The Economy of Sri Lanka

1976

THE

ECONOMY OF SRI LANKA

The good earth of Sri Lanka is well endowed with fertile soil and adequate rainfall. Even in what has been called the dry zone, the rain is adequate and the soil is the fertile reddish brown earth. The early inhabitants of Sri Lanka in their struggles with nature transformed these natural resources of earth and rain into productive agriculture.

Through the centuries the isolated village economies were centralised through the extension of centralised political power, inter-connection of the small reservoirs into a vast irrigation network and the introduction of a cultural hegemony through Buddhism in the pre-Christian era. Centralised kingdoms which were established in about the 5th century BC grew to a certain maturity in the early pre-Christian era. The central features of this economy namely irrigated cultivation, increasing integration of the irrigation network, increased co-ordination and centralisation of the revenue and political system and the continued consolidation in the cultural sphere of Buddhism remained at least for the first millenium after Christ, the major trends in the island.

By the late centuries of the first millenium, the irrigation network had been extended almost on an all islandwide basis. huge reservoirs built, long canals dug and rivers dammed. The main productive activity of the economy was the production of rice by peasants and the surplus generated from this activity provided the royal courts and the feudal classes. This surplus also helped release manpower for the construction of massive irrigation canals as well as huge religious monuments.

Archaeological evidence indicates that money was in existence from about the 5th century B.C. but its use for internal trade would have been minimal. Sri Lanka being at the cross roads of ocean traffic, became very early, one of the world's centres of trade. Archaeological, epigraphic and literary remains of several centuries indicate the extensive trade that was carried on from very early times with both the Western regions (that is Africa, Europe and Western Asia) the Eastern regions (Indo-China, Malaysian and Indonesian region and East Asia) and the North (India and the regions above). The products exchanged, as well as those brought into the country were largely consumption luxury items for the ruling elites of the country. Thus imports included at times silks and chinaware, beads, jade etc. Exports from Sri Lanka were likewise for the consuming classes in the recipient countries and included gems, elephants and spices.

Trade which was only a peripheral activity in the country's economy and polity takes on a significant dimension from the 16th Century onwards with the arrival of the Portuguese. The principal intermediaries of trade with Sri Lanka and the West prior to the Portuguese were the Arabs. Spices, mainly cinnamon, was a significant item of luxury consumption in the European centre, and the prime purpose of the Portuguese was the extraction and shipment of these. However to consolidate their economic hold the Portuguese entered into significant interventions in Sri Lanka's political, social and cultural structures.

The Portuguese incursion was the beginning of the growth of a distorted economy in Sri Lanka, distorted to supply primarily the needs of a European centre. This process started by the Portuguese, which diverted the energies and directions of the country and people away from their own needs began to be intensified, sharpened and refined in the subsequent centuries by the powers that followed them, namely Holland and Britain.

The Dutch presence in Sri Lanka up to 1796 was in comparison with the Portuguese, mild. They concentrated primarily on their economic activity and apart from cinnamon they also built up an export trade in elephants, chank shells, arecanuts etc. They also introduced cultivation of pepper and coffee.

In 1796 the British replaced the Dutch as the predominant foreign power in the country. And in 1815, the British were able to consolidate their power throughout the country by largely exploiting internal dissension and treachery within the Kandyan Kingdom. The most significant impact of British rule on the island was the deepening of the alien inroads into the economy.

PLANTATION ECONOMY

By promoting the growth of a plantation economy from the 1840's onwards the distortion of the economy which had begun with the Portuguese began to take on serious proportions. Sri Lanka was now enmeshed in a colonial plantation economy, with bonds of unequal exchange, tied to the controlling and consuming centres within Europe. Coffee growing, which had begun with the Dutch, was the first classical plantation crop introduced by the British. The fundamental changes in the economy introduced by the plantations system has survived to this date and its serious repercussions still echo strongly.

The plantation system as opposed to the earlier subsistence agriculture was based on wage labour, factory type operation of large estates and production for a foreign market. It was based initially on small doses of foreign capital and the industry was similar in most respects to the category of extractive industries that sprang up all over the Third World in the 19th Century to supply the European center. The subsequent growth of the economy, after the initial doses of foreign capital, was made possible through the large surplus generated in the country itself. The surplus was sufficient also to provide handsome dividends which more than compensated for the nominal investment.

The supply of labour for the new plantations was not from the Kandyan regions. It was from the so-called indentured labour from India whereby large numbers of Indian labour were transported to Sri Lanka. The semi-slave conditions of work in the new estates, as well as recruitment and transport from their homelands, was reminiscent of the large scale population shifts undertaken by the dominant Western powers in the other parts of the Third World, like the transport of slaves to America and again of indentured labour to some of the other plantation economies in the Central American regions.

The economy of the country was therefore completely rebuilt around the plantations. The foreign banks that were established early had the sole function of financing this industry and their large scale profits arose from this. Engineering firms and workshops grew up to service the engineering needs of the plantation factory; and for the maintenance of railways and roads government engineering establishments came into being.

