

Title	Sri Lanka and Japan : a case study in economic cooperation
Sub Title	
Author	Indraratna, A. D. V. de S.
Publisher	
Publication year	1981
Jtitle	Keio business review Vol.18, (1981.) ,p.97- 147a
JaLC DOI	
Abstract	
Notes	
Genre	Journal Article
URL	https://koara.lib.keio.ac.jp/xoonips/modules/xoonips/detail.php?koara_id=AA00260481-19810000-03920260

慶應義塾大学学術情報リポジトリ(KOARA)に掲載されているコンテンツの著作権は、それぞれの著作者、学会または出版社/発行者に帰属し、その権利は著作権法によって保護されています。引用にあたっては、著作権法を遵守してご利用ください。

The copyrights of content available on the Keio Associated Repository of Academic resources (KOARA) belong to the respective authors, academic societies, or publishers/issuers, and these rights are protected by the Japanese Copyright Act. When quoting the content, please follow the Japanese copyright act.

SRI LANKA AND JAPAN: A CASE STUDY

in

Economic Cooperation*

by

A. D. V. de S. Indraratna

Chapter I

Economic Cooperation Before The Seventies

1. Historical Background: Japan as a Trading Partner

The Second World War broke out in September 1939. Sri Lanka had, by that time, fully recovered from the Great Depression of the nineteen thirties and was enjoying the prosperity of an export boom immediately preceding the War.

There were no proper national income data for this period. The increase in the incomes from the two major exports, tea and rubber upon which the country's prosperity largely depended, would, however, give an adequate indication of it. The prices of tea and rubber had respectively increased from 42 cents and 11 cents per pound in 1933 to 77 cents and 37 cents by 1939, with respective volumes not recording much change, and as a result, export incomes had increased several fold. This brought about a significant increase in real gross national product and per capita real income.¹⁾

During the prewar years, Japan was an important supplier of Sri Lanka's consumer goods. As seen from Table 1, Sri Lanka's imports from Japan were

* I wish to record my deep gratitude to the Japan Foundation, whose generous award of a Senior Professional Fellowship to me, made this research project possible at Keio University. I sincerely thank the Faculty of Commerce and Business of Keio University who so kindly allowed me to avail of all facilities at the Faculty as a Visiting Professor. I am also grateful to many members of the Keio University International Centre whose friendliness and hospitality made my stay in Tokyo pleasant and comfortable. My thanks are also due to Mr. Y. Kimura and Mr. C. Itoh of MITI who helped me with certain statistical data. Last, but not least, I wish to express my sincere thanks to Professor Yoshihisa Fukushima of the Department of Commerce, but for whose help and assistance in many ways and at various stages, it would not have been possible for me to complete this study and to Professor Takashi Shiraishi who read through the original draft of my outline and made some valuable comments.

1) See, A.D.V. de S. Indraratna, *Economy of Ceylon From the Great Depression to the Great Boom*. M.D. Gunasena & Co., Colombo. 1967. Chapter I.

Table 1. Trade with Japan During Pre-War Years

Year	Imports		Exports	
	Value	% of Total	Value	% of Total
1932	13,231	6.7	1,166	0.7
1933	12,829	7.2	1,442	0.8
1934	18,817	8.7	1,456	0.6
1935	12,222	5.4	1,746	0.8
1936	13,741	6.4	1,735	0.7
1937	16,445	6.8	2,035	0.7
1938	15,405	6.5	1,245	0.5
1939	14,162	5.9	2,438	0.8
1940	15,096	5.4	1,992	0.6
1941	9,008	3.1	53	0.02
1942	35	0.01	—	—

Note: Value in 1,000 Rupees

Source: Thirty Years' Trade Statistics. Dept. of Census & Statistics, Colombo.

sizeable, relative to her exports to Japan. There was, as a result, a continual deficit in Sri Lanka's balance of trade with Japan during prewar. During this period, Sri Lanka imported from Japan mainly tea chests, textiles, tyres and tubes, toys, umbrellas, shoes and stationery and exported to her plumbago and coir bristle & fibre. Japan was the chief purchaser of Sri Lanka's plumbago and coir bristle & fibre, accounting respectively for 30% and 40% of their exports before the war.²⁾ On the other hand, Japan supplied Sri Lanka more than half of her requirements of tea chests and other chests, toys, umbrellas and textiles. Table 2 gives the principal commodities imported from Japan with their percentages of total imports of the respective commodities. This trade with Japan continued uninterrupted until the entry of Japan into war in April 1941 and the trade with Japan, as seen from Table 1, came to a standstill by 1942.

Except trade, Sri Lanka had no other economic relation with Japan during this period. Although Sri Lanka was not directly affected by the Japanese entry into war, until 1944, its trade with Japan had to be cut off immediately on the latter's entry into it in April 1941, on the instructions of the British Government under which Sri Lanka (then Ceylon) remained a colony until February 1948.

Even after the cessation of hostilities in 1945, the interrupted trade between the two countries was not renewed until the late forties. Sri Lanka continued almost as a wartime economy with the wartime restrictions and controls.³⁾ Japan, as a war-torn economy, was busily engaged in repairing the heavy damage caused by the war. The first four years after the war, i.e., 1946-1949, was a period of readjustment for her. In 1947 and 1948 her production had regained momentum,

2) Thirty Years' Trade Statistics. Department of Census & Statistics, Colombo.

3) Indraratna, *op. cit.*, Chapters on "Wartime Inflation" and "Post-War Period."

Table 2. Principal Commodities Imported from Japan with Their Percentages

Commodity \ Year	1933	1934	1935	1936	1937	1938	1939	1940
Tea chests & other chests	52.7	54.4	46.6	52.2	47.8	51.7	55.1	62.5
Toys	76.0	78.5	80.2	77.7	77.9	64.8	63.9	49.2
Tiles	36.2	49.4	48.5	55.0	48.6	42.4	55.5	40.2
Umbrellas	82.4	86.1	80.2	80.5	80.2	65.3	70.5	65.4
Electric bulbs	N.A.	76.0	79.8	89.6	82.4	84.9	9.1	—
Cotton piece goods	68.3	67.6	11.6	15.5	16.6	32.0	45.7	33.3
Broad stuff	93.3	98.3	97.5	97.8	95.5	95.2	85.6	85.2
Artificial silk	N.A.	N.A.	52.8	59.8	37.9	53.6	54.5	36.9
Outer & inner garments	56.3	66.6	92.3	89.2	90.1	84.9	89.9	82.1
Cotton banians	97.3	97.8	97.4	97.9	98.1	98.4	96.8	97.5
Boots & shoes	72.9	73.8	65.9	66.1	61.4	61.7	55.2	27.0
Mill board, straw board, card board etc.	32.3	8.1	3.5	3.0	3.8	5.2	2.9	45.1
Cycle tyres	35.8	6.2	34.2	58.2	35.0	38.5	46.4	29.6
Vehicle tyres	16.5	17.5	23.7	19.9	16.0	12.8	20.9	10.1
Vehicle tubes	24.4	10.5	21.1	13.5	14.2	6.4	15.3	3.8
Cycle tubes	67.2	21.1	39.4	45.0	46.6	57.9	48.4	14.8
Stationery	21.8	20.5	25.3	24.4	27.0	19.4	18.7	5.5

Source: Thirty Years' Trade Statistics. *op. cit.*

and the economy was on an up-swing.

The Korean War broke out in 1950, giving economies of both Sri Lanka and Japan an unexpected boost. This speeded up Japan's recovery. It stepped up the demand for Japanese goods and the real growth accelerated. Between 1950 and 1955, the Gross National Product increased annually by 9%, reaching the 1939 pre-war peak level in 1954.⁴⁾ The value of exports and imports increased nearly twofold as well. Similarly, Sri Lanka enjoyed an unprecedented export boom during this period. Rubber fetched record prices, and by 1951, Sri Lanka's terms of trade had improved so much that she experienced not only a huge positive trade balance but also an hitherto unsurpassed level of external assets of nearly Rs. 1,200 million.⁵⁾

With the signing of the famous San Francisco Peace Treaty in 1952, the occupation of Japan by the U.S. ceased. Japan, once again, began to run its own affairs, both as a nation and as an economy. On the other hand, after Sri Lanka achieved her political independence in February 1948, her trade with Japan was resumed. However, as seen from Table 3, this trade with Japan did not reach the prewar level until during the Korean War. By 1952, the picture of her trade with Japan had become more or less the same as the one for the period im-

4) See Saburo Okita, "Post-War Japan's Rapid Economic Growth and Its Causes." Japan Economic Research Centre. Research Series No. 3, 1966.

5) Indraratna, *op. cit.* especially Section on "Korean War Boom."

mediately preceding the war, with imports and exports between the two countries occupying the same relative positions respectively. With the collapse of the Korean War boom in 1952, the trade between the two countries had shrunk slightly in the following year of 1952. This was, however, temporary.

Table 3. Trade with Japan after the War

Year	Imports		Exports	
	Value	% of Total	Value	% of Total
1943	98	0.02	—	—
1944	47	0.01	—	—
1945	1	—	—	—
1946	389	0.06	—	—
1947	6,342	0.66	357	0.04
1948	13,463	1.35	1,186	0.12
1949	18,075	1.76	4,241	0.42
1950	31,167	2.67	1,302	0.09
1951	79,726	5.11	7,405	0.41
1952	103,759	6.09	10,383	0.74
1953	69,914	4.35	9,094	0.61

Note: Value in 1,000 Rupees

Sources: Customs Returns of Ceylon and Statistical Abstracts of Ceylon

By 1954, Japan had, once again, become a world economic power and had joined the International Economic Cooperation Scheme under the Colombo Plan. Within one month of Japan joining the Colombo Plan in October 1954, a request was received from Sri Lanka (then Ceylon) i.e., November 1954, for the services of two top level agricultural experts. Japan, who was so grateful to Sri Lanka for her performance in Japan's favour at the San Francisco Peace Conference,

Table 4. Economic Conditions of Sri Lanka Between 1954—63

Year	(Mil. Rs.) GNP at 1956 F.C.	1956=100 Population Index	1967=100 Terms of Trade (Px/Pm)	1967=100 Prices of Exports-Index	Bal. of Trade (Rs. Mil.)	External Assets (Rs. Mil.)
1954	—	—	149	128	—	944
1955	—	—	162	134	+480	1,229
1956	5,001	100	151	125	+106	1,276
1957	4,979	102.8	136	120	-122	1,062
1958	5,169	105.7	145	118	- 6	933
1959	5,567	108.6	148	122	-251	734
1960	5,887	111.7	148	122	-128	541
1961	5,872	114.8	136	112	+ 30	532
1962	6,050	118.0	142	109	+148	504
1963	6,197	121.3	129	109	+231	462

Sources: Central Bank Annual Reports. Colombo

Statistical Abstracts. Dept. of Census & Statistics, Colombo

promptly acceded to this request and the experts arrived in Sri Lanka in February 1955. In the field of technical assistance under this Colombo Plan for economic development of South and South East Asia, Japan had, within the first four years of her joining, i.e., 1954-1958 fiscal years, provided experts, training facilities and equipment to the value of ¥326.829 million to the fifteen member countries of the region. Of this assistance, as much as 27.32% came to Sri Lanka. Of the total number of 144 experts sent out, Sri Lanka received as many as 55.⁶⁾

Except for these, Japanese Government was mainly preoccupied within these four years with the reparation payments to war-damaged countries such as Burma, Philippines, and Indonesia, who are also members of the Colombo Plan. These payments were very much larger than the value of technical assistance provided by her to all the fifteen countries of the Colombo Plan.⁷⁾

II. Period of Trade Restrictions in Sri Lanka

By 1956, the boom in export trade in the preceding years had collapsed and the terms of trade were becoming adverse for Sri Lanka mainly owing to falling

Table 5. Imports of Sri Lanka 1955-1965 (Volume Index Only)
(Result of Trade Restrictions)

Year	Food & Drink	Textiles	Other	Total Consumer Goods	Intermediate Goods	Investment Goods	All Imports
1955	80	205	209	101	74	128	98
1956	90	238	240	115	71	158	109
1957	91	195	257	114	102	155	116
1958	97	256	286	127	78	154	118
1959	108	228	369	142	95	202	136
1960	101	221	423	141	95	180	133
1961	93	192	140	105	92	157	107
1962	87	190	129	99	102	178	108
1963	83	108	71	82	97	143	93
1964	114	203	149	126	96	104	114
1965	75	125	94	82	92	90	86
1967	100	100	100	100	100	100	100

Source: Central Bank, Annual Reports

6) Colombo Plan, Annual Reports. In these reports, it is also recorded that there was direct Japanese private investment in economic development projects in these countries including Sri Lanka from 1953 to 1956 August 31, totalling ¥3,300 million, a substantial part of which was financed by the Export-Import Bank of Japan established in December 1950. At least two joint ventures in fishing and food processing and manufacture of glass bottles for beverage had been established in Sri Lanka by 1956 (See Appendix 1).

7) One payment to Burma alone amounted to ¥5,400 million. For further details see JETRO, Economic Cooperation Japan, 1978.

export prices.⁸⁾ The population of Sri Lanka was rising annually by more than 2.5% and the gross national product was not rising fast enough to absorb the increasing work force. Unemployment, which by 1959/60 had risen to 10% of the labour force, began to cause concern.⁹⁾ There was heavy pressure on the balance of payments as well.

