

# Changing Export Structure of Sri Lanka

**S**ri Lanka which embarked on an ambitious trade liberalisation programme in 1977 has been able to continue these policies with the change of government last year which has declared their commitment to a liberalised trade system. The imports are regulated by tariff and the government has pledged a move towards a single rate of tariff in the medium term.

The 9 per cent growth in total exports in 1994 was coupled with a further shift towards increased manufactured exports. Mid year population estimated at 17.9 million growing at a rate of 1.4 per cent in 1994, enjoyed increased GNP per capita level from US \$ 526 in 1993 in 1994. GNP growth in real terms was 5.3 per cent. Total exports in Sri Lanka was estimated at SDR 2235 million in 1994 a growth from SDR 2046 Mn in 1993.

Exports play an important role in the Sri Lankan economy holding around a 25 per cent share in the Gross National Product which has remained at the same level for many years. This gives sufficient justification for a vigorous export drive in Sri Lanka with successive government recognising the importance

of exports by extending their unconditional support by adopting favourable policies and granting incentives and assistance.

One of the major economic objectives of the country has been the diversification of exports reducing a dependence on primary products. Vulnerable traditional sector comprising the 03 primary products — tea, rubber, and coconut which held 48.63 per cent share of total exports in 1985 has gradually declined to 17.83 per cent in 1994 with a corresponding increase in the non-traditional sector exports from 51.37 per cent in 1985 to 82.17 per cent in 1994.

Growth of the non-traditional sector during the decade has been consistent. Growth of this sector in the first 06 months of 1995 was 17.13 against 4.31 per cent growth in the first six months of 1994. Textiles and garments which holds the No. 1 position in Sri Lankan exports since 1986 continued to hold its position with 48.3 per cent of total exports in 1994. Two items worthy of mention in the textile sector are woven fabrics and hand looms. Exports of woven fabrics have increased by 132

per cent in the first 6 months of 1995. The handloom sector which was taken up for promotion in order to create employment opportunities to the rural masses too is showing potential particularly in its supplies to the high end of the market.

The traditional sector itself has undergone a healthy transformation with an increase in export in non-traditional forms. Tea bags, packs and instant tea have increased while the traditional bulk tea exports have declined. Manufactured rubber products such as gloves,

tyres, tubes, articles of unhardened rubber have increased and the traditional — sheet, crepe and block rubber have declined. In the coconut sector to the same pattern is seen with the non-traditionals such as fibre based products, coconut cream, paste, defatted coconut, coir peat, coconut shell charcoal and activated carbon increasing.

Changing patterns of the Sri Lankan export structure is a result of a planned and projected approach at export development. One is to increase the number of non-

traditional export products which will lead to a reduction of dependence on a limited number of primary exports which are vulnerable both price and demand wise in the international market. The other was to increase the number of non-traditional forms of exports in the traditional sector. In all these activities special attention and incentives are given to production which utilise local raw-material and create employment opportunities.

Some of the new agricultural products that have come to export scene are

fruits, vegetables, cut flowers, foliage, cashew nuts, cinnamon, coffee, tobacco, cloves, pepper and nutmeg. Some of the items in the manufactured sector which has shown a very high growth potential are leather and rubber products, food, beverages and tobacco, wood and wooden products, paper and paper products, chemicals and plastic products, non-metallic mineral products, base metal products, fabricated metal machinery and transport equipment. Although quantities exported are yet small they hold much growth potential for the future. Worthy of special mention are products such as jewellery, diamonds, shoes, ceramics and porcelain ware which have recorded high growth in the recent past.

These manufactures recorded a growth of 19.16 per cent in the first half of 1995 compared with a growth of 18.63 per cent in the first half of 1994. The average growth of this sector for the period of 1985 — 1994 was 17.5 per cent. The USA continued to be the major market for Sri Lankan exports though its share seems to be declining gradually. In 1993 35.71 per cent of exports went to the USA and 34.72 per cent in 1994. Major export items to this market are garments which was 76 per cent though a decline from 81 per cent share in 1993. Other exports of significance to this market are leather travel goods and bags, rubber gloves, toys, games and sports requisites ceramics and porcelain products, leather footwear, woven fabrics, games, rubber tyres and tubes, plastic products, tea, cinnamon, wooden craft items, activated carbon, mechanical, electrical and electronic products.

Dependence of the garments exports on the USA market was a matter of concern for Sri Lanka. This is being gradually changed with market promotional programmes carried out by the EDB particularly in promoting non-quota items and non-quota markets. There is a considerable increase in the exports to Japan. Other non-quota markets which are being actively promoted are Russia, Australia and Scandinavia.

The second highest market for Lankan products is the EU which held a 31.85 per cent in 1994. In order to face the challenges coming from the phasing of the Multifibre Arrangement and GSP system EDB have been actively promoting other markets. Exports to Asian countries have been 9 per cent in 1994 while to the countries in the Middle East, 8 per cent of the exports have been directed.