Sri Lanka's first plantation crop coffee, experienced a phenomenal expansion from 1834 to 1842 when the export volume increased five times. Again from 1842 to 1849 a further rise of three times the 1842 level was recorded. Having thus taken a hold on the economy, the area of coffee planted rapidly rose together with earnings. In 1846 coffee prices fell drastically because of the world depression at the time. But coffee continued to be the major export of the country till the great coffee blight destroyed the crop. The disease first appeared in 1869 and by 1886 the acreage under coffee which had stood at 300,000 acres had dropped to about 100,000 acres. By 1886 coffee had collapsed as the main colonial crop in Sri Lanka.

But the coffee industry set a firm pattern in the economic structure of the country. The development of Sri Lanka into a classical plantation economy had now been cast in this mould although later tea, rubber, and coconut were to replace coffee. Most of the characteristics of the plantation system were to survive until very recently. These features included ownership by the British planters, financing by British banks, management by a system of so-called agency houses, large scale rationalized operations and use of factory type technology and procedures and large amounts of Indian labour. The system rested on control of the basic import-export trade by expatriate capital, on imported technology and on the reliance of a virtually single foreign market for the product. The influx of the large number of Indian labour (by the 1880's the accumulated Indian labour and their families settled in Sri Lanka amounted to roughly 200,000), meant also the need to import food for this new labour force. Because of this structure of dependence and dominance local independent capitalist development in the country was also retarded. Although coffee production on a small holding basis was encouraged among Sri Lankans, Banks and Agency Houses which were British owned were extremely

circumspect about extending credit to locals and when they did so it was only at high rates of interest.

Due to the weak demand for tea in the early years of this century planters began to see in rubber a more profitable product and rubber was planted extensively although not to the same extent as tea. Coconut was the other main crop to be grown on a plantation basis; but as it was also originally a peasant crop and the industry was largely in local hands the enclave situation was not that pronounced.

Thus with the introduction of the classical plantation economy in the late 19th century the country's economy suffered a classical dualistic split. The enclave, so-called modern sector, had its main interaction with the external world and very little interaction with the traditional economy, within which a large part of the population lived. By the end of the 19th century the enclave sector employed about 40 per cent of the Sri Lanka labour force and the traditional sector 60 per cent. In terms of gross magnitude the bulk of trade in the country was between the enclave sector and the outside world and few goods and services flowed between the traditional sector and the enclave or for that matter between the traditional sector and the external world.

This was also true of the other appendages of the enclave sector namely the new urban center. The urban areas, like the estates, rested heavily on the export—import trade for its basic needs. Although more than 60 per cent of Sri Lanka's population by 1930 depended on the traditional sector for its economic sustenance almost all of the country's foreign trade was only with this enclave sector.

Just as the interaction with the outside world was exclusively with the enclave sector the interaction of the government was likewise almost exclusively with this sector. Most of government revenue as well as expenditure was within this sector.

The estate sector produced enormous surpluses. Once the initial capital was injected, handsome dividends were available. The estate sector's growth provided high level dividends for foreign share-holders and a 'high level of consumption for both expatriates and allied local groups of person within the enclave. It did not significantly increase the production of local goods and services nor were surpluses invested outside the enclave. The ability of the so-called modern or enclave sector to initiate economic development for the country as a whole was therefore minimal.

The establishment of the enclave economy and its continued maintenance was also helped by local socio-economic structures that grew up with it. This included the new supporting classes tied to the plantation and colonial presence as well as remnants of the old feudal order who had soon allied themselves with the British. The maintenance of the enclave economy was further helped by social and cultural factors.

The social system that grew around the plantations tended to perpetuate itself and a process of cultural conditioning to accept the status quo was set in play by aspects of the educational and other cultural manifestations of the British.

Later demands for political and economic independence was to be heard from sections that represented the newly emerging proletariat both within the estates and outside.

REFORMIST CHANGES

An outcome of the demands for change was the grant of universal franchise and internal self government in 1931 at a time when many European countries like France and Switzerland did not have the universal franchise. This reformist measure by the British had some impact on the economy from the late 1930's onwards. One important outcome of these changes was that interest was now generated in diversifying the economy away from the enclave pattern and in an attempt at industrialization.

In 1934 the Report of the CEYLON BANKERS COMMISSION echoed this interest and recommended formation of a local bank, (British banks were exercising defacto discrimination against some of the local capitalists). In industry a champion of industrialization became in 1936 the Chairman of the Executive Committee on Labour, Industry and Commerce. In 1938 a joint public-private sector bank, the Bank of Ceylon came into existence as a possible lender to local capitalists and the State Council was favourably disposed towards protectionism. Further under Mr. D. S. Senanayake an extensive scheme for population re-settlements in the dry zone areas of the classical hydraulic civilization was initiated. All these proposed changes within the economy reflected

partly the real needs of the people and also partly. the class interest of the members in the elected chamber. They were however made on the eve of the Second World War which meant that the proposed changes' impact was minimised.