The Government then adopted a policy of import restriction mainly of manufactured goods. This resulted, among other things in a programme of import substitution in industry. Licensing quota for specific items and advance deposit requirements were two major instruments adopted as far back as from 1959 to curtail imports. The result of such measures was a drastic fall of the volume of imports. The decline in the volume of consumer goods was much higher than in the volume of intermediate and investment goods. Among consumer goods, the decline in luxury items was much more marked. Motor cars, watches, refrigerators (included in "other category" in Table 5) which fell into this category recorded a significant decrease in 1961. Restrictions introduced earlier were further intensified in 1962. Licensing quotas for textiles and tyres and tubes whose major supplier was Japan were further reduced by 1/3 and 1/4 of the previous year's quota respectively. These restrictions were further tightened by altogether banning the imports. The import trade with Japan which always had a tendency to increase with an open-door policy began to fall and by 1963 was around only 6%.¹⁰⁾

After the direct restriction of imports, import substitution in industry showed a quickening of tempo. According to a Central Bank Survey, the number of firms engaged in manufacturing had risen from 262 in 1960 to 433 in 1963. Manufacturing output was expanding at 15% annually and the contribution of her output of manufacturing to the GNP increased from 4.4% to 7% in this period.

Japan's main aid programme, the main constituent of which was Government loans-so called "Yen Credits"-did not start until 1958. It started in this year with the grant of the first yen credit of \$50 million equivalent to India.¹¹⁾ Until 1965, Japan did not give aid in the form of outright grants except war reparation payments. Of the total aid extended by Japan from 1955-1965, other than Reparation and Semi-Reparation Payments, less than 10% was in the form of grants and that too was for debt relief given in 1965.¹²⁾

8) Sri Lanka was importing less than 10% of her imports from Japan. Therefore, it was not getting enough benefit from the increasing productivity of Japanese exports during this period, to counteract the rising prices of foods and other consumer goods imported from other countries, leaving aside the falling prices of Sri Lanka's own primary exports.

9) Indraratna, Population and Employment Research/Studies in Sri Lanka published by the Ministry of Labour, Sri Lanka, in collaboration with the ILO, Bangkok, 1977.

10) Figures compiled from Ceylon Customs Returns.

11) Japan Economic Cooperation, JETRO. *op. cit.*

12) Figures compiled from data in JETRO, Economic Cooperation of Japan, 1978, *ibid.*

Sri Lanka had not received any "Yen Credit" from Japan so far. Even her contribution to Sri Lanka in technical assistance under the Colombo Plan was, after 1958, little. During the preceding four years, it was noted earlier, more than 1/4 of Japan's technical assistance under the Colombo Plan came to Sri Lanka and she was the biggest donee of Japanese assistance of any of the fifteen countries under the Scheme. However, in the next four years of 1958-1962, Japanese contribution to Sri Lanka was less than 1/10 (only 9.56%) and in the next three years it was only 6.27%. Of the total number of experts of 196 and training facilities 686 provided by Japan in fiscal years of 1962 and 1963, Sri Lanka respectively received only 8 and 30.¹³⁾ One reason for this "change of heart" might have been the slowing down of imports from Japan on account of the import restrictions.

III. Sri Lanka as a Donee of Japan

In less than twenty years since the cessation of hostilities, Japan had achieved remarkable rehabilitation and economic growth unsurpassed by any other nation. Her GNP had increased nearly fivefold by 1965. She had begun to achieve surpluses in both merchandise and current accounts of her balance of payments on account of the relatively fast growth of her exports. Between 1951 and 1965, her exports were 8.9 times higher while imports were only 5.6 times higher.¹⁴⁾

Thus Japan was clearly in a better position to be a major donor in the late sixties (since 1965) than before. It was during these years that Japan began to play a crucial role in the economic development of South and East Asia, as was evident from her initiative in convening the first Ministerial Conference for the Economic Development of South East Asia in 1966.

Japan, by this time, had assumed a major responsibility of economic assistance to this part of Asia. Table VI shows that between 1961 and 1969, not ODA of Japan was, in absolute figures, on an upward trend. However, as a per cent of the GNP, it remained in 1968 and 1969 more or less on the same level of 0.25% as in 1961, although there were some intervening years in which it fluctuated between 0.30% and 0.36%. In the two years of 1965 and 1966, when Japan had an export surplus, the net ODA as a percent of the GNP reached its highest level during the period. However, in 1969, when she had even a bigger export surplus, the ODA failed to increase correspondingly. On the other hand, when she had substantial import surpluses, it had reached 0.30%. Neither does ODA seem to have varied with the GNP.

Sri Lanka became a donee of Japan for the first time during this period, on

13) Colombo Plan, Annual Reports.

14) Denison & Chung, *How Japan's Economy Grew So Fast*. Brookings Institution, 1976. In 1965, she recorded an export surplus of \$283 million after several years of import surpluses (See Table VI).

Table 6. Japan's Economic Cooperation 1961-69 (in Million dollars)

Items	Year	1961	1962	1963	1964	1965	1966	1967	1968	1969
I. Official Development Assistance (ODA)		106.9	86.8	140.3	115.9	243.8	285.3	385.3	356.2	435.5
1. Total Bilateral Assistance		95.5	79.6	128.2	106.2	226.3	234.7	340.6	307.4	330.6
(a) Loans		27.7	5.0	51.5	37.5	144.1	130.0	202.2	190.5	216.2
(b) Grants (including Technical Assistance)		67.8	74.6	76.7	68.7	82.2	104.7	138.4	117.0	123.4
2. Contributions to Multilateral Agencies		11.4	7.2	12.1	9.7	17.5	50.6	44.7	48.8	95.9
II. Total Official Assistance		106.9	86.8	140.3	115.9	243.8	285.3	611.1*	678.3*	811.3*
III. ODA Assistance to Asia		N.A.	N.A.	N.A.	N.A.	205.7	216.2	343.8	311.9	343.4
(i) Amount		N.A.	N.A.	N.A.	N.A.	205.7	216.2	343.8	311.9	343.4
(ii) % of Total ODA		N.A.	N.A.	N.A.	N.A.	84.4%	75.8%	89.2%	87.6%	79.3%
IV. Gross National Product (Millions)		41,310	46,840	53,570	61,170	68,020	78,220	122,480	146,120	171,150
V. Export Surplus (+)		-1,574.8	-720.4	-1,284.2	-1,264.4	+282.7	+253.7	-1,221.5	-15.6	+966.5
VI. ODA as % of GNP		0.25	0.19	0.30	0.19	0.36	0.36	0.31	0.24	0.25

Note: * inclusive of official export credits, equities and other bilateral assets and contributions to multilateral institutions at market rates. In the years 1961-66, these have been all lumped together under ODA. Since these other official flows have not been significant in these early years, the rough order of magnitude of ODA would not be significantly changed.

Sources: i) MITI (Japan); ii) OECD, Annual Reviews; iii) JETRO.

Table 7. External Aid of Sri Lanka (Net ODA only) (Million dollars)

Year	1 Aid from All Sources		2 Aid from Japan			3 Import Surplus with Japan	4 2 as % of 1			5 2 as % of 3			6 2 as % of Total Japanese			
	Loans	Grants	Total	Loans	Grants		Total	Loans	Grants	Total	Loans	Grants	Total	Loans	Grants	Total*
1966	17.68	2.38	20.26	3.06	Nil	3.06	17.31	Nil	15.25	21.76	Nil	21.67	2.35	Nil	1.07	
1967	30.89	3.94	34.83	3.35	Nil	3.35	10.84	Nil	9.62	28.93	Nil	28.93	1.66	Nil	0.87	
1968	40.70	2.82	43.52	4.82	Nil	4.82	11.84	Nil	11.08	47.16	Nil	47.16	2.53	Nil	1.35	
1969	60.34	7.81	68.15	5.06	Nil	5.06	8.39	Nil	7.42	21.21	Nil	21.21	2.34	Nil	1.16	
1970	50.24	12.55	62.79	4.51	0.57	5.08	8.98	4.54	8.09	20.11	2.50	22.65	1.80	0.46	1.11	

* 2 = Total Net ODA

Note: Aid for fiscal years, Ending on 31 March following

—Import surplus, Calendar years.

Sources: Col. 1 and 2—OECD Annual Reviews.

—JETRO, Japan Economic Cooperation.

—Sri Lanka, Ministry of Planning Files.

—IMF

—UN Year Book of International Trade Statistics.

—Except for 1966 which is from Sri Lanka Customs Returns.

—JETRO, above.

Col. 3

Col. 6

the latter becoming a member of the Sri Lanka Aid Consortium of Nations since its inception in 1965. The first Yen credit of ¥1,800 (\$5 million) million was received by Sri Lanka in the following year. However, aid which she received from Japan vis-a-vis assistance to the rest of Asia was very little. As seen in Table 6, of the total ODA of Japan between 1965 and 1969, more than three fourths came to Asia. However, not even 1.5% of the ODA of Japan, as seen in Table 7, came to Sri Lanka. Neither did it match with even half of the import surpluses which Sri Lanka incurred with Japan. The ODA, Sri Lanka received from Japan was also less than 10% of the total ODA, Sri Lanka received from all sources, except in 1966 and 1968 when the respective percentages were slightly higher at 15% and 11%.

Chapter II

Economic Cooperation In The Seventies

I. Introduction

In the early Seventies, despite the continuance of trade restrictions in Sri Lanka, both exports to, and imports from, Japan increased respectively from an average of about 2.4% and 6.5% in the preceding seven years of 1963-1969 to 4.2% and 8.6% in the first seven years of the Seventies (Table 8). This increase was more the result of a trade diversion than trade creation. As shown in Table 7, the average annual volume of exports and imports decreased respectively by 2.5% and 22.4% while their respective prices rose by 47.4% and 146.3%. The trade with Japan expanded with a shrinkage of that with the United Kingdom.

Japan made a firm commitment to be an aid giver ranking equally with other important donor countries like the U.S.A., U.K., West Germany and France. In 1970, for example, at the Ministerial Conference for the economic development of South East Asia (Colombo Plan) as well as the Ministerial Conference of the OECD, she gave an assurance that Japan would try to achieve by 1975 the

Table 8. Sri Lanka's Trade with Japan, U.K. and U.S.A.
Between 1963/69 and 1970/76

Period	Exports					Imports				
	Share of US	Share of UK	Share of Japan	Index of Total 1967=100		Share of US	Share of UK	Share of Japan	Index of Total 1967=100	
				Vol.	Price				Vol.	Price
1963-69	7.98	22.21	2.38	99.6	110.6	5.24	16.92	6.51	102.9	106.9
1970-76	7.39	13.12	4.24	97.1	163.0	6.54	8.30	8.62	79.9	263.3

Source: UN Year Book of International Trade Statistics

target of 1% of GNP in international resource flow to developing countries set by the UNCTAD. As for Official Development Assistance (ODA) she accepted at the UNCTAD Conference in Santiago in April 1972, the target of 0.7% of GNP

As seen from Table 9, she was, in fact, able to achieve the former target earlier in 1973, when it reached an all-time record of 1.44% of GNP (\$5,844 million) in the net flow of resources to developing countries. In that year, she was only second¹⁵⁾ to the U.S.A. among the DAC countries with regard to the net flow of resources to developing countries, having doubled her share of the total from 12% in 1970 to 24%. However, her record of Official Development Assistance during this period was not so good. Her ODA did not reach beyond 0.25% of GNP and accounted for less than 10% of the total ODA of all countries (Table 9). She also ranked only the twelfth as a donor among DAC countries, during this period.

Table 9. Economic Cooperation of Japan with Developing Countries

Period	Total Net Flow of Resources			Total ODA		
	Amount \$ Mill.	as % of GNP	as % Share of the Total from all Countries	Amount \$ Mill.	as % of GNP	as % Share of the Total from all Countries
1967-69 AV	1,037	0.72	8.1	3,921	0.27	6.1
1970	1,824	0.92	11.5	458	0.23	6.7
1971	2,140	0.95	12.0	511	0.23	6.6
1972	2,725	0.93	13.8	611	0.21	7.2
1973	5,844	1.44	23.7	1,011	0.25	10.8
1974	2,962	0.65	13.4	1,126	0.25	10.0
1975	2,880	0.59	7.1	1,148	0.23	8.4
1976	4,003	0.72	9.8	1,105	0.20	8.1
1977	5,535	0.81	11.2	1,424	0.21	9.9
1978	10,703	1.09	14.3	2,215	0.23	12.1

Note: Total of DAC countries to developing countries and Multilateral Agencies
Source: OECD

During the next two years, her economy suffered a setback on account of the oil crisis and her aid programme too suffered as a result, but only to recover in the following year of 1976. (vide Table 9) The total net flow of resources which had fallen to 0.59% of GNP and 7% of the total from all DAC countries in 1975 rose respectively to 0.72% of GNP and 10% of the total from all DAC countries in 1976. By 1978, the total net flow of resources from Japan had once again exceeded 1% of GNP (1.09%), the international target, with her share of the total rising to 14.3%. However, her ODA still continued to be between 0.20% and 0.23% of GNP and was much below the average of 0.35% for all 17 DAC countries, ranking as far down as the 14th among them.¹⁶⁾

15) But the contribution as a % of GNP was higher than the U.S.A. and topped the list of DAC countries.

