severely restricted by the stagnating nature of current revenue coupled with the rapid increase in current expenditure. Slow rate of growth of current revenue is mainly attributed to the low income elasticity of tax receipts. The dependence of the tax system on customs duties has tended to check the rate of growth of tax receipts, since the receipts from customs duties had not increased at a reasonable rate. This study based on a multiple regression exercise indicates that international trade rather than per capital income is the major factor

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DEVELOPMENT EFFORT

The 1973 Budget is indeed a crucial one in the context of the successful implementation of the Five Year Plan. We might therefore, be excused for delving on it once again.

It is accepted, and also granted, that the economy of the country has sagged badly and fallen into the lowest depths. The task of the Government today (and that of the Minister of Finance in particular), is to resuscitate the economy in the first instance and then ensure rapid growth within the framework of a socialist democratic State in order to bring about social justice among the broad masses.

TODAY DISILLUSION AND FRUSTRATION ARE RIDING HIGH AND THE PEOPLE, PARTICULARLY THE COUNTRY'S YOUTH ARE IMPATIENT AND THEY LIVE IN EXPECTATION FOR A BETTER TOMORROW. THEIR EXPECTATIONS MUST MATERIALIZE IF THE COUNTRY'S POLITICAL AND SOCIAL FABRIC IS TO REMAIN UNSTRAINED. IF THE COUNTRY'S DEVELOPMENT PLANS FAIL TO PRODUCE THE DESIRED RESULTS A CATASTROPHIC SITUATION COULD PROBABLY ARISE.

It must be borne in mind that shortcomings and contradictions are necessarily inherent in various development proposals that are undertaken by developing countries like Sri Lanka. As the Minister of Finance admitted in the course of the budget debate; "...there are shortcomings in my schemes, but we are trying for the first time to get a plan going with the participation of the people. This is a new concept."

Thus it is imperative that a concerted effort should be made by all—political and other ideological concepts apart—in the massive task of nation building. The interest of the country must necessarily receive priority. Criticize if we must. But the criticism that would be welcome at this critical juncture is no doubt constructive criticism. The economy has remained stagnant and what has been achieved in recent years is a negative growth rate in real terms. And as the Finance Minister points out: "A stagnant economy cannot provide plenty for all. It can provide plenty for some and impoverishment for others. Such a lopsided position cannot but lead to dissatisfaction, frustration and eventual disaster."

Merely talking in terms of development does not suffice. There is an urgent need for a greater intensity of work. According to the development strategy adopted by the Government the commanding heights of the economy will necessarily be in the hands of the State. The lethargy and inaptitude that is prevalent in the public sector must therefore end forthwith bringing about in its wake greater productivity and efficiency. Work norms must be imposed and insisted upon. Along with rights and privileges of the workforce, obligations and duties must receive equal consideration. Responsibility for the implementation of the Five Year Plan rests largely on the Public Sector and therefore it must be geared accordingly.

New round of world trade talks

The world's leading trading nations have agreed to open a new round of trade negotiations late next year.

This was one of the agreements reached at a two-week session of the contracting parties to general agreement on tariffs and trade (GATT), which ended on November 14.

President Nixon's special representative for trade negotiations, Ambassador William D. Eberle, said that he considers the outcome "a very good one for all parties involved."

He added that the United States views it as another

step forward in what President Nixon has called "an era of negotiation" and in what the European Economic Community (EEC) has called "a constructive dialogue."

GATT-Director General Oliver Long said the "constructive" session had brought trading nations considerably closer to the negotiating table.

Specifically, in the words of a summary by-session chairman Giorgio Smoquina of Italy, a number of contracting parties reaffirmed their intent to launch next year negotiations "covering tariffs, non-tariff barriers and other measures which impede or distort trade," in

the hope of completing the negotiations by 1975.

Problems of Developing Countries

"They agree that the negotiations shall cover both industrial and agricultural products, and take particular account of the need to find solutions to the problems of developing countries, including the problems of the least developed countries.

They also agree to re-examine the adequacy of the multilateral safeguard system."

The contracting parties agreed to set up a preparatory committee open to all contracting parties and to all interested developing countries which are not parties to GATT.

FISCAL POLICY

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which determines the tax revenue. On the other hand, the receipts from income tax have also not increased at a sufficient rate on account of factors such as narrowness of tax base, tax evasion etc. Although the elasticity coefficient in respect of excise duties was high, the receipts from these duties were insufficient to offset the inelastic implications of other tax receipts on current revenue. The adverse effect of the inadequate growth of current revenue on Government savings has been aggravated by the increasing tendency of current expenditure allocated for social services and subsidies.

The inadequacy of Government savings to finance public sector investments necessitates Government borrowing and certain constraints appear in this context. Effectiveness of foreign borrowing as a financing technique of capital formation may be limited by factors such as debt servicing capacity of Ceylon and the ability and the willingness of foreign lenders to extend such assistance. Utilization of foreign borrowing for non-developmental purposes has been a further problem. In considering domestic borrowing, it is clear that the inadequacy of private savings is a major bottleneck.

Evidently the curtailment of current expenditure has become imperative unless measures are taken to raise current revenue. Meanwhile, higher interest rates on Government borrowing seem to be useful in achieving the borrowing targets aimed at financing a higher level of public sector capital formation.

Promotion of joint ventures in developing countries

The Japanese Ministry of trade and industry is planning to create a new agency to promote small enterprises in joint industrial ventures in developing countries.

Their plan represents part of MITI's radically-revised policy for promotion of Japanese economic cooperation with developing nations. The policy has been revised in answer to growing criticism among developing nations of the mode of economic co-operation extended in the past.

Under the revised policy MITI is also creating next

year an 'economic development analysis centre' at its Institute of Asian Economic Affairs in Tokyo. In addition an "International industrial technology research centre" is to be set up at MITI's Institute of Industrial Science & Technology. Both centres are to help make economic cooperation more effective.

Japan's annual economic cooperation with developing nations; in monetary terms attained \$ 2,141 million during fiscal 1971, 0.96 per cent of its gross national product.

Major export sector...

(Contd from page 1)

Approximately half of the rubber acreage in Sri Lanka consists of holdings below 100 acres. The bulk of their production consists of low-grade sheet rubber and scrap crepe. As long as processing is carried out on a minor scale by individual holders, the upgrading of this rubber would be a difficult task. Hence the Ministry has initiated the establishment of group collecting and processing centres all over the Island. The target is 20 such centres per annum during the Plan period, but depending on the success of the centres started this year, it is proposed to increase the number to about 50 per year. The centres started so far have produced very encouraging results.

When a fair number of collecting processing centres for rubber are established, it is proposed to set up a Rubber Manufacturing Corporation to supervise the overall programme.

As Sri Lanka does not wish to be left behind in the progress made by other countries in the manufacture

of new forms of rubber such as block rubber, the Five Year Plan envisages the establishment of five block rubber factories during the period. The first of these will be a pilot demonstration and training project at Mawanella where smallholders' latex will be converted to new process rubbers.

The factory is expected to be in operation at the end of 1972. The cost of the project is Rs. 7.2 million of which the UNDP would contribute Rs. 3.3 million. Also a Technical Specifications Laboratory will be set up with UNDP assistance to test and control all products of new process rubber.

It is clear that the return from coconut as a monocrop is relatively unattractive when compared to other plantation crops. The future of the coconut industry may lie in an intensified utilisation of land under coconut by the introduction of other crops as well. Experiments have already commenced in this field.