During the World War II, by necessity, the ties of the Sri Lanka economy to the metropolitan centre in Britain was in many ways weakened. Britain was engaged in a war for its survival and its economic hold on its colony was now geared to that survival. Consequently Sri Lankan produce, specially tea. was sold at prices much below the level they would have reached in a free market situation. Sri Lankans were subsidizing British tea consumers heavily.

In return imports to Sri Lanka were reduced drastically. The shortages of imports induced local production both within the Government and private sectors and several new factories were opened. These included coir products leather goods, glass, ceramics, paper, plywood, acetic acid in the government sector and textile, rubber, lacquered goods, paper products, matches etc, in the private sector. The quality of the goods produced were sometimes below the prevailing international standards but because of the protection induced by wartime scarcities these products found a ready market. The return to peace time conditions also witnessed an unprecedented flood of imported goods which swamped all Sri Lanka s early attempts at industrialisation.

The post-World War period saw the granting of political independence. There was however a high degree of continuity of perceptions from the colonial times of what constituted development. Yet because of the responsiveness to at least some popular demands resulting from the introduction of universal franchise (in 1931) a momentun was generated towards re-structuring the economy from the colonial patterns. This tendency, which had some of its roots in the discussions of the 1930's, was directed towards an activist role of the government in the economy, principally aimed at siphoning some of the surplus of the estates to the peasant sector and to industrialization. New land colonisation schemes were opened up and large sums were invested in a multipurpose project the Gal-Oya Scheme, in the Eastern Province. But basically, the colonial economy still persisted in its hold as the main economic determinant in Sri Lanka.

The election in 1956 by which representatives of classes deemed not directly tied to the colonial presence came to power saw an increased cry for industrialization and attempts at somewhat deeper structural changes. Although the election manifesto of the Government had in its programme direct Sri Lankan control of the colonial economic enclave through nationalisation of the tea estates, this did not occur. But other sections of the economy like the bus transport system (the railways were always government owned) were nationalised together with the ports. New government sponsored industries were opened up in the government sector as well as the private sector. A pattern of industrialisation that persisted to the late 1960s was set in motion.

INDUSTRIALIZATION ATTEMPTS

The industrialization attempts in the late 1950's and the early 1960's were largely on the basis of import substitution. And, as a major part of the imports fed the enclave sector, it were products that were consumed by this sector that were now manufactured. These items can be considered luxuries in comparison to the needs of the mass of the people. The items thus manufactured tended to be those like refrigerators fans, chocolates and biscuits. The technology for this was almost exclusively imported, as was in the majority of the cases, the raw materials. These products were manufactured largely in the private sector and gave very high profits, specially in view of government inducements like tax holidays. But as Sri Lanka's terms of trade began to drastically worsen in the later years, the allocations of foreign exchange available for raw materials and for capital goods declined and many such industries were by the early 70's running at low capacity.

A special feature of industrial policy in recent years has been encouragement of industries in both Public and Private Sectors to use more and more local raw materials as well as to design and fabricate locally industrial equipment to suit our requirements.

Production-wise Sri Lanka's industrial structure comprises four very broad groupings.

Firstly, the traditional and unorganised sector made up of over 100,000 small scale manually worked units, engaged in industries such as coir processing, handloom textiles, carpentry, mat weaving, pottery, brick making, cane ware,

basket ware, saw milling, furniture making, blacksmithy work and jewellery making in addition to traditional handicrafts and cottage industries. This accounts for 10—15 per cent of the value of industrial output.

Secondly, the private sector factory scale units ranging from small to large in size. Nearly 3000 such units registered with the Ministry of Industries are today producing a wide range of consumer items such as food products beverages and tobacco, textile products, leather goods, wood, paper and rubber products, chemicals and pharmaceuticals, machinery and implements, transport equipment and electrical goods for both domestic and foreign markets. They account for nearly 45 per cent of the value of industrial output.

Thirdly, the public sector industries operated as Corporations and numbering nearly 30 in all. Among them are manufacturing and processing Corporations for Steel, Hardware, Tyre, Block Rubber, Plywoods, Timber, Paper, Sugar, Leather Products Weaving Supplies, Textiles, Tobacco, State Distilleries Milk, Fisheries, Flour Milling, Oils and Fats, Cashew, Fertilizer, Petroleum, Salt, Caustic Soda, and Chlorine, Pharmaceuticals, Ayurvedic Drugs, Ceramics, Cement, Graphite, Gems and Mineral Sands. There are in addition to these, the several research and servicing institutes in the Industrial Sector run as State Boards or Corporations. The public sector accounts for nearly 40 per cent of the value of industrial output.

Fourthly, there is the comparatively new sector of industrial co-operatives now developing in various rural locations in the country. There are over 500 such units, largely employment oriented, engaged in mineral-based, agro and wood based and light engineering industries.

RECENT DEV ELOPMENTS

There has been a marked increase in industrial activity in recent years. An index, calculated on Central Bank data, shows that industrial output in 1974 has risen 90 per cent above the average for 1956—66. The total capital investment in the State Industrial Corporations alone has risen to nearly Rs. 2,500 mill. today, from about Rs. 500 mill. in 1965.