16) Source of data: OECD

Table 10. External Aid of Sri Lanka in the Seventies (Net ODA only) (Million dollars)

Items	1 Aid from All Countries			2 Aid from Japan			3 Import Surplus with Japan	4 2 as % of 1			5 2 as % of 3			6 2 as % of Total Japanese		
	Loans	Grants	Total	Loans	Grants	Total		Loans	Grants	Total	Loans	Grants	Total	Loans	Grants	Total*
1970	50.2	12.6	62.8	4.5	0.6	5.1	22.43	8.98	4.54	8.09	20.11	2.50	22.65	1.80	0.46	1.11
1971	32.1	23.6	55.7	6.7	0.7	7.4	17.48	20.87	2.97	13.27	38.33	4.00	42.33	2.18	0.56	1.45
1972	40.2	17.9	58.0	3.8	1.0	4.8	23.32	9.45	5.59	8.28	16.30	4.29	20.58	1.24	0.59	0.74
1973	28.6	29.3	58.0	2.9	0.9	3.8	17.85	10.14	3.07	6.55	16.25	5.04	21.29	0.53	0.40	0.38
1974	40.3	40.1	80.5	8.3	2.2	10.5	33.84	20.60	5.49	13.04	24.53	6.50	31.03	1.22	1.11	0.93
1975	94.3	80.5	174.8	14.3	1.8	16.1	38.28	15.16	2.24	9.21	37.36	4.70	42.06	2.21	0.89	1.40
1976	85.7	79.9	165.9	7.1	3.8	10.9	19.81	8.28	4.76	6.57	35.84	19.18	55.02	1.25	2.09	0.99
1977	82.4	94.4	186.9	13.7	4.9	18.6	26.99	14.83	5.19	9.95	50.76	18.15	68.91	2.07	2.07	1.31
1978	n. a.	n. a.	341.1	34.7	18.1	52.7	64.01	n. a.	n. a.	15.46	54.18	28.20	82.38	3.02	4.71	2.38
1979	n. a.	n. a.	n. a.	41.1	24.1	65.2	71.50	n. a.	n. a.	n. a.	57.48	33.71	91.19	n. a.	n. a.	2.47

* 2 ÷ Total Net ODA

Note: Import Surpluses for the last three years may be slightly underestimated in comparison with earlier figures because of the Shift in F.O.B. and C.I.F. Valuation.

Sources: Col. 1 and 2 as for Table 7

Col. 3 up to 1977—UN Year Book of International Trade Statistics

1977-1978 Japan—White Papers on International Trade

1979 Japan—Ministry of International Trade

Very little of Japan's aid came to Sri Lanka. Although still more than 3/4 of Japan's official bilateral assistance came to Asia,¹⁷⁾ as seen from Table 10, the percentage of net ODA Sri Lanka received from Japan remained below 1.5% of the total net ODA of the latter, until 1978.

II. The New Social and Economic Deal of Sri Lanka

This position has improved with the assumption of office by the present Government in the middle of 1977. Instead of the inward-looking restrictive policies of the previous Governments, it paved the way for an outward-looking free-market economy.

Many of the exchange and import controls were lifted and price control and rationing of many consumer goods was relaxed. Tariffs on a large number of imports were revised downwards. Subsidies on rice and other food-stuffs and on transport were gradually eliminated. Free rice was no longer made available.

Compulsory Business Acquisition Act was sparingly used and that too in the National Interest creating a better and assured atmosphere for private investment. A guarantee of foreign investment was embodied in the Constitution (Article 157).

Tax incentives including tax holidays and double taxation reliefs were extended.

The fixed exchange rate system was abolished and the rupee, which was hitherto overvalued, was linked to a basket of currencies and allowed to float.

Policies of import substitution in industry were given up and a strategy of export-led growth was accepted instead. Export Development Board was set up to diversify the nations's export base through assistance to exporters for market and product development.

Mahaweli River Diversion Scheme was dovetailed from thirty to six years, the term of office of the present Government. Several bodies which were earlier monitoring the different aspects of it, were brought, for better coordination, under one single authority, the Mahaweli Development Authority. This scheme when completed would make Sri Lanka a rice-surplus country. It is also expected to create substantial employment and also generate hydro-electric power to hedge against rising oil prices.¹⁸⁾ (See Chapters 3 and 4 also)

17) The respective percentages were 99.3% (1971), 98.1% (1972), 88.2% (1973), 87.0% (1974), 79.0% (1975), 78.7% (1976), 72.4% (1977) and 70.4% (1978).

18) This scheme is estimated to cost \$1.4 billion (Rs. 20 billion) and designed to irrigate 320,000 acres of new land and provide 900,000 jobs in the construction, agriculture and service industries. It would also generate 560 megawatts of hydro-electric power.—Sri Lanka Business Week March 10, 1980, p. 3, and Preface by the Minister of Lands and Land Development and Mahaweli Development to "Mahaweli Projects and Programme". Ministry of Mahaweli Development, Dec. 1979. The Business Week puts the new land under the project at 391,000 and the hydro-electric power at 500 megawatts.

A Greater Colombo Economic Commission has been set up under the Greater Colombo Economic Commission Law to monitor, among others, a Free Investment Promotion Zone (IPZ) of around 180 sq. miles, near the International Airport, 17 miles away from Colombo. As at December 1979, it has approved 91 projects representing a foreign investment of \$122 million and a local investment of \$43 million and an employment potential of 40,000. Foreign Collaboration has come from nearly 25 countries. When it is fully under way it is expected to provide jobs for nearly 150,000.

This package of policies was a sweeping departure from "a tightly controlled inward looking, welfare-oriented economic strategy to a more liberalized outward looking and growth-oriented one".¹⁹⁾ They not only enabled goods to be freely imported and sold at prices the market would bear²⁰⁾ but also should have had a psychological impact on Sri Lanka's would be donors and trading partners.

III. The Rising Tide of Trade and Aid

This is clearly evident in the case of her trade and aid relations with Japan, which have significantly improved within the last two years. The value of exports to Japan increased by 74% in 1978 over 1977 and by another 3% in 1979 over 1978. The increase in the value of imports from Japan was greater. The respective percentages were 97% and 7%. As a result, import surpluses increased from \$26.99 in 1977 to \$64.0 and \$71.50 million in 1978 and 1979 respectively. As seen from Table 10, these increasing import surpluses were somewhat compensated by the increase in Japan's ODA in these two years. The increase in her share of ODA to Sri Lanka from less than 1.5% in previous years to around 2.5% in these two years was substantial, the respective percentages being 2.4% and 2.5. Japan also has become one of the major donor countries of Sri Lanka accounting for more than 15% of the total ODA received by the latter in 1978. With the net ODA from Japan rising by another 12% in the following year, the percentage of the Japanese contribution to the total net ODA received by Sri Lanka may be even more.

Japan's ODA to Sri Lanka very nearly matched the big import surpluses in 1978 and 1979. It was respectively 82.4% and 91.1% of the import surpluses in comparison with 68.9% and 55.02% in the two preceding years. These were the two years in which the net ODA from Japan reached the highest level as a percentage of the import surplus.

If the direct investment, the other component of the net resource flow, had also increased commensurately, the total resource flow would have exceeded the

19) Central Bank Annual Report 1978, p. 2.

20) In order to cushion the impact of retail prices which were rising above the prices prevailing within the controlled economy, wages and salaries were revised upwards, taxes on personal incomes were reduced and salaries of public servants were exempted from income tax and a dole of Rs. 50 per month given to the unemployed.

import surpluses, thereby correspondingly augmenting Sri Lanka's domestic resources for development. However, the record of Japanese direct investment in Sri Lanka has always been poor.

Table 11 shows the total direct private foreign investment of Japan and its share in Sri Lanka. Except in 1975 fiscal year, the share of Japanese direct foreign investment in Sri Lanka was less than 0.1%. The average for the seventies was 0.03%. The average for the last three years is the worst, being .006% in comparison with 0.025% and 0.051% of the two previous three-year periods.

Table 11. Direct Private Foreign Investment of Japan

Fiscal Year	(1) Total of Japan (\$ Million)	(2) In Sri Lanka (\$.000)	(3) (2) as % of (1)
1970	904	410	.02
1971	858		
1972	2,338		
1973	3,494	1,387	.04
1974	2,395	95	.004
1975	3,280	3,535	.11
1976	3,462	135	.004
1977	3,806	343	.01
1978	4,598	128	.003
1979	4,995	n. a.	n. a.
Total 70-78	24,135	6,856	.03

Source: i) Japan Economic Cooperation. JETRO

ii) Focus Japan, August 1980

Note: i) Both (1) and (2) on Licensed and notified basis

ii) Include acquisition of foreign securities, claims, real estate and factories and offices

This behaviour of direct private investment of Japan in Sri Lanka is different from her ODA. It is amply demonstrated by the fact that of the 38 joint ventures (with 8 other wholly locally owned enterprises) which were approved in the Sri Lanka Free Investment Zone upto November 1978, there was not one with Japanese participation.

This may be sometimes due to the lack of appreciation or correct understanding of the recent changes in socio-economic policies of the country. Sometimes it may be that the "cautious" Japanese investor is awaiting further inducements or facilities for investment. This is an aspect which will be taken up for discussion in the next chapter.

Chapter III

Prospects of Trade

I. Introduction

We have examined in earlier, the trade and aid relations between Sri Lanka and Japan upto the most recent year for which data are available. It will be our endeavour now to look into the future prospects of trade between the two countries as well as the future prospects of Japanese aid to, and private direct investment in, Sri Lanka.

The most recent trends may be a guide to the future prospects. More importantly, however, they depend upon the changes which are taking place in the production structures of the countries as well as the changes in their socio-economic policies and in the thinking and attitudes of their peoples.

Within the scope of this study, we will examine these changes briefly and only in so far as they are directly relevant only to the relations between Sri Lanka and Japan. To this end, we will first begin this Chapter with a short resume of the present trade between the two countries.

II. Present Trade Structure

It was shown earlier, that the trade between Sri Lanka and Japan had been expanding in the seventies. Table 8 clearly indicated that the share of Sri Lanka's export trade with Japan had increased from an annual average of 2.38% in 1963-1969 to 4.24% in 1970-1976 and that of import trade from 6.5% to 8.62% during the same period. Table 12 shows that these shares have substantially increased during the last two years with the share of export trade rising upto about 10% and that of import trade to 16%, by 1978. Of course, Sri Lanka's exports to, and imports from, Japan are a minuscule fraction of the total imports and exports of Japan. In 1974 and 1975, they were respectively 0.05% and 0.10%. However, what is noteworthy is that, as clearly shown in Table 12, these respective percentages have been rising to 0.10% and 0.15% by 1978, the latest year for which Sri Lanka's total export and import figures are available.

Major items of exports to Japan in the late seventies have been shrimps, black tea, textile materials, titanium ore, rubber and precious and semi-precious stones, while her major imports from Japan have been fuels, light industrial products, heavy and chemical industrial products of which iron and steel and machinery and equipment are the most important constituents. For this reason, these items have been specified in Table 12, although their absolute figures have been omitted to retain its simplicity.²¹⁾ The quantity of exports of shrimps has

21) JETRO, White Papers on International Trade.

increased fivefold while that of black tea by 36% and textile materials by about 40%. On the other hand, the volume of titanium imports has decreased while that of rubber has remained about the same. The imports of precious and semi-precious stones which have been increasing substantially in 1976-1978 over those of 1975, have declined in the following year to the 1975 level.

Unlike in the case of exports, we have not been able to give the quantity indices for all the items of imports because of the difficulty of reducing them to a common unit of measurement. But even if we were to allow a wide margin for price increases, it is quite evident that the light industrial products consisting mainly of textiles, heavy and chemical industrial products of which iron and steel and machinery and equipment are the major constituent parts have been increasing substantially in the late seventies. Chemical fertilisers and iron and steel for which quantity data are available have respectively recorded 75% and 115% increases within these four years, whereas, in value terms, transportation machinery and equipment has recorded the highest increase of more than ten times over that of 1975.

The structure of this trade between Japan and Sri Lanka and its trends are very different from that which prevailed before the Second World War, As mentioned in Chapter I, Sri Lanka then exported to Japan mainly graphite (plumbago), coir bristle and fibre and imported from her mainly labour-intensive products such as tea chests and other chests, toys, tiles, umbrellas, boots and shoes, textiles and tyres and tubes (See Table 2). Sri Lanka does not now import any of these items except textiles. Her major exports to her, on the other hand,

Table 12. Recent Trade Structure of Sri Lanka with Japan

	Exports (1975=100)			
	1976	1977	1978	1979
Food stuffs—Value	157.1	326.8	359.4	451.5
Frozen shrimps—V	308.3	406.6	808.7	1,021.7
Frozen shrimps—Q	219.0	252.4	444.7	501.0
Black tea—V	106.8	232.2	211.4	269.7
Black tea—Q	105.8	115.7	112.0	136.4
Raw materials—V	101.9	139.0	176.7	264.4
Textile materials—V	102.9	191.9	149.8	10.2
Textile materials—Q	111.3	152.6	104.8	143.7
Metal-titanium—V	98.6	68.5	68.0	66.7
Metal-titanium—Q	104.5	78.9	71.8	61.7
Natural rubber—V	37.9	145.4	151.1	194.4
Natural rubber—Q	97.5	106.3	118.9	99.7
Manufactured products—V	147.9	141.7	297.2	210.7
Precious/Semi-precious stones—V	143.0	144.6	227.7	203.4
Precious/Semi-precious stones—Q	154.1	129.7	140.5	100.0
Total Exports—V	119.8	153.6	267.2	275.1
Sri Lanka's as % of Total Exports	4.44%	6.08%	9.7%	n.a.
As % of Japan's Total Imports	0.06%	0.07%	0.10%	n.a.