## A Resilient Economy

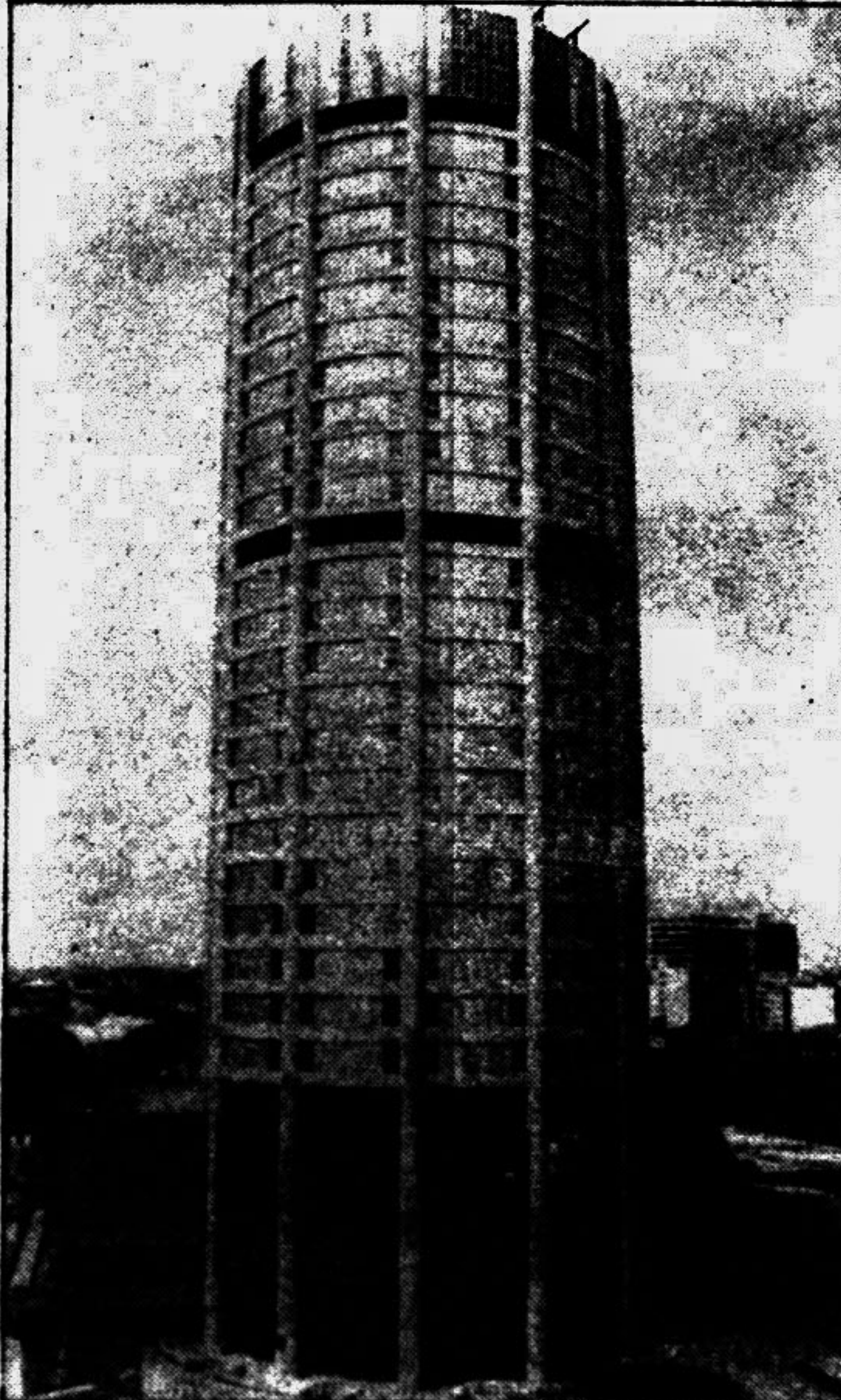
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ernment envisages to contain the overall budget deficit at 7.8 per cent of GDP in 1996. Rising prices, which have plagued the economy for many years have gradually been brought under control, in spite of various unfavourable development. Inflation, which averaged around 13 per cent in the period 1990-1994, was limited to under 8 per cent in 1995. Meanwhile, the exchange market, reflecting underlying macro economic fundamentals, has remained relatively stable.

The financial sector, under liberalisation has been one of the fastest growing sectors in the economy. Financial services are now open to free competition. This sector has responded by enhancing its technical and institutional capabilities to meet the new challenges. The Colombo Stock Exchange has a fully computerised clearing and settlements system, the first such fully automated system in the region. By the end of the year, trading activities are expected to be computerised as well. The banking sector strengthened its links with worldwide markets by joining the SWIFT system in 1995. Currently, there are 26 commercial banks operating in Sri Lanka, of which 18 are branches or subsidiaries of reputed international banks. The latest of these to commence operations is the Korea Exchange Bank, in December, 1995. Sri Lanka's indigenous banks have also been expanding rapidly. Bank of Ceylon, the country's leading commercial bank recently opened branches in Pakistan and India. Several other domestic banks plan to expand to other countries this year.

Thus, the overall picture that emerges is that of a buoyant economy which holds very good prospects for sound economic development in the medium term, despite the isolated conflict

in some parts of the North and the East. The New Government has made strong moves to settle the conflict and if successful, the general expectation is that economic growth will accelerate to 8-10 per cent per year. The commitment of all major political parties to free market policies removes the risk as

sociated with changing of governments. Unlike many other rapidly growing economies, Sri Lanka has been a vibrant democracy for over 60 years now. The Government has strongly pledged total transparency and openness in the conduct of its policies. Thus we see in Sri Lanka an interesting experiment in the working of an open economy under a free and democratic set up.



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