For over a decade industrial production in Sri Lanka was dominated by the manufacture of consumer goods. In 1974 however, the intermediate goods category showed an increase in value over that of the consumer goods category, largely due to the heavy increase in the value of petroleum products. Production of investment goods, however, has continued to remain at about only one-tenth of all production due to the heavy dependance in imported materials and the limited size of the market for this category of goods.

Over the last 5 years the main thrust of development activity in industries has been in the following four broad areas: expansion of industrial activities in the public sector; the setting up of resource based industries in the private sector; transforming the existing built-in capacities of the private sector industrial units which were created on the basis of import substitution to produce goods for the export market; and re-structuring of supporting service institutions within the purview of the Industries Ministry to achieve set development objectives.

On the basis of set Government policy, the country has witnessed the emergence of the public sector as a major factor in the process of industrialisation, by the expansion of the public sector into new areas, and strengthening and enlargement of existing public sector industries.

AGRICULTURE—NON PLANTATION SECTOR

The traditional agricultural sector, distinct from the plantation sector provided a livelihood for the majority of the people. In contrast to the plantation sector, which was modernised and based on capitalist enterprises, the peasant agricultural sector consisted of subsistence agriculture, employing traditional technology. The individual farmer had self sufficiency as his goal and supplemented paddy cultivation with other crops. The main characteristics of this sector were: small holdings, fragmentation of land into still smaller uneconomic holdings, traditional technology. The individual farmer had self sufficiency as his goal and supplemented paddy cultivation with other crops. The main characteristics of this sector were, small holdings, fragmentation of land into still smaller uneconomic holdings, traditional technology, tenancy arrangements which inhibited the cultivator from making an improvement to the land and increasing output, and indebetedness which kept the cultivator tied to the village

landlord. This pattern remained more or less unchanged upto the end of World War II when a significant transformation occurred and the stagnant peasant agricultural sector emerged as a dynamic sector in Sri Lanka's economy.

Output of paddy rose by 250 per cent during the period 1946—60 the value of its contribution to the GDP increased by 75 per cent in the 50 s and it accounted for about 30 per cent of the total increase in employment for this period.

Adoption of improved cultivation practices, extension of irrigation facilities, and a governmental effort to increase production, together with a system of price incentives were some of the factors which brought about this transformation. Standard practices in other parts of the world such as transplanting and the use of weedicides, insecticides and fertilizer were adopted. The grant of a subsidy for fertilizer speeded up this adoption process. To lessen the dependence of the crop on rainfall, irrigation facilities have been extended and during the period '49 to '60 the area under irrigation increased from 40 to 62. The most important factor however was the introduction of the Guaranteed Price Scheme which provides for Government purchases of paddy (and certain other crops). The existence of the GPS together with marketing arrangements assured the farmer of a suitable price for his produce and helped a subsistence crop to be converted to a cash crop. Towards the end of the 1950's three other measures, provision of credit, an attempt at partial land reform and crop insurance designed to make the price support scheme more effective were implemented.

There have been subsequent increases although not so dramatic, in the fifteen years since. The attached table gives the situation within the last 10 years. During this period the discovery of new high yielding varieties, increased the output of paddy. More intensive efforts were made to apply new technologies and certain other institutional reforms were instituted. Efforts were made in 1958 to overcome the problems of land tenure and give security to the farmer which were in earlier years continued and culminated with the Land Reforms Act of 1972. The establishment of the People's Bank enabled an improved system of agricultural credit to be implemented and efforts were made to relieve rural indebtedness.

With the pressure of population and the potential of the Dry Zone, irrigation schemes were opened up for cultivation.

Of these irrigation schemes, the largest is the Mahaweli Diversion Scheme which will eventually bring approximately 600,000 acres of new land under cultivation and provide water for the more intensive cultivation of another 300,000 acres of existing land. In addition to paddy, a variety of subsidiary food crops are to be cultivated.

The 1948—55 period saw the establishment of the Multi-purpose Gal Oya Development Scheme and the accelerated implementation of colonization schemes. As the returns on major colonization projects were not commensurate with the investment, a package programme of integrated development was adopted to maximise production through improved methods of cultivation, strengthen institutional arrangements in respect of marketing, credit and farm management, rehabilitate irrigation facilities for better production and encourage development whereby the community would grow into a self sustained one.

In 1971, there was a major change in land policy from welfare to production oriented schemes. A programme to set up Co-operative Farms (Samupakara Gammanas) was introduced throughout the country in order to harness manpower resources, notably the youth, for agricultural production. The settlers were to work on a collective basis in the development of the land.

The Ministry of Planning and Economic Affairs introduced another form of settlement project during the same year—namely the District Development Council projects. These projects were formulated on a smaller scale of production than the Gammanas. The main objective of these schemes was to harness the manpower and raw material resources in the area for agricultural and industrial development.

LAND REFORM AND PLANTATION SECTOR

An important change took place in 1972 with the enactment of the Land Reform Law of 1972. This process continued in 1973 with the State Land (Special Provisions Sales Law and in 1975 with the Land Reform (Amendment) Law.