	Imports (1975=100)			
	1976	1977	1978	1979
Food stuffs—Value	88.8	*2,954.7	*1,189.4	*3,705.6
Raw materials & Fuels—V	69.6	90.4	194.5	147.2
Light industrial products—V	110.5	137.8	211.9	266.7
Textiles—V	145.1	184.7	277.9	402.0
Heavy & Chemical Industrial products—V	106.7	141.3	313.1	315.1
Chemicals of which Chemical Fertilisers only—V	34.7	48.5	127.3	90.7
Q	127.9	139.9	214.1	174.2
Metal & Metal products—V	92.9	64.2	162.7	209.1
Of which Iron & Steel—V	86.1	65.9	138.4	243.3
Of which Iron & Steel—Q	94.2	59.2	96.6	215.3
Machinery & Equipment—V	148.2	238.5	546.2	530.9
General—V	163.8	197.0	592.2	289.7
Electricity—V	88.6	254.4	295.8	300.8
Transportation—V	180.7	292.3	700.4	1,104.5
Total Imports—Index	107.3	148.6	292.6	312.5
As % of Sri Lanka's Total Imports	8.14%	7.05%	15.5%	n.a.
As % of Japan's Total Exports	0.08%	0.09%	0.15%	n.a.

Notes: 1) V=Value; Q=Quantity

2) * On account of the sudden lift of the ban on tinned foods. More than 5/6 of these imports is tinned mackerel.

Source: —JETRO White Papers on International Trade

For individual items and Sri Lanka exports to and imports from Japan.

—UN Year Book of International Trade Statistics

For Sri Lanka total figures and Japanese totals.

—MITI, Japan for 1979 Figures

have become ⁱ⁾precious and semi-precious stones, ⁱⁱ⁾shrimps, prawns and lobsters and ⁱⁱⁱ⁾black tea. They accounted respectively for 38%, 28% and 12% of the total value of exports during the last three years, all the other items accounting for the remaining 22%.

The present trade structure between the two countries is mainly the result of changes in their production structures which have occurred over the years. The future prospects of trade between them likewise depend upon the continuing changes in these production structures, as well as on a few other contributory factors. Within the scope of this study only a brief examination of them is undertaken below.

III. Rising Labour Costs and Changing Production Structures

Several studies have already examined the changing production structure of Japan and referred to the relative decline of its primary sector.²²⁾ The relative importance of this sector has been further declining while that of the tertiary sector has been increasing. According to Table 13, the contribution of the primary sector to the Gross Domestic Product has been decreasing from 6.7% in 1970, to 5.4% in 1977, while that of the tertiary sector has been increasing from 51.2% to 58.8% during the same period. The percentage of the work force employed in the primary sector has also declined from 17.8% to 12.2% during the same period. During this period, it is evident from Table 14 that the annual rate of growth of population has also declined to 0.93% with a net reproduction rate of even less than that (the NRR in 1976 being 0.88%). Therefore, the labour will become increasingly scarce in the future with wage rates rising still further. The average rate of wages in the non-agricultural sector has already more than trebled between 1970 and 1978.²³⁾

Table 13. Production Structure of the Japanese Economy (Percentages)

	Primary		Secondary		Tertiary	
	GDP	Employment	GDP	Employment	GDP	Employment
1969	—	19.2	—	34.0	—	46.7
1970	6.7	17.8	42.1	34.8	51.2	47.4
1971	5.9	16.3	41.6	35.0	52.6	48.6
1972	5.9	15.0	40.8	35.4	53.3	49.5
1973	6.2	13.6	41.3	36.3	52.5	50.0
1974	5.9	13.2	39.7	36.1	54.5	50.7
1975	5.9	13.0	36.7	34.9	57.4	52.1
1976	5.6	12.5	36.9	34.9	57.5	52.6
1977	5.4	12.2	35.8	34.4	58.8	53.4
1978	n. a.	12.0	n. a.	34.1	n. a.	53.9

Source: Japan Statistical Year Book and ILO Labour Statistics

Note: Primary=agr. & forestry & fishing & mining

Secondary=manufacturing & construction

Tertiary—others

22) See among others—Saburo Okita, "Post-War Japan's Rapid Economic Growth and Its Causes." Japan Economic Research Centre Series No. 3 of 1966; Causes and Problems of Rapid Growth in Post-War Japan and their Implications for Newly Developing Countries, JERC 1967; Essays in Japan and the World Economy, JERC 1971 and more recently Japan and the Developing World. Tokyo University Press 1980 (particularly Part II); MITI—background information—Japan's industrial structure—a long range vision. 1978 Edition.

23) ILO Labor Statistics. The average for Males and Females including family allowances and mid and end of year bonuses but excluding other fringe benefits. It includes salaried employees.

Table 14. Growth of Population and Labour Force in Japan in the Seventies

	Population		Labour Force	
	Annual Growth %	NRR	Total (1,000)	% over Previous Year
1970	1.20	1.00	51,530	1.08
1971	1.27	1.02	51,860	0.64
1972	1.29	1.01	51,990	0.25
1973	1.28	1.01	53,260	2.44
1974	1.21	0.97	53,100	-0.30
1975	1.08	0.90	53,230	0.24
1976	1.00	0.88	53,780	1.03
1977	0.93	n. a.	54,520	1.38

Source: ESCAP, Statistical Year Book

The Japanese economy has, therefore, been moving away from labour intensive to capital and knowledge intensive economic activities, and this shift would accelerate in the future. As hinted earlier, this is already reflected in the trade structure of the country. As seen from Table 15, Japan's total exports of agricultural products now is negligible constituting less than 1/2% and the exports of food and beverages have halved from 1.7% in 1972 to 0.9% in 1978. Japan which was one of the largest exporters of textiles, accounting for 15% (not in Table) in her total exports in 1968²⁴⁾ had textiles accounting for less than 5% of her total exports in 1978. On the other hand, capital intensive metal manufactures mainly machinery and equipment account for more than 2/3 of her total exports today, having increased, as shown in Table 15, from 58% to 68%. Nearly 15% of her total imports comprise food and beverages and nearly 75% raw materials and mineral fuels. It is noteworthy that within this latter category, while primary raw materials have been decreasing from 29% in 1972 to 19% in 1978, mineral fuels have been increasing from 24% to 40%, part of which, of course, can be attributed to price hikes, with processed raw materials remaining around 14%. The share of machinery and capital equipment in her total imports has also been on the decline. Both her export and import structures are ample evidence of Japan's increasing specialization in the production of capital and knowledge-intensive items for export and increasing reliance on the import of mineral fuels and processed raw materials as well as labour intensive agricultural raw materials and component parts for her capital-intensive manufactures. She will also rely more and more on imports for food and beverages and other light consumer goods not excluding even textiles. To quote Saburo Okita, "in 2000 Japan will be in a position of reliance upon imports for almost its whole supply of wheat, soyabean and animal feed, a greater portion of its supply of meat and dairy products and a part of its rice supply"²⁵⁾

24) Saburo Okita, *The Japanese Economy and Economic Development in Asia in the Decade 1990-2000*. JERC.

Table 15. Trade Structure of Japan
(% Share in Total Imports and Exports)

Imports								
Items \ Year	72	73	74	75	76	77	78	
Food & Beverages	15.4	15.3	12.6	14.8	13.8	13.9	14.0	
Primary R. Materials*	28.6	29.7	21.6	19.3	19.8	19.1	18.6	
Processed R. Materials*	15.3	18.4	14.0	10.8	11.8	11.9	14.0	
Mineral Fuels	24.2	21.7	40.0	44.1	43.7	44.0	39.7	
Machinery	7.4	6.7	5.3	5.1	5.0	5.0	5.3	
Other**	9.1	7.5	6.5	5.9	5.9	6.1	8.4	
Exports								
Items \ Year	72	73	74	75	76	77	78	
Agricultural	1.0	1.2	0.8	0.5	0.6	0.4	0.4	
Food & Beverages	1.7	1.5	1.1	1.1	1.0	0.9	0.9	
Textiles	9.9	8.4	6.7	6.3	6.0	5.6	4.8	
Metal Manufactures	57.9	58.9	53.8	57.5	62.5	65.7	67.9	
Wood & Wood Products	0.6	0.4	0.3	0.2	0.2	0.2	0.2	
Chemical Industrial Prod.	9.4	8.7	10.3	10.0	8.3	8.0	7.8	
Basic Metal such as Iron & Steel	13.5	15.2	21.5	19.2	16.6	14.2	13.2	
Other**	6.0	5.7	5.5	5.2	4.8	5.0	4.8	

Note: *—Industrial Purposes

**—Included as a Residual

Source: UN Year Book of International Trade Statistics

IV. Tariff Policy of Japan in Relation to Sri Lanka

One of the contributory factors to the changing trade structure is the extent of trade liberalization. On both sides there has been an increasing tendency to liberalize trade in the recent past. Already reference has been made in Section II of Chapter II to trade liberalization in Sri Lanka and, therefore, the Japanese position only is discussed below.

After the last MTN talks in Japan in June 1979, the average tariffs on many industrial products imported into Japan were lowered and Japan now seems to be the country with the lowest tariff among the industrial countries.²⁶⁾ She has also in operation since August 1971, a Generalized System of Preferences. This system discriminates in favour of developing countries and Sri Lanka is one of

25) Saburo Okita, *ibid*, p. 71.

26) 3% as compared with 4.0% and 5.0% of U.S.A. and EEC countries respectively—NEWS from MITI, June 25, 1979, p. 4.

27) See Ministry of Foreign Affairs of Japan, Japan's Generalized System of Preferences. Appendix 2 pp. 14–29.

its beneficiaries for fiscal 1980 with most probable extension for the future.

Japan grants preferences to agricultural products under 75 CCCN headings.²⁷⁾ Among them are the present and the potential agricultural exports of Sri Lanka to Japan. The preferential duty has been reduced to zero on fish in any form, smoked shrimps, prawns and lobsters, cut flowers and foliage in any form (suitable for bouquets or for ornament purposes), dried bananas, guavas, mangosteen, avocados, mangoes, and cashewnuts, coconuts, pepper, cloves, nutmeg, cardamons and other Sri Lanka spices. Black tea carries a preferential duty of 2.5% (and 14% when in containers for retail sale). The preferential duty varies between 2.5%–10% on crustacea and molluscs in any form (except smoked when it is free), coral, natural sponges, fruits (papaya, avocados, guavas, durian, bilimbi, jack fruit, bread fruit, rambutan, jumboo, jumbola, cherimoya, mangos, passion fruit, and mangosteen, in any form, (other than when preserved by freezing when it is 17.5% and free on a number of dried fruits as specified earlier). Furthermore, there are no quotas on any of these agricultural products.

Then duty-free entry is granted to all industrial products with the exception of products under 15 CCCN headings and selected 48 products for which tariff reductions of 50% from MFN rates are applied.²⁸⁾

Although there are tariff quotas, the ceiling will apply to any one country only if the exported quantity by that country exceeds 50% of the total quota allowed into Japan. This may not apply in actual practice in the case of Sri Lanka in the foreseeable future because her share of Japan's imports is so minuscule.

V. Other Factors

We would also like to briefly examine below a few other factors upon which also may directly depend the increasing prospect of trade between the two countries. The most important of them on Japan's side seems to be (i) the changing consumption habits of the Japanese people and the consequent changes in the level of per capita consumption along with the rise in their per capita income and (ii) the competition from Japan's other Asian trading partners, mainly ASEAN and the NICs. On Sri Lanka's side, the most important factor seems to be its nature and pace of development. This is, in turn, closely interlinked with the nature and extent of aid and investment in Sri Lanka.

Japan's per capita real income has been rising steadily and today, as shown in Table 16, is around \$4,600 having even exceeded several forecasts made of it before.²⁹⁾ With the increasing per capita real income, the per capita levels of

28) For details see, *ibid.*

29) The National Comprehensive Development Plan assumed for 1958 a per capita real income of \$3,200 (at 1965 prices) as the basis for formulating its plan. Japan's Economic Research Centre's estimate was \$5,480 at current prices. Saburo Okita and others had put it at \$6,516 (at 1965 prices) for the year 2000, whereas nearly 2 decades before that it had reached 4600 at 1970 prices.

consumption have been rising steadily, particularly of protein-rich foods, such as meat and fish, as well as fruits, beverages and household goods including ceramics and wooden furniture and even personal goods such as precious and semi precious stones. The demand for these items would increase further and would have to be met by increasing imports.³⁰⁾ In this area, excluding of course meat, lies a promise for an expanding complementary relationship between Sri Lanka and Japan. Sri Lanka, however, will not be alone in this game. She would have to face competition particularly from the ASEAN countries and the NICs.

Table 16. The Growth of Per Capita Income of Japan in the Seventies
(At 1970 prices)

	1970	1975	1976	1977	1978	1979
GNP(Thousand million Yen)	73,435	93,841	99,918	105,355	111,638	118,227
Exchange rate (US \$=Yen)	360.00	297.04	296.50	268.51	210.47	219.17
GNP (Hundred million dollars)	2039.9	3159.2	3369.9	3923.7	5304.2	5394.3
population (Mil.)	104.34	111.57	112.77	113.86	114.365	115.795
GNP Per Capita	1,955	2,832	2,988	3,446	4,638	4,658

Source: Economic Planning Agency
Monthly Statistics of Japan. Statistics Bureau, Prime Minister's Office,
June 1980.

ASEAN countries and the newly industrialized countries (NICs) of Korea, Taiwan, Hong Kong and Singapore are important economic partners of Japan. In the two years of 1977 and 1978 ASEAN countries had 8.5% and 8.9% of total exports of Japan and provided Japan with 12.6% and 12.59% of its imports respectively. NICs (excluding Singapore³¹⁾ as it comes under ASEAN) had 11.13% and 13.00% of Japan's exports and accounted for 5.32% and 5.15% of her total imports respectively. Although these percentages from Japan's side do not look very big, from the ASEAN's side, exports to and imports from Japan accounted for 1/4 of their total exports and imports. The three ASEAN members of Indonesia, Malaysia and Philippines are also important suppliers of industrial raw materials and mineral fuels to Japan. Indonesia sends 100% of its nickel ore and bauxite to Japan although they respectively account only for 22% and 18% of Japan's total imports of these two items. Malaysia sends 100 percent of its bauxite exports to Japan accounting for only 12% of the latter's total imports of it. Philippines sends 100% and 93% of its exports of nickel and copper ore to Japan respectively although they account for only 12% and 28% of Japan's total

30) Between 1967 and 1978 fiscal years per capita consumption of meat has risen more than 100%, fish 33% and fruits 13%. Per capita figures were obtained by dividing the total consumption by the population of the respective years. Source—Ministry of Agriculture, Forestry and Fisheries. Per capita consumption of other items would be referred to in the next section dealing with the export prospects of selected items.

31) Source of data, 1979 White Paper on International Trade, Japan, JETRO.

imports of these two items respectively.³²⁾ Most important of all in today's context is that, 3/4 of Indonesia's total exports to Japan comprise mineral fuels which account for 14% of total mineral fuel imports of Japan.³³⁾ It is because of the exports of these industrial raw materials and fuels that Indonesia and Malaysia have export surpluses, and Philippines has the smallest deficit, with Japan, of all the ASEAN countries and the NICs. These countries also have, with their relatively cheap labour, provided until recently the havens for Japanese enterprises to invest in labour-intensive industries from which Japan was gradually shifting into capital and knowledge-intensive ones. Upto 1977, in fact, more than half of the total Japanese private direct investment came into these countries. For example, in 1976 and 1977, private direct investment (securities, credit and real estate which includes direct overseas business) in the countries of Indonesia, Philippines, Thailand, Malaysia, Singapore, Taiwan and Korea, as a percent of total Japanese private direct-investment was 99.2% and 61.2%.³⁴⁾ Japan also controlled the bulk of the investment in the Free Trade Zones of Korea, Taiwan and Philippines.³⁴⁾

To Japan, therefore, this relationship with East and South East Asia is an important one and has to be maintained and even strengthened. However, this does not mean that she can forget that she is a global economic power, a member of the DAC of the OECD and has accepted the Basic Human Needs (BHN) approach to economic cooperation as well as a leading role in the North-South Dialogue. She is also aware of her already overpresence in the East and South East Asian region. Apart from political considerations, at least for these economic reasons, Japan would be almost obliged to increase her economic cooperation with the other developing countries of Asia as well. This is, in fact, already evident from the recent trend in the distribution of both her ODA and private direct investment. In 1978, her direct investment in the ASEAN countries and Korea and Taiwan had declined below 1/4, whereas in the previous years it was more than half. Indonesia, Korea and Philippines which together were getting more than half of the total Japanese ODA which went into Asia (which was 60% of the total ODA), gradually declined from 60.5% and 55.8% in 1974 and 1975 respectively to 48% in 1976 and 1977 and 39% in 1978. On the other hand, poorer countries of Asia such as Bangladesh, Sri Lanka and Thailand began

32) Saburo Okita, *The Developing Economics and Japan: Lessons in Growth*; Tokyo University Press. This Asean-Japan Relationship is amply demonstrated in his paper "The Asean-Japan Relationship: Conflict and Independence" pp. 253-277.

33) Figures computed from data in 1979 White Paper on Economic Cooperation Japan, JETRO.

34) 3/4 of all capital in South Korea (Masan), 1/2 of it in Taiwan, 1/3 of it in Philippines (Batan) were Japanese: Currie-Investment: The Growing Role of Export Processing Zones. Economic Intelligence Unit (EIU) London. June, 1979.

getting an increasing share³⁵⁾ of the Japanese ODA.

Within the scope of this study, we have not been able to compare the production structure of the Sri Lanka economy with those of the ASEAN or the NICs in order to determine the complementarity of Sri Lanka with Japan vis-a-vis them. However, a cursory examination of the export trade of these countries including Sri Lanka with Japan indicates that they are competitive with Sri Lanka in regard to the export trade with Japan. However, in view of the rising labour costs of these countries relatively to Sri Lanka, in addition to latter's potentially cheap source of energy, hydro electric power (See below), Sri Lanka would have an edge over them not only in regard to competition for the Japanese market but also providing an outlet for the Japanese investment (See next Chapter). Furthermore, Sri Lanka has the smallest share of the export trade with Japan of all these countries.³⁶⁾ She also has a big trade asymmetry with Japan including a big deficit of nearly the same size as her exports to her. Japan, therefore, may not feel so much hurt by opening her market a little more to Sri Lanka as to them. On the contrary, she may feel happy if she is able to share her increasing prosperity with poorer countries of Asia like Sri Lanka, without weakening her relationship with ASEAN and the NICs, thereby living upto her role as a "global" rather than a "regional" economic power.

VI. *Expansion of Imports*

The nature and pace of Sri Lanka's development has been mentioned as the other factor contributing to her future trade prospects with Japan. In Chapter 2 reference was made, in another connection, to the gigantic development project of Mahaweli Diversion which the Sri Lanka Government has undertaken to complete by 1983 and the newly established Free Trade Zone. There will be massive infrastructure development in these projects. Then there is the development of the Parliamentary Complex at Jayawardene Pura, a few miles away from Colombo, the Modernization of the Greater Colombo and the construction of 100,000 houses under the Housing Development Authority. These developments will call forth an increasing volume of imports of capital and producer goods. We have already seen this trend with more than doubling of imports of metal products and machinery and equipment between 1977 and 1979 (See Table 12). The increase in the volume of consumer goods imports depends upon the increase in purchasing power of Sri Lanka's people resulting from development

35) In 1978 and 1979 Sri Lanka received 4% of the ODA coming to Asia. Bangladesh which did not get any significant amount of ODA from Japan before 1975, gradually increased its share to 8% of the Asian total by 1978. JETRO, White Paper. *op.cit.*

36) In 1978, of the total exports of South East Asian Countries to Japan, Korea accounted for 15%, Thaiwan 10.0%, Hong Kong 2.9%, Malaysia 11.0% Philippines 8.1%, Indonesia 6.1%, Singapore 5.0%, Thailand 4.9%, compared with Sri Lanka's 0.5%—JETRO, White Paper *op.cit.*

itself. In 1978, the GNP per capita in real terms increased by 6.4%. If this growth rate is maintained, even if not improved, in the coming years, the imports of consumer goods is likely to increase. Firstly the increase will be relatively more in non-durable consumer goods such as textiles, but later, as the growth proceeds, increased demand will turn relatively more to luxury goods of a durable nature like passenger cars and electronic equipment. The appearance of this phenomenon is clearly discernible in the last three years for which data are available. Between 1977 and 1979, the volume of textiles increased by 118% with the volume increasing by less than that, while the number of passenger cars imported increased from 967 to 5041, an increase of 421% within a matter of only two years.

The total imports of Sri Lanka from Japan had been increasing substantially during the last three years, after the present Government assumed office. They have more than doubled from \$74 million in 1977 to \$156 million in 1979.³⁷⁾ Since the trade deficit with Japan is already (in 1979 it was \$71.5 million) too large, increasing effort has to be made in the coming years to increase Sri Lanka's exports to Japan relatively to her imports from her to reduce this asymmetry. The extent to which Sri Lanka will succeed in this depends, on one hand, upon how much foreign investment Sri Lanka can attract to export-oriented ventures both in the Free Trade Zone and outside and consequently the extent to which she can increase her export capacity. The initial response from Japan in this connection has been very poor. It has already been mentioned that out of the 38 joint ventures approved in the FTZ upto November 1978, there has not been one established with Japanese participation. In the following year, however, there has been some positive response with the establishment of three ventures with such joint Japanese participation.³⁸⁾ In the remaining section of this chapter we will now discuss the export prospects to Japan of a few selected items, leaving the discussion of the prospects of Japanese aid and investment to the next chapter.

VII. Export Prospects in Selected Items

Reference has been made earlier to the rise in per capita real income in Japan and the consequent increase in per capita consumption of certain specific food items and household goods. *Shrimps, prawns and lobsters* is one such item. While the demand for shrimps of all sizes has been increasing mainly due to the increasing per capita consumption, the domestic supply has not been increasing proportionately. The catch of fish and deep-sea fishing decreased as a result of the imposition of the 200 mile territorial limit. As a result, imports of shrimps increased from Kg 126.7 million in 1976 to Kg 151.2 million in 1978. The per capita consumption has been rising from 0.706 kg in 1968 to 1.61 kg in

37) Source—JETRO, White Paper for 1977 and 1978 and MITI for 1979.

38) Information obtained from the office of the Greater Colombo Economic Commission. Interview with its Secretary-General.

1973 and to 1.68 kg in 1978. This is estimated to increase further to 2.12 kg by 1985. Industry related sources estimate the annual increase of demand at 250,000 tons which would necessitate an increase of import of about 230,000 tons of frozen shrimps. Japan, therefore, offers a good market for shrimps, cleaned, graded and packed according to Japanese requirements. Sri Lanka's seas abound in shrimps, cuttle fish and squid being situated on the equatorial belt. Instead of limiting the export of shrimps, as the Government has recently done because of the limited catch, efforts should be made to increase the catch by increasing the number of shrimping boats. This may be best done by a joint venture with a Japanese enterprise (see next Chapter).

Black tea—The position of black tea, another Sri Lanka's export to Japan does not, at first glance, look so promising in the Japanese market as fish and shrimps. The per capita consumption of black tea had been rising upto 1973, and thereafter had begun to decline slightly. This trend is not likely to reverse significantly on account of the increasing popularity of coffee among the young people. Even the existing demand for black tea is shifting from leaf tea to tea bags and instant tea. The more unfortunate feature is that Sri Lanka has been recently losing her market to U.K. and India. Sri Lanka's share in Japanese tea imports of 90% in 1965 had come down to 29% in 1974 while that of U.K. and India had respectively increased from 3.0% and 2.7% to 57% and 10%. Sri Lanka's prospect of increasing tea exports to Japan lies in diversion of these markets back to her. This should not be difficult for several reasons. Sri Lanka enjoys a price advantage over U.K. The average CIF import price per kilogram was ¥802 from the United Kingdom while it was only ¥539 from Sri Lanka. There was hardly any price difference between tea from Sri Lanka and India. Sri Lanka also enjoys a preferential duty of 2.5% in comparison with 5% on tea imported from U.K. and 14% as against 20%⁴¹⁾ on tea in containers or packed for retail sale. U.K., infact, imports tea from Sri Lanka and other countries and reexports after blending and packeting. Sri Lanka should be able to export direct to Japan her high quality teas. To this end, Sri Lanka may have to make some product and market adjustment. With the collaboration of one of the Japanese trading companies (Sogo Shoshas), Sri Lanka should be able to increase the supply of instant tea and tea bags in attractive packs to capture the eye of the Japanese consumer. Again with the help of the trading company it should be possible to create sufficient enthusiasm and interest among the Japanese business community and the entrepreneur to give a boost to Sri Lanka tea. A vigorous promotion campaign among the consuming population must be implemented by our Tea Promotion Bureau. With the high quality of Sri Lanka's tea, and its low price and the

39) JETRO Studies on Access to Japan's Import Market, No. 8 of 1979 on Frozen Cuttle fish and Squid and No. 3 of 1980 on Frozen shrimps as well as the earlier study of March 1976.

40) JETRO Studies—No. 14 on Black Tea, March 1978·See Table 14.

41) Japan's Generalized System of Preferences. *op.cit.*

preferential duty it enjoys it should be possible to convert the market which seems gloomy to a very promising one.