The objectives of these laws were to restrict ownership of private land to 50 acres of highland or 25 acres of paddy land so as to secure a more equitable distribution of land and wealth. To increase productivity, provide additional employment in the agricultural sector, to build a socialist society owning land on a co-operative basis and to vest all lands

owned or possessed by Companies in the Land Reform Commission were the other objectives of these land laws.

The Land Reform (Amendment) Law of 1975 marked the take-over of the plantations which were mainly owned by public companies. These lands were now vested in the Land Reform Commission. The total extent of land vested in the Commission under the 1975 amendment is 417,957 acres consisting of 395 estates 22 agency houses operated 375 estates whilst the remaining 20 were managed by Companies owning them. The Land Reform law brought under the LRC 63 per cent of the total extent of tea cultivated, 32 per cent of rubber and 10 per cent of coconut. New management agencies, as decided by the Land Reform Commission are now managing the best managed and most productive tea and rubber estates.

The Plantation sector which had been a key determinant in the Sri Lanka economy was therefore now in state hands. The output of the plantation sector had also over the years since independence shown a marked increase but with falling real prices, the effect of the increased production was minimised. Under the section in trade the behaviour of prices relating to these are discussed.

TRADE

Sri Lanka's trade in common with other colonial countries was primarily with the colonial power and constituted mainly of her primary products; over 90 per cent of her exports belonging to these items. After independence attempts have been made to diversify sources of imports as well as the countries to which she exports. One of the major attempts at a shift in this direction at diversifying dependence was the 1954 rubber rice agreement with the people's Republic of China. By this an assured market for one of Sri Lanka's primary products on a stable basis was guaranteed whilst simultaneously granting an assured source of her staple food.

Today, sources of import and export have been dramatically diversfied and over the last 10 years Sri Lanka trade has shown significant shifts specially towards closer ties with Third World countries. The attached tables indicate this dramatic shift betwen 1966 and 1975. China has emerged as the leading buyer of Sri Lanka's produce, purchasing 11.5 per cent of total exports in 1975. U.K . which was the principal source for Sri Lanka's exports in 1966, then taking nearly 25 per cent of our products, had fallen to third place by

1975, purchasing only 7.7 per cent of Sri Lanka's exports last year. Pakistan has come up as one of Sri Lanka's leading trade partners over the last 2 years and was the second largest source for our exports, purchasing 8.6 per cent of our total export in 1975.

Considering the 20 major buyers of Sri Lanka's products it appears that in 1966 only five Third World countries took merely 21.5 per cent of all our exports. By 1975 the volume of exports taken by Third World countries among the major 20, had doubled. In the 20 were 10 Third World countries which were taking 40.7 per cent of all our exports.

There was also a remarkable increase in the number of countries to which Sri Lanka's exports were going by 1975. In 1966 there were 90 countries purchasing Ceylon products as against 125 in 1975. Most of the additional 35 countries were from the African, South and Central American and Middle East Third World nations.

EXPORTS — 1966

	COUNTRY	*Rs. m.*	%
1.	U. K.	415	24.8
2.	China, People's Rep	177	10.6
3.	U. S. A.	135	8.1
4.	Iraq	105	6.2
5.	U. S. S. R.	82	4.9
6.	South Africa	81	4.8
7.	Australia	74	4.4
8.	Canada	47	2.8
9.	Germany Fed. Rep.	47	2.8
10.	Japan	42	2.5
11.	Pakistan	42.	2.5
12.	New Zealand	34	1.8
13.	Netherlands	33	1.7
14.	Italy	30	1.4
15.	Poland	25	1.6
16.	India	20	1.4
17.	Germany Dem. Rep.	19	1.2
18.	Rumania	18	1.2
19.	France	14	1.0
20.	Mexico	13	1.0
	Sub Total	1,453	86.4
	Total (all countries)	1,700	100.0

EXPORTS — 1975

	COUNTRY	*Rs. m.*	%
1.	China, People's Rep.	460	11.5
2.	Pakistan	345	8.6
3.	U.K.	311	7.7
4.	U. S. A.	219	5.5
5.	Iraq	190	4.7
6.	Japan	178	4.4
7.	U. A. R.	121	3.1
8.	South Africa	121	3.1
9.	Germany Fed Rep	118	3.0
10.	Libya	117	2.9
11.	Iran	116	2.9
12.	Australia	110	2.8
13.	U. S. S. R.	103	2.6
14.	Canada	95	2.4
15.	Saudi Arabia	94	2.4
16.	Netherlands	69	1.8
17.	Italy	68	1.7
18.	Syria	65	1.6
19.	Kuwait	59	1.5
20.	Hong Kong	59	1.5
	Sub Total	3,018	75.7
	Total (all countries)	3,933	100.0

By way of imports too Sri Lanka's trade relations with the Third World Countries has grown rapidly in recent years. Among the 15 main countries from whom we obtained our imports in 1966 the Third World countries supplied only 34 per cent of our imports. By 1975 the value of imports from Third World countries among the first 15 had risen to 47 per cent of all imports. In 1966 Sri Lanka obtained her imports from 81 countries as against 97 in 1975; once again the new sources of supply being accounted for by the Third World countries.