Precious and semi-precious stones — Another export in which there is scope for considerable expansion seems to be the precious and semi-precious stones. The total imports of polished coloured stones to Japan increased by 178% in value and 142% in quantity, in 1978 over 1977. Sri Lanka is one of the principal suppliers of polished coloured stones to Japan, being a very close third to Thailand and Hong Kong, supplying nearly 1/5 (increasing the value of its exports from ¥5.957 billion in 1976 to ¥6.695 billion in 1978.) Sri Lanka alone accounts for more than half of the total imports of Sapphire and Ruby by Japan. From 1975 to 1979 the value of total exports of precious and semi-precious stones from Sri Lanka to Japan more than doubled. However, the quantity having increased from 37 kg to 52 kg from 1975 to 1978, declined in the following year to the 1975 level. This may be temporary on account of the heavy purchase of gold in anticipation of a price rise and increase in the purchase of semi-precious stones. For the demand for Sri Lanka's rubies and sapphires is further increasing in the Japanese market. The cut stones imported to Japan are usually recut before they are marketed and these recut stones fetch as retail prices $2\frac{1}{2}$ - $3\frac{1}{2}$ times the price of the export.⁴²⁾ If Sri Lanka improves its cutting devices in consultation with Japanese enterprise, it should be possible to get a higher unit price as well as increasing its volume of exports to satisfy the increasing Japanese demand. This is another area where joint venture enterprise is feasible (See below). Exports of precious and semi-precious stones from Sri Lanka also enjoy a 50% reduction from MFN Rate of duty as has been mentioned in Section III.

Others — There is also scope for increase in the export of several other non-traditional agricultural products such as fruits, spices, cut flowers and foliage, coral and natural sponges in which Sri Lanka abounds and on which Japanese preferential duty is less than 10%. Then there are the industrial products of ceramics, wooden furniture and processed fibre and rubber products in the production of which Sri Lanka seems to have a comparative advantage over Japan on account of her relatively cheap labour and raw materials. Let us examine below their prospect also in a little detail.

(i) *Fruits* — Sri Lanka abounds in a large variety of tropical fruits such as bananas, guavas, mangosteens, avocados, papayas, durian, jack fruit, rambutan, jambu, jambola, cherimoya, passion fruit and cashew nuts. During the season, much of it goes waste due to lack of proper cold storage and insufficient canning facilities. Reference has already been made to the rise in per capita consumption of fruits in Japan. This is expected to increase further in the future. Per capita consumption of bananas in Japan is said to be almost highest in the world today.⁴³⁾ Since labour in the primary sector is becoming increasingly

42) JETRO, Access to Japan's Import Market, No. 12 of 1980 on Precious and Semi-Precious Stones and the earlier one, No. 12 of March 1977.

43) JETRO Studies: No. 25 of 1980 on Tropical fruits.

more scarce and costly in Japan, further increases in the level of per capita consumption would have to be met by increased imports. The import duty on dried bananas, avocados, mangos, guavas and mangosteens and cashew nuts is zero, on fresh avocados, mangoes and mangosteens 4% and on other fruits dried 7.5%

(ii) *Spices* — Sri Lanka is also rich in, and well known for, its spices, such as pepper, cloves, nutmeg, mace, cardamons, ginger and saffron. The import duty on them, in any form, is zero. Sri Lanka abounds in (a) rich foliage and flowers and in (b) coral and sponges in her seas. The duty on the former is zero and on the latter 5% and 2½ respectively. Sri Lanka should promote the production and export of these non-traditional products.

(iii) *Ceramics* — Sri Lanka also may enjoy a comparative advantage in the production of labour intensive items such as ceramics, wooden furniture and fibre and rubber products vis-a-vis Japan. Japan's requirements of ceramic products are still met largely by domestic production. Upto 1974 she was considered the top ceramics producer and exporter.⁴⁴⁾ However, in 1978 her exports dropped by 12% over 1977,⁴⁵⁾ and her imports had been rising from an annual average of 23,570 tons in 1974-1975 to 27,200 in 1976-1977.⁴⁶⁾ This may be due to Japan's switching from labour intensive to capital and knowledge intensive industries. The European Economic Community supplies 2/3 of her import requirements of which Italy, U.K. and Germany respectively account for 28.2%, 18.3% and 11.6%. On the other hand, the Asian countries' share is only 19.3% of which ROK, China and Taiwan respectively account for 10%, 6.4% and 2.6%. Already Sri Lanka has established three joint ventures with three Japanese firms (See below and Appendix 3) to manufacture ceramics, in addition to Government's own Ceramics Corporation. "Superiority in safety, design and quality is the indispensable precondition into the Japanese market."⁴⁷⁾ Joint venture participation with Japanese enterprise would ensure this. The relatively low labour costs would ensure the competitiveness of the Sri Lanka's product over that of the EEC and the other Asian countries. Another advantage Sri Lanka enjoys is that the entry of its products is duty free.

(iv) *Wooden furniture* — Sri Lanka produces wooden furniture of great elegance and high quality. There is a very good market in Japan for wooden furniture of different designs catering to different age groups. Japan still meets only 2.5% of domestic demand with imports. However, this market is bound to

44) JETRO, Access to Japan's Import Market, No. 17, March 1978.

45) UN Year Book of International Trade Statistics. Ceramics included under the SITC Classification of Pottery.

46) JETRO. *op.cit.*

47) *ibid.*, p. 14.

grow in the future with increasing emphasis on housing in Japan and also the increasing use of western type of furniture in apartment complexes and individual houses.⁴⁸⁾ In 1976 the value of imports of wooden furniture was ¥20.5 billion of which 14.4 billion came from Asia. NICs of Korea, Taiwan and Hong Kong accounted for 70% of this.

Both raw material and labour costs which respectively account for approximately 2/3 and 1/5 of the cost of the product have been rising. Japanese manufacturers are, therefore, either consigning production of manufactures or components of manufactures to South East Asian nations, which have been supplying Japan's furniture wood or setting up technical tie-ups and joint ventures with these countries. Therefore, this is an ideal area for Sri Lanka to join up with Japanese enterprise. Sri Lanka can supply both relatively cheap raw material and labour in comparison with the NICs. Japanese enterprise can guarantee the quality, function, design and safety of the furniture crucial to the Japanese consumer. This may reverse the flight of our able carpenters to the Middle East. It is also to be noted that furniture imports are completely liberalized in Japan.

(v) *Fibre and rubber processed goods*—Sri Lanka may also think of producing in Sri Lanka with Japanese participation, processed fibre products and rubber products. Japan has been a major purchaser of Sri Lanka's coir bristle and fibre. Sri Lanka also has been in the seventies exporting annually about 1,000 metric tons of natural rubber to Japan. It should be quite feasible to produce with low cost labour and Japanese technology, the type of fibre products and rubber products which the Japanese market needs, without sending raw materials to Japan to combine with high cost labour.

(vi) *Textiles*—Another field in which the advantage of cheap labour can be exploited is the manufacture of textiles for export. It has been noted that Japan is already switching from labour intensive textile manufacture to capital intensive "heavy and chemical industry products" and establishing textile industries in Asian countries with cheap labour with local participation. Two such joint ventures have been very recently established in the Sri Lanka Free Trade Zone in addition to the five established outside the Zone between 1963–1976.⁴⁹⁾

48) The value of imports of drawing room and dining room sets, for instance, nearly doubled between 1971 and 1975. JETRO also further reports that "Japan's demand for furniture witnessed a 10% annual growth until 1974. New demand and replacement demand were both high because of improved national income levels, a growth in housing construction, changes in life styles, increased proportion of young people and other factors" p.3, JETRO Studies, on Wooden furniture.

49) Colombo Knitting Co., Ltd. and City Silk Synthetic Mills Ltd., manufacturing knitted fabrics and synthetic wooly georgette sarees, polyester shirtings and suitings, in collaboration with C. Itoh & Co. of Osaka and C. Itoh & Co., Ltd. of Tokyo, respectively. These were established in 1979. This information was furnished by the office of the Greater Colombo Economic Commission. The details of the earlier joint ventures are given in Appendix 1.

Chapter IV

Prospects of Aid and Investment

I. Introduction

Trade and development, which has been discussed in the last Chapter, are mutually interactive. They will also be influenced by the extent of Japanese economic aid and direct investment in Sri Lanka.

Japan has emerged as an important donor country since 1969. Both in 1973 and 1978, we have seen her exceeding the international target of 1% of GNP in her net outflow of resources to developing countries, her programme suffering a set-back only in the intervening years owing to the oil crisis in late 1973. We also have seen that her performance in ODA upto 1978, however, was not upto expectation, having not been able to achieve even half of the target set by the UNCTAD.

Also until recently, Japan's development cooperation policies had been governed by her own economic interests rather than the needs of developing countries. For example, before 1977, more than 3/4 of her ODA went into Asia, but more than half of it was given to her two most important trading partners of Asia, namely Indonesia and Korea; we also have referred to instances of her aid to Sri Lanka, both in the case of Colombo Plan assistance and her official bilateral assistance, declining in times of declining imports from her. As shown in Table 17, Japan is now turning increasingly towards the Middle East and Latin America and Africa, a phenomenon marked after the oil crisis. These countries have become either her important suppliers of mineral fuels or industrial raw materials or markets for her industrial products or both.⁵⁰⁾ As seen in Table 17, between 1965-1969, 97.5 of Japan's ODA went to East and South Asia (Asia excluding Middle East). This remained around 75% even until 1976. After that it fell dramatically to 60%, with Middle East taking 12.4% and 10.4% respectively in 1977 and 1978, in comparison with only 0.5% in 1976, and Africa with an average of 18% and Latin America with 9% whereas the assistance they received before the seventies was insignificant.

50) The exports of Japan to African countries have been around three times the imports from those countries, while exports to Latin America have been around twice as much as her imports from there. Exports to the Middle East have been only 2/5 of her imports in the years of 1979 and 1978. Middle East (Saudi Arabia, Iran and Iraq especially) is an important source of her mineral fuels, while Latin America (Brazil, Mexico and Venezuela especially) an important supplier of industrial raw material, like iron ore as well as a good market for her products, whereas African countries should be considered now only markets for her products. JETRO, White Paper on International Trade for Source of data.

Table 17. Distribution of Japan's Bilateral ODA

Region Period	Asia Exc. Middle East	Middle East	Latin America	Africa	Others/ Unclassified
1965-69 AV	97.5	0.3	← 2.2 →		
1975	75.1	3.9	5.6	13.0	2.4
1976	77.4	0.5	6.6	10.7	4.0
1977	60.0	12.4	8.8	17.1	1.7
1978	60.6	10.4	8.6	18.6	1.8

Source: JETRO, Economic Cooperation Japan.

II. Prospects of Aid

Except for unforeseen set-backs beyond her control, Japan's economic growth would not be arrested. Her resilience to even outside shocks like the oil crisis was well proven by how well she had come out of it to be on a path of steady growth even over-shooting, as we have earlier referred to, all estimated forecasts of her rate of economic growth.

As long as her economy remains viable, she could play a leading role in the field of international economic cooperation. At various international fora, the Japanese Government has given a firm undertaking to increase its economic assistance to developing countries and has indicated her determination to reach at least 0.45% of GNP as ODA, i.e., doubling her present effort (1978's 23% of GNP), in the near future. The ODA of Japan has increased to 26% of GNP in the fiscal year 1979/80 and it is now 12th among the 17 ODA members.⁵¹⁾ It is reported that the Foreign Ministry of Japan has asked for a 35% increase in the ODA budget for the next fiscal year 1981/82 to double its ODA within the next five years.⁵²⁾ The people of Japan also have expressed their positive desire and support for it.⁵³⁾

Japan's ODA to Sri Lanka, as stated earlier (Table 10), has been on an upward trend since 1976, reaching a peak in 1979 covering nearly the entire import surplus with Japan. We expect this rising trend to continue with the assurance given by the Prime Minister of Japan on the occasion of the state visit to Japan of His Excellency the President of Sri Lanka in September 1979, that "the Japanese Government, as a member of the Sri Lanka Aid Group, will continue to extend as much economic cooperation as possible to the Government of Sri Lanka, within the framework of Japan's aid policy, thus contributing to the remarkable achievement of Sri Lanka's economy and through this to the well-being of the people of Sri Lanka."⁵⁴⁾

51) MITI, Japan.

52) Japan Times, 30th August, 1980.

53) According to an opinion survey conducted in preparation for the 1979 Tokyo Summit Conference by the Ministry of Foreign Affairs, 67% responded positively to spending tax money on aid to poorer countries.

54) Joint Communiqué issued on 12th September, 1979.

In 1979/1980, the last completed fiscal year, Sri Lanka received \$65.2 million ODA from Japan. This was 2.47% of her total ODA. If in 1981/82 the Foreign Ministry provides for an ODA budget of \$3,563.3 million (approximately 35.1% over \$2,637.5, the ODA of 1979/80) and Sri Lanka gets at least 3.0% of this it will work out to \$106.9 million. This is not at all optimistic both in view of the increasing trend of Japanese ODA to Sri Lanka since 1977, and the assurance given by the Government of Japan, as indicated above. This is also less than what many of the other countries in the neighbouring region, such as Indonesia (14.9%), Bangladesh (7.8%), Burma (6.8%), Philippines (4.3%) Korea (4.3%), Malaysia (3.1%) and Pakistan (3.1%) had received from Japan in 1978.⁵⁵⁾ Even if she does not get as much as 3%, — Compared with Malaysia she has a larger population,⁵⁶⁾ — but retained her 2.5%, she will still receive an ODA of \$90 million which is approximately 40% more than what she got last year.

III. Direct Investment

1955 is the earliest year since which there had been any Japanese private direct investment in Sri Lanka. This investment had been of the joint venture type.

III.1 *JOINT VENTURE INVESTMENT* — Appendix 3 gives a schedule of seventeen such joint ventures with Japanese participation. This schedule gives the dates of their establishment and commencement of their production, the names of the Japanese partner, the nature of business, the amount of initial capital with their local and foreign components, the origin of raw material used (local or foreign), the employment created and the amount of dividends declared and remittances made, upto 1977, as far as they could be ascertained, in respect of each venture.⁵⁷⁾ It is clearly seen that nearly half of these joint ventures (8) are manufacturing industrial parts or accessories for industrial products or equipment, for export, five are manufacturing textile products, three ceramics and the other fishing and food processing. The composition of these joint ventures confirms the observation that has been made earlier, that the Japanese investor is shifting away from labour intensive manufactures into capital and knowledge intensive ones in his own country and would invest in the former in labour abundant countries like Sri Lanka mainly for export purposes. This is, in fact, made so clear in the case of three of these joint ventures, Garments Industries (Ceylon-Japan) Ltd., Electronic Ceramics (Ceylon) Ltd. and Lanka Wall Tiles Ltd. Their line of business has been specifically approved as "manufacture and export of the particular product".

55) JETRO, Economic Cooperation of Japan 1979.

56) Malaysia's population in 1977 was 12.6 million compared to Sri Lanka's 13.97 million.

57) The data in the Appendix was furnished by the Sri Lanka Ministry of Industries and Scientific Research.

The total employment created by these joint ventures is 5475 of which employment of foreigners (Japanese) constitutes only an insignificant fraction 0.05%. The total capital is \$17.636 million (Rs. 107.504 million) of which foreign component is only 1/3.

The not so redeeming feature of these joint ventures is that as many as eleven of them are using entirely imported raw material, while only one uses entirely local raw material, with the other five using a combination of both.

A detailed study of these joint ventures should form a separate study and is beyond the scope of the present one. However, this brief description of them was necessary in order to indicate broadly the nature of direct private investment Sri Lanka could expect from Japan in the future. Several further comments on them also seem relevant in the context of the present study. One is that joint ventures to process local raw materials rather than imported raw material would earn more foreign exchange as well as create more employment through better linkages than most of the joint ventures so far established. Another is the need to give more encouragement for joint ventures to process or manufacture those items for which export potential to Japan is relatively high. Taking these into account, it is our view that there should be more joint ventures, in the future, in food processing, particularly in regard to prawns, shrimps and lobsters, cuttle fish, crustacea and molluscs, instant tea and tea bags, fruits, other non-traditional agricultural products such as cut flowers and foliage and in processing raw materials such as rubber, coir and bristle fibre and manufactures such as gem cutting and wooden furniture. Japanese direct investment can also be expected in the manufacture of component parts for electronics and other equipment which Japan is now seeking to shift from labour scarce and labour expensive regions to places of relatively cheap labour. Most of these have been included in the list of desired investments in the Sri Lanka FIZ as well as outside it, issued by the Government⁵⁸⁾ and the correct emphasis has been placed by the Government on export-oriented industries and export-led growth rather than on import substitution.

III.2 PACKAGE OF INDUCEMENTS AND INCENTIVES — Sri Lanka Government is also offering incentives to foreign investors on an unprecedented scale. Among them are tax holidays upto ten years, exemption from duty imports of inputs and equipment, tax exemption for emoluments of foreign personnel and

-
- 58) (i) Greater Colombo Economic Rehabilitation Area, Free Trade Zone. Ministry of Information and Broadcasting, 1977.
 (ii) Sri Lanka Greater Colombo Economic Commission. The New Investment and Banking Centre in Asia, 1979.
 (iii) Sri Lanka. A Guide to the Foreign Investor outside the Investment Promotion Zone. The Foreign Investment Advisory Committee.

All these list electronics (assembly and component manufacturing type) light engineering assembly and component manufacturing type, tea-based products, industries connected with precious stones, food processing, including fisheries, wooden products and garment manufactures.

tax-free dividends.⁵⁹⁾ Reference has been already made to the embodiment in the constitution of a guarantee for foreign investment.

In order to promote trade between Sri Lanka and Japan and Japanese direct investment in the former, a Japan-Sri Lanka Joint Committee has been formed headed by Mr. Ryuzo Sejima, the Chairman of C. Itoh and Company, one of the largest trading companies (Sogo Shoshas) in Japan. Several trade Missions from the two countries have been visiting each other to discuss and explore concrete possibilities. In the Japan-Sri Lanka Joint Communiqué issued on 12th September, 1979, the President of Sri Lanka and the Prime Minister of Japan expressed satisfaction "with such signs of clear cooperation as the first Joint Meeting of the Business Cooperation Committees of Japan and Sri Lanka" and agreed that the two Governments "should take all possible measures to promote economic ties, including the early conclusion of an agreement for the promotion and protection of investments" under Article 157 of the Constitution referred to above.⁶⁰⁾

However, by far the most important factor which would govern the future prospects of direct Japanese investment in Sri Lanka is the extent to which the thinking and attitude of the Japanese investor himself has been influenced by the recent changes in socio-economic policy and incentives and inducements provided for foreign investment in the country.

We have no concrete data or information as to how the mind of the Japanese investor is working in this regard. However, I have been able to interview a few Japanese personnel⁶¹⁾ connected with Japanese trade and investment during my short stay in Japan, and the observations which I am able to make from such interviews, may give some indication of it.

There was general agreement among my interviewees that Sri Lanka possesses the advantages of a relatively educated, skilled and easily trainable but cheap labour force, of a strategic location with easy access to markets in Europe, Middle East, Africa, East and South East Asia and Oceania. There was also consensus that there should be the "Mt. Foot" technology to support the development of medium size industry which is labour using and energy-saving.⁶²⁾ Reference was made to the lack of adequate information and publicity about Sri Lanka, in general, and the investment possibilities there, in particular, especially in the Japanese language. The desirability for more enlightened trade unionism was pointed out, like the company-based trade unionism in Japan, which is one of the

59) For further and more specific details see References under earlier footnote.

60) Joint Communiqué *op.cit.*

61) I was able to interview (other than a few small business men) Mr. Sakai Kameda of Co. Itoh & Co., Ltd., who visited Sri Lanka as a member of the Japan Trade delegation, Mr. Takei Sakurai, another member of the Japan Trade delegation, some members of the Marubeni Corporation (a Sogo Shosha), Japan and Tokyo Chambers of Commerce and Japan Foreign Trade Council.

62) A MITI study concludes that "small and medium enterprises have a comparatively smaller value of energy consumption and lower rate of rise in the value of energy consumption than big enterprises. See MITI, White Paper on Small and Medium Enterprises, 1978/81.

keys to Japan's industrial peace and success. The need was also stressed for better and adequate air links between the two countries and for the stepping up of infra-structure services upto international standard not only in the FTZ, but outside it, as well as in the Greater Colombo. There was also emphasis on the need for simultaneous balanced development in agriculture, both to provide greater employment and improved living standards as well as the necessary forward and backward linkages with industry and also the further development of hydro-electricity to reduce the dependence on oil.

Of course, Sri Lanka has already taken several steps in the above directions to attract foreign investment. We have already mentioned some of the incentives available for foreign investment in the Free Trade Zone. They are as good as the incentives provided in the Free Trade Zones of Korea, Taiwan and Philippines and even seem better than those provided to Malaysia and India.⁶³⁾ Sri Lanka Free Trade Zone also possesses the characteristics and features necessary for the success of a Free Trade Zone, such as (i) a good location with easy access to markets, (ii) political stability with constitutional guarantee of foreign investment, (iii) possibility of 100% foreign ownership, lengthy tax holidays upto 10 years, which is more than the average period provided by the other zones in the area, access to foreign banks for general and offshore banking (although no access to local finance is made available) and one single authority to deal with Free Trade Zone matters.

Mahaweli Diversion Scheme would ensure the balanced agricultural development, in fact, making Sri Lanka even a rice-surplus country. It is expected to provide during the period of construction of the Accelerated Programme work for some 175,000 persons in construction work, while the settlement schemes under the Accelerated Programme is expected to absorb 300,000 persons directly in agriculture. The value of the agricultural production on 320,000 acres on new land coming under the project is estimated at Rs. 1,500 million annually, which is more than 4% of the gross national product at current prices. All these would no doubt raise the per capita real income of the people and their purchasing power. The Power Projects under the Programme with an installed capacity of about 560mw is estimated to generate 1500 CWH which will reduce country's dependence on oil, in addition to reducing the country's present fuel bill by about half.

The development of infrastructure facilities in the country has been already undertaken with the commencement of action on the modernization of the Port of Colombo and of the Greater Colombo Area, the village reawakening programme with the building of 50 model villages, the national housing development with a target of 100,000 new houses and 84,000 upgraded old ones, with half of the new houses coming up in rural areas. 24 District-Ministers of non-cabinet rank

63) See EIU, Investment: The Growing Role of Export Processing Zones *op.cit.* Part II on "Information on Individual Zones."

have been appointed with decentralized budgets for each district to increase the balanced development of resources in urban as well as rural areas. The road transport is being improved with an increased fleet strength for public-owned transport, and the re-entry of private enterprise into road transport business. Already, both Governments of Sri Lanka and Japan have recognized "that the sound development of air links between the two countries would be to the benefit of both Japan and Sri Lanka, (and) have expressed their intention of concluding an agreement for air services as soon as further development in the exchanges between the two nations warrants the establishment of air services between the two countries."⁶⁴⁾

Legislation is being contemplated to make trade union membership confined only to employees/workers and the decision to strike to be decided by the secret ballot of members. Implementation of this should ensure better industrial peace in the country than now.

III.3 POOR JAPANESE RESPONSE — With all these incentives and inducements and assurances given by the Sri Lanka Government, there has been so far very little response from the Japanese investor. For example, as already mentioned, upto November 1978, of the 30 joint ventures established in the Sri Lanka FTZ, not one was there with Japanese participation. In the following calendar year, there were only three established with Japanese participation out of about 45 ventures established there.⁶⁵⁾ This poor response from the Japanese investor is all the more striking, because even Hong Kong, Thailand and South Korea in which countries, the Japanese have heavily invested, have thought it prudent to shift some of their industries to Sri Lanka.

The Japanese investor is cautious and the average Japanese is still very traditional and introvert in his life style. Korea and Taiwan, in which the Japanese heavily invested, were not only closer to Japan geographically but also even in their way of life. They have come under considerable Japanese influence being once under their colonial rule. The language barrier between them is much less and they cater relatively to the Japanese taste, in particular, their food requirements. Thailand, although may be closer to Japan than Sri Lanka both ethnically and culturally, may not be that close as Korea or Taiwan. This may explain the conflicts that have arisen from the overpresence of the Japanese there. Such conflicts should be less in the future because of the new guidelines for investment in developing countries and overseas investment standards issued to the Japanese businesses expanding abroad by the Federation of Economic Organizations (Keidanren) Japan, the JETRO and other leading economic organizations.⁶⁶⁾

64) Joint Communique *op.cit.*

65) Upto 31/12.79. 91 projects were approved, of which 46 were approved before December 1978. Sri Lanka Business Week, March 10, 1980.

66) See Saburo Okita, *op.cit.*, The Developing Economies and Japan P.264.

III.4 *FURTHER ACTION NECESSARY* — The Japanese investor will not be satisfied with mere undertakings and assurances. He wants to see concrete action. For the Japanese to invest increasingly in Sri Lanka several further steps need to be taken. (1) One, Sri Lanka must get closer to Japan like many of the other Asian countries in which they have heavily invested by frequent air links. The Japanese business community whom I have met expressed the view that there should be at least one direct flight daily between Colombo and Tokyo. This is so between Japan and countries like Korea, Taiwan and Thailand. Both Governments of Japan and Sri Lanka have recognized that the sound development of air links between the two countries would be to their mutual benefit, and have expressed their intention of concluding an agreement for such links. However, the Governments should not wait until "further development in the exchanges between the two countries warrant the establishment"⁶⁷⁾ of such links. Instead, they should conclude agreements to have at least four direct flights between the two countries shared equally between Japan Air Lines and Air Lanka, bringing the number of direct flights to six per week with the existing two direct flights by British Airways. This would, in my view, help to promote "further development in the exchanges between the two nations."⁶⁸⁾ (2) Japanese business community has also expressed the wish for the establishment of sufficient restaurants to cater for Japanese food. There is a proliferation of such restaurants in Korea, Taiwan and Thailand in which Japan has been heavily investing. Continuing to work long at their places of work after normal office hours and frequently eating out are two characteristics of the Japanese business community. (3) Despite the assurances given by the Government, the Japanese Business Community may still not be convinced of the continuing political stability and protection for foreign investment in Sri Lanka. The Japanese no doubt prefer to invest in stable democratic countries. This may be one reason, in addition to the better infrastructure facilities, why they prefer investing in Singapore to investing in Philippines (Batan). It is high time to negotiate an Investment Treaty between the two countries under Clause 157 of the Constitution, and also explain to the Japanese community that in the context of the proportional voting it is not likely that in the future any government will get a two thirds' majority needed to change or amend this clause. (4) The average, in particular the small and the medium sized, businessman in Japan may also not have the correct knowledge or information about Sri Lanka. For example, I met a manufacturer of wooden packs for tea with "Albesia" wood imported from Sri Lanka. One of the questions he asked me straightaway was if Sri Lanka is a Communist country since it is called the "Democratic Socialist Republic" of Sri Lanka. Obviously he was drawing a symmetry between the Democratic Socialist Republic of Sri Lanka and the "Soviet Socialist Republic" of Russia.