By 1975 the pattern of imports had also changed considerably and the 3 major food items, of rice, flour and sugar, and petroleum and fertilizer accounted for the bulk of our imports.

IMPORT S — 1966

	COUNTRY	Rs. m.	%
1.	U. K.	340	16.7
2.	China People's Rep.	217	10.7
3.	Burma	176	8.7
4.	India	135	6.7
5.	Japan	126	6.2
6.	U. S. S. R.	116	5.7
7.	Australia	99	4.8
8.	Pakistan	85	4.1
9.	Thailand	80	3.9
10.	U. S. A.	80	3.9
11.	Germany Fed. Rep	74	3.6
12.	Netherlands	55	2.4
13.	Italy	38	1.6
14.	France	37	1.6
15.	Poland	34	1.6
	Sub Total	1,692	82.2
	Total (all countries)	2,028	100

IMPORTS — 1975

	COUNTRY	Rs. m.	%
1.	China People's Rep.	662	12.6
2.	Saudi Arabia	637	12.1
3.	Japan	447	8.5
4.	Australia	429	8.2
5.	France	429	8.2
6.	Thailand	356	6.8
7.	U. S. A.	337	6.3
8.	Germany Fed Rep.	252	4.8
9.	U. K.	223	4.2
10.	Pakistan	220	4.2
11.	Iran	218	4.2
12.	India	150	2.8
13.	Burma	121	2.3
14.	U. S. S. R.	112	2.1
15.	Singapore	104	2.0
	Sub Total	4,697	89.3
	Total (all countries)	5,251	100

TERMS OF TRADE

Although Sri Lanka has diversified her trade dependence, it has not helped very much in her terms of trade. Price of imports have constantly kept rising while exports have relatively declined. Between 1960—1970, price index of all imports declined by 33 per cent whilst that of all imports rose by 68.7 per cent. The result in deterioration in terms of trade for that decade was 43.2 per cent indicating the extent to which Sri Lanka's purchasing power abroad declined in that decade. This continued, in the 1970's; between 1970 and 1975, the all export price index rose by 80.5 per cent whilst the all import price index increased dramatically by 31 per cent. Thus from a base year of 1960, the purchasing power of exports had fallen by 61 per cent by 1975. It is for this reason that the integrated programme for commodities and the establishment of a common fund is of crucial importance to Sri Lanka. Two of her products, tea and rubber are included in the integrated programme.

TRADE IN 1975

Sri Lanka's trade position in 1975 gives the present situation.

IMPORTS

A major part of Sri Lanka's imports belong to the Food Group. During 1975 the three main food items of rice and cereals; flour; and sugar cost the country Rs. 2,455 million in foreign exchange or approximately 46 per cent of the country's entire import bill. Three other products cotton, fertilizer and petroleum made up 23 per cent of the import bill for last year. Significant changes over the previous year among these six major items, which account for nearly 70 per cent of the total import bill, were that while the three major food items took up about 40 per cent of the country's import bill in 1974 and petroleum, fertilizer and cotton took up 30 per cent of the import bill; in 1975 the food bill accounted for 46 per cent of our entire imports while the other 3 items took up only 23 per cent. See table on Major Items of Import 1974 and 1975.

MAJOR ITEMS OF IMPORT 1974 and 1975 (Rs. million)

BTN No.	Item		1974	1975
10	Cereals	...	845	1,198
11	Flour etc.	...	860	1,006
17	Sugar	...	191	250
27	Petroleum	...	910	879
29	Fertilizer	...	221	208
55	Cotton	...	200	107
			3 227	3,648
	Total imports		4,554	5,318

EXPORTS

It was the exports of tea that took the country's export earnings to its highest level on record. Tea, spices and coffee brought in Rs. 2,008m. or 55 per cent of the country's foreign exchange earnings in 1975. In 1974 these same items brought in Rs. 1,448m. and accounted for only 40 per cent of the country's export earnings. Earnings of coconut products at Rs. 408m. were slightly less than that of 1974 and accounted for only 12 per cent of all export earnings. There was a slightly bigger drop in earnings from Rubber — exports in 1975 being Rs. 654m. as against Rs. 741m. in 1974. Rubber exports accounted for approximately 18 per cent of total export earnings. Gems and Jewellery once again emerged as a major export item, following a drop in 1974, and accounted for nearly 5 per cent of the country's export earnings. Exports in 1975 were Rs. 182 m. as against Rs. 110m. in 1974. Together these 4 groups of products have brought in nearly 85 per cent of the country's export earnings. The balance 15 per cent comprised mainly petroleum products and other industrial exports in the minerals, textiles and food groups. See table on Major Items of Exports 1974 and 1975.

MAJOR ITEMS OF EXPORT 1974 and 1975 (Rs. million)

BTN No.	Item	1974	1975
9	Tea, spices, coffee	1,448	2,008
8	Coconuts	255	205
15	Coconut oil and fats	156	203
40	Rubber	741	654
71	Gems and Jewellery	110	182
		2,710	3,252
	Total Exports	3,472	3,933

TECHNOLOGY

Just like attempts have been made to diversify dependence in the trade field, there have been a diversification of technological dependence over the last decade or so.

The modern technological spectrum has begun to change rapidly after independence and with numerous development plans. Accompanying the new development thrust was a diversification of technological sources away from the British to the American, French, German Japanese, Soviet, Chinese, Yugoslav, Czechoslovak, Rumanian and Indian sources. This was facilitated by the new credit lines made available by these countries. Many of the industries, established in the last few decades were therefore from non-British suppliers. To take the state sector alone, such non-British technology is now evident in the Tyre, Steel, Cement, Flour Mill, Ceramics, Petroleum, Plywood, Paper and Textile factories which amount to a good part of the major state industries. The breaking of colonial ties also resulted in the training of engineers both at the under-graduate and graduate level, in non-British traditions. Engineering graduates from countries such as U.S.S.R., Poland, France, U.S.A. Japan, East and West Germany, China, Yugoslavia, India, Pakistan, Israel etc. man many positions in today's industrial sector. In addition, many technical personnel with British or Ceylon University backgrounds have had practical training in many of these countries as well.

Although technological sources have been diversified, there have been not much spread effects. The imported technology exists in virtual enclaves with much of their physical inputs still coming from sources abroad. However, a good reservoir of trained technical skills have been built up. In recent years, as a response to the need to generate unemployment, an attempt has been made to develop so called intermediate forms of technology from the technological base of local craftsmen. Thus, blacksmiths and carpenters and the like have been organised to make new products with the provision of new technical inputs if and when the need arises.

SOCIAL DEVELOPMENT AND INCOME DISTRIBUTION

Two of the main achievements of Sri Lanka is in the fields of health and education. Levels have been reached in these fields which are comparable with levels reached in countries with higher productive capacities.

Free education has existed in Sri Lanka,, for one generation now since 1945. The number of enrolled pupils has consequently risen dramatically from a figure which stood at one million in 1946 to nearly three million in the 1970's. Pupils at secondary levels of education have increased four fold during the period and the number of university students ten fold during this period. Government expenditure has also increased dramatically from Rs. 105.7 millions in 1950—51 to Rs. 512 million in 1969 — 70. The number of teachers over the same period of 1950 — 1970 increased from 39,000 to about 100 000.

The education system had however largely being a colonial transplant with courses largely geared to non-local requirements. Within the last few years a fundamental reorientation has been attempted in the education field with courses and methods of teaching geared to the local environment.

Sri Lanka is one of the oft-quoted success stories in the field of health, with wide spread attempts after the second world war to eradicate Malaria and install an island wide health service.

General indications of this dramatic increase of the health of the population is given by the following:—

Crude death rate declined from 20.3 per thousand of population in 1946 to 7.9 per thousand in 1968; infant mortality has dropped from 141 per thousand live births in 1946 to 50 per thousand in 1968 and life expectation at birth had increased from 44 for males and 42 for females in 1946 to 65 and 67 respectively in 1968. A further demonstration of the impact of health services is seen in the geographical distribution of the most healthiest and unhealthiest areas in the country. Judging from child death rates the then Malaria infected regions of the Dry Zone which 40 years ago had death rates of 200 — 300 per thousand have today the lowest rates of 20 — 39 deaths per thousand.

GROSS NATIONAL PRODUCT AT CONSTANT (1959) FACTOR COST PRICES

		1959	1966	1967	1968	Rupees 1969	Million 1970	1971	1972	1973	1974	1975
1.	Agriculture, Forestry Hunting and Fishing	2,302.4	2,821.2	3,060.6	3,239.7	3,280.5	3,406.6	3,311.2	3,478.4	3,387.6	3,558.3	3,601.8
2.	Mining and Quarrying	31.3	37.1	37.0	37.3	55.0	65.2	66.6	67.5	266.2	190.9	248.2
3.	Manufacturing	682.1	1,008.1	1,052.1	1,154.0	1,260.5	1,331.8	1 378.9	1,400.5	1,417.2	1,359.4	1,461.5
4.	Construction	282.9	293.2	350.8	457.8	504.4	577.2	549.5	505.0	516.2	552.8	503.4
5.	Electricity, Gas, Water and Sanitary Services	9.5	14.3	14.7	15.0	17.6	21.3	28.6	31.0	31.3	31.5	33.3
6.	Transport, Storage and Communications	540.9	791.8	772.9	848.5	900.6	913.2	920.3	987.6	1,018.7	1,053.7	1,100.1
7.	Wholesale and Retail Trade	800.8	1,144.1	1,193.8	1,245.0	1,361.1	1,393.2	1,315.7	1,327.2	1,383.2	1,449.8	1,501.4
8.	Banking Insurance and Real Estate	50.9	83.0	99.6	110.4	113.7	118.0	128.5	135.6	141.9	164.9	183.6
9.	Ownership of Dwellings	200.6	272.8	263.1	291.8	290.9	301.5	307.4	312.6	318.1	344.4	350.0
10.	Public Administration and Defence	301.0	396.5	388.9	432.4	445.4	458.8	488.1	522.2	566.6	609.1	645.6
11.	Services	727.6	992.3	1 012.4	1,104.8	1,138.9	1,183.7	1,297.0	1,334.0	1,379.4	1,440.6	1,512.8
12.	Gross Domestic Product	5,930.0	7,854.4	8,254.9	8,936.7	9,368.6	9,770.5	9,791.8	10,101.6	10 426.4	10,755.4	11,141.7
13.	Net Factor Income from Abroad	−36.7	−36.1	−44.5	−35.7	−67.5	−84.1	−66.9	−71.9	−43.9	−24.9	−26.9
14.	Gross National Product	5,893.3	7,818.3	8,210.0	8,901.0	9,301.1	9,686.4	9,724.9	10,029.7	10,382.5	10,730.5	11,114.8

Estimates for 1972 to 1975 are provisional.

Source: Central Bank of Ceylon.

Both measures in health and education are largely attributable to a growth, specially since the 1930s of policies increasingly responsive towards some mass needs. With increase of education the articulation of these needs has grown. One of the effects of this responsiveness has been also an affective redistribution of the country's income in favour of the rural areas and towards lower income groups.

In the non-socialist developing world Sri Lanka's performance in this is almost unique.

UNEMPLOYMENT

With worsening of the terms of trade the post-war strategy of Sri Lanka of investing export earnings from the primary commodities in other fields has had a severe set back. Consequently, targets of new projects and hence of employment has fallen back drastically so as to indicate that limits of solution of the unemployment problems within the present socio-economic framework are perhaps been fast eroded.

The Ten-Year Plan of 1959 estimated, (on somewhat inadequate data) that unemployment was about 3.5 per cent of the labour force at the time. The current Five-Year Plan 1972 — 76 estimated unemployment in 1971 to be about 550,000 persons out of a total labour force of 4.5 million which is a rate of over 12 per cent. A nationwide sample survey of the Central Bank of Ceylon in 1975 has estimated that the total unemployed had in the meantime risen to 984,000 a startling 19.8 per cent of the total labour force. (The sample used by this survey is small being only 5,000 households and the interpretation of these results have to be tempered by this knowledge).

Both recent Plans as well as a special ILO Mission on unemployment in 1971 have had apparently little impact on the unemployment problem. The government has attempted encouraging various labour intensive development strategies specially through the Divisional Development Councils. But this and other programmes has not yet had much impact on the magnitude of the problem.

CONCLUSION

Thus, seen globally the performance of the Sri Lankian economy, since independance has been a struggle to get away from the structured limitations of the colonial plantation economy. Attempts were made to tap some of the surplus of the plantation sector and channel it to the traditional sector and break through the enclave situation. Attempts were also made to industrialise, to diversify the economy and resurrect the non-plantation agricultural sector. These attempts were taken largely within the existing socio-economic structures, both locally and internationally.

The initial industrialisation programme was by import substitution of products demanded by the higher income groups in the country. This led not to diversification and independence of the economy but to increased dependence on imported technology and raw materials. In agriculture, both in food crops and plantations gains in output have been impressive in pure physical terms. But again in the plantation crops the drop in real purchasing power has off-set these physical gains. With continued de-generation of the terms of trade manouvreability for development within the present strategy has become extremely limited. Recourse to short term foreign borrowing for current consumption and not development, has become of importance recently.

Sri Lanka has shown impressive gains in education and health services and some success in re-distribution of income. But unemployment remains a strong structural feature with the prospect that it will worsen in the years to come. Sri Lanka still seems trapped within the socio-economic framework set during colonial times.

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PRODUCTION QUANTITIES OF PRINCIPAL AGRICULTURAL CROPS

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975		
												1966	1967
Tea (Million lbs.)	503	490	487	496	484	468	480	471	466	450	471	− 2.6	−0.6
Rubber Million lbs.)	261	289	316	328	333	351	312	309	340	291	328	+10.7	+9.3
Coconut (Million Nuts)	2676	2461	2416	2601	2440	2510	2610	2963	1935	2031	2447	− 8.0	−1.8
Paddy (Million Bushels)	36.3	45.7	55.1	64.8	65.9	77.4	66.9	62.9	62.9	76.8	55.3	+25.9	+20.6

(195 — 1975)

Source: Central Bank of Ceylon

1968	1969	1970	1971	1972	1973	1974	1975
+1.8	−2.4	−3.3	− 2.6	−1.9	− 1.1	− 3.4	+ 4.7
+3.8	+1.5	+5.4	+11.1	−1.0	+10.0	−14.0	+12.7
7.7	−6.2	+2.9	+ 4.0	+13.5	−34.7	+ 5.0	+20.5
+17.6	+1.7	+17.5	−13.6	− 6.0	0.0	+22.1	−28.0

Source: Central Bank of Ceylon