67) Joint Communique. *op.cit.*

68) *ibid.*

The lack of information about Sri Lanka was also expressed by some of the others whom I had interviewed. The Sri Lanka Government may have to use a little the Japanese mass media for this purpose and also have Sri Lanka Tourist Information Bureau to tie up with a Japanese organization like the Japan Travel Bureau, to put up the correct image of Sri Lanka before the Japanese.

(5) I also have gathered that the Japanese business community would not rush into foreign investment unless they have been able to get all information and to ascertain all facts regarding feasibility of such investment. They would not be satisfied with the "mere interest" evinced by the Sri Lanka counterparts. They must be instead approached with sound project proposals for joint venture purposes.

(6) Even in the FTZ, although one single authority has been established "there appear to have been some initial teething troubles. These have sometimes arisen because clear-cut policies have not yet been worked out, and sometimes because of the difficulty, the zone agency experiences in exerting its authority on other branches of the bureaucracy".⁶⁹⁾ This situation has to be remedied by giving Government full-backing to the Greater Colombo Commission and also by appointing to it officials of such calibre who can command respect from, and exercise authority over, other branches of the bureaucracy.

(7) There also must be effective and speedy administration of customs and exchange control clearance. Business procedure of the Government regarding import licencing for raw materials must be so simplified as to be able to be completed in a matter of few days whereas it may now take upto a fortnight.

(8) Then there must be adequate (i) advisory services to provide (a) assistance in the recruitment and selection of personnel, (b) advice on wage and salary scales, fringe benefits, industrial relations and work practice. While every incentive must be given to attract people to the FTZ and prevent them from going to the Middle East and elsewhere, the conditions within the FTZ must not be *so much* out of line with those outside as to cause unrest within the working class in the country. There also should be (ii) adequate commercial services such as banking, shipping and forwarding, legal and accounting services and services for special engineering repairs. There should be (iii) adequate supporting facilities such as telephone, telex, public transport and waste disposal and for water and power. There also should be (iv) for the overseas community adequate facilities of marketing, schooling, health and police protection.

(9) In order to bring the infracture services and other supporting facilities upto international standards as required for foreign investment as well to provide the "Mt. Foot" technology, domestic resources must be substantially augmented by foreign resources. This is where the increased economic cooperation of the Government of Japan counts. With the better understanding now prevailing between the two Governments, we expect the ODA to increase beyond 1977-1979

69) EIU. *op.cit.*

levels. Japan has already undertaken feasibility studies of the Maragahakanda Project of the Mahaweli Development Programme and the Development Project of the Port of Colombo. The late Prime Minister of Japan, Mr. Ohira had voiced the intention of the Japanese Government to aid these programmes in addition to the television broadcasting station, and the housing project which it has already undertaken to financially assist. It is necessary that the aid given for infrastructure development should comprise a large proportion in grants. Infrastructure development does not increase the directly productive capital and the export capability of a country, thereby corespondingly facilitating repayment. Loans would, under such circumstances, impose an undue burden. Since 1970, the grant component of Japanese ODA has been on a secular rise from zero before 1969 and 10% in 1970-1971 to a little more than 35% in 1978-1979. We expect this proportion to increase further and exceed 50% of the total Japanese ODA within the next three years.

III.5 SRI LANKA VERSUS OTHER AREAS OF JAPANESE INVESTMENT IN ASIA — If, in addition to the political stability and the industrial peace, the Government can ensure, it can also improve the required infrastructure facilities and supporting services, as specified in the preceeding section, there is no reason why Japanese direct investment should not increasingly come to Sri Lanka. Little space is now available in Korea, Taiwan, Hong Kong and Singapore, the Four NICs of Asia, sometimes referred to as the "gang of four".⁷⁰⁾ Their labour is also becoming inordinately expensive. Japan, therefore, has been recently

Table 18. Average Labour Costs (*) in Asia
(\$ per hour)

	Unskilled	Semiskilled	Skilled
Korea (South)	n. a.	1.30	n. a.
Taiwan	0.52	n. a.	0.60
Philippines	0.21	0.24	0.25
Malaysia	0.28	0.31	0.62
India (Santa Cruz)	0.14	0.20	0.27
Sri Lanka	0.13	0.16	0.19

Note: (1) (*) Including fringe benefits.

(2) Singapore is as expensive, if not more than, Korea; hourly earnings of a worker was S\$1.81 in 1978 without fringe benefits (ILO Labour Statistics). This has been omitted from the Table as it cannot be shown under any of the above three categories but represent that of the average employee.

Source of data of the Table: EIU Report. *op.cit.*

70) Specifically in the case of Korea, it has been reported that "as there are no plans for further special export processing zones, it seems probable that new ventures will be encouraged to establish elsewhere". EIU *op.cit.* Already we have reported on the establishment of such Korean enterprise in Sri Lanka FTZ.

shifting to Malaysia and Philippines. There is not much space in Malaysia either. The labour costs of these two countries are also much higher than in Sri Lanka as Table 18 shows.

Therefore, the Japanese investor would, in the future, prefer to invest in a politically stable democracy like Sri Lanka. His present hesitation may be due to either his incorrect appraisal or the insufficient conviction of the Sri Lanka situation. This may be easily corrected by a mass media campaign possibly with the help of the newly established Sri Lanka/Japan Joint Business Committee. The Sri Lanka Government and the business community have to accept the position that the Japanese investor is relatively more cautious and information-seeking than his counterpart elsewhere and, therefore, have to intensify their promotional campaign in Japan. The Sri Lanka Embassy in Japan has a vital role to play here. Today it is manned by an Ambassador and two Secretaries, one of whom is invariably an Assistant Director of Commerce seconded for one term of office, i.e., three to four years. This staff is quite inadequate for a country like Japan. The Government should appoint to this Embassy a Trade Commissioner of "Additional Ambassador" rank, to exclusively and independently handle all trade aid, and investment matters between the two countries. He should have been a successful businessman (of course, divested of vested interests) or a trained economist or management expert. He should have a working knowledge of the Japanese language. He should be assisted by an official of Secretary rank. The present post of Trade Commissioner could then be abolished and his duties could devolve upon the Trade Commissioner. The Ambassador himself should be a person very competent and experienced in Japanese affairs and proficient in the Japanese language, like his present counterpart for Singapore. Japan is a unique country with a unique people and has a unique market. Its people are unique in the sense that, although Japan has the most modern technology, they are still a little traditional in their outlook and life style, nationalistic in feeling and are proud of their language. Its market is unique in another sense. Although trade may be free of tariff and quota barriers, the import inspection system, Quarantine Regulations and Food Sanitation Law, and above all, the internal trading or distribution system are such that even experts find it difficult to understand the intricacies of the market unless they have been sufficiently long in Japan or studied it for sometime.⁷¹⁾ In my view, only a person who has been handling Japanese matters for sometime and is also competent in the Japanese language can effectively perform the duties expected of an Ambassador for Japan.⁷²⁾ The

71) Mr. Wee Mon Cheng, the Present Singapore Ambassador, is an Economics Graduate and has been a successful businessman. He is proficient in English, Chinese and Japanese. He is also an author of several publications dealing with economic cooperation between Japan and Singapore, among which is "Economic Diplomacy in the Land of the Cherry Blossom. MPH Distributors. Singapore 1977.

72) The present American Ambassador is one, I am informed, who has been at the Japan desk of the State Department for several years.

rest of the Embassy staff also, in particular, those who come in contact with the Japanese public or business community should have a working knowledge of the Japanese language, without which it is not possible to effectively carry out their duties.

Japan had adapted very well to various crises which threatened her in the past and come out of them much better than was anticipated. She belied all forecasts of her annual growth rate in the last decade. Between 1970 and 1979, last year, for which full data are available, she has more than doubled her real gross national product (as 1970 prices) from \$203.98 billion to ¥539.43 billion, the average exponential growth rate being 11.4%. If she continues to grow at the same rate she would reach a GNP of \$1,000 billion in 1985. Even if she grows at half of this rate she will reach it in 1990, almost a decade before the forecast time to which reference has already been made. She should be able to easily divert 1% of this as net resource flow to developing countries of the world, in the form of net ODA and direct investment etc. For both in 1973 and 1978 she exceeded this target by 0.44 and 0.09 percentage points respectively.

If Sri Lanka receives 2.5% of this total net resource outflow of Japan to developing countries—this is the percentage of the total net ODA of Japan she received in 1978 and 1979—she will be able to augment her domestic resources by \$250 million. This is a massive resource flow of slightly less than 1/5 of her present real Gross National Product (1978 GNP at constant 1959 prices) although it is only 1/24 of total Flow to Asia, assuming Asia will get 3/5 of the total Japanese net resource flow to the developing countries⁷³⁾ (this is the percentage of the total net ODA of Japan, Asia received in 1977 and 1978) and a minuscule of 1/4000 of a GNP of \$1,000 billion which we expect Japan to reach, as indicated in the preceding paragraph.

We have argued earlier that Sri Lanka should receive at least 3% of the total net ODA of Japan in the future. Even a country like Malaysia with a higher per capita income and a smaller population⁷⁴⁾ than Sri Lanka gets more than this. 3% of the total net ODA of Japan, which is assumed to have doubled, works out to a round figure of \$150 million. Therefore, only the balance of \$100 million should come in the form of direct investment. \$100 million in direct investment works out to only 2.0% of the total Japanese direct investment new going overseas. In 1978 and 1979, Sri Lanka received respectively 53 million and \$65 million in net ODA from Japan (See Table 10). In direct investment, however, her share was (on a licensed and notified basis) only \$0.343 million and \$0.128 million out of a total of \$2806 million and \$4598 million in 1977 and

73) Okita assumes a higher percentage of 70%, "The Japanese Economy and Economic Development in Asia in the Decade 1990-2000. *op.cit.*

74) In 1977, Malaysia's population was 12.60 million and GDP 32263 million Ringgit, while Sri Lanka's population and GDP were respectively 13.97 million and Rs. 31232.1 million. Malaysian Ringgit is approximately equivalent to 8 Sri Lanka Rupees.

1978 respectively, working out to a tiny fraction of 0.006%. Sri Lanka thus has to ensure that she very substantially steps up her effort to attract Japanese investment into Sri Lanka and to get as much as \$2.00 in the form of direct investment for every \$3.00 of net ODA from Japan. This is a target to be reached within ten years from 1979, and with the necessary cooperation from Japan Sri Lanka should be able to work as from now to gradually reach this target.

III.6 MUTUAL BENEFITS OF ECONOMIC COOPERATION — Let us assume that Sri Lanka received the required economic cooperation from Japan as analyzed above, as well as from other countries and her domestic development programme gets fully under way within the next few years. Several effects would follow benefitting both Sri Lanka and Japan.

Beneficial effects to Sri Lanka pertain to her exports. Several export oriented industries would be set up, mainly in the form of joint ventures. Agricultural industries such as food processing, mainly shrimps, prawns, lobsters and cuttlefish, tea bags and instant tea have been specified in this connection, in addition to the promotion of the export of non-traditional agricultural products such as fruits and spices, cutflowers and foliage, corals and natural sponges. In addition to garments, several other manufacturing industries have been identified as suitable areas for joint venture investment. They are lapidary, coir fibre and bristle products, wooden furniture and other articles of wood, ceramics, fishing gear and accessories, assembly and manufacture of electronic component parts and rubber based products. These should substantially raise Sri Lanka's exports to Japan from its 1979 level of \$84 million. This export-led growth would utilize natural resources and local raw materials, provide employment and earn foreign exchange. It would provide the necessary linkages to the other sectors and help accelerate overall economic development of the country.

Beneficial effects to Japan pertains to Sri Lanka's imports from Japan. It has been already argued that the accelerated development programme of Sri Lanka would require increased imports of producer goods from Japan and reference has been made to the already relatively large increase of imports of (i) metal and metal products and (ii) machinery and equipment. Again as pointed out earlier, the accelerated development would also increase the demand for consumer imports through an increase in per capita real income. In 1978 the per capita real income increased by 6.4% over the previous year. We expect this growth rate to be maintained around 6% per year. If population also continues to rise by 1.7%, a rate which has remained stable from 1975, the demand for consumer goods should substantially increase. On both counts, therefore, there would be a further boost to Japanese imports to Sri Lanka beyond 1979 level, which was already nearly double that of her exports to Japan.

III.7 ROLE OF SOGO SHOSHA — It has been mentioned earlier that exports

must increase relatively to imports in order to increase the net resource flow to Sri Lanka, thereby making more effective the economic cooperation of Japan.

Because of the unique character of the Japanese market and the Japanese trading system as well as the import inspection procedure at the port of entry, new exporters may not find it easy to penetrate into the Japanese market, despite the increasing trade liberalization by Japan. Japanese trading companies (Sogo Shoshas) can play a helpful role here.

Sogo Shoshas not only act as trade intermediaries but also facilitate trade flows between countries. They are both vertically and horizontally so integrated as to be able to handle different aspects of production and trading at the same time and have a worldwide network for this purpose. They perform a broad range of functions which go beyond the scope of trade intermediaries and have thereby earned for themselves a unique place in the world of business. For example, they provide trade and market information and finance, they also invest in resources of other countries and help in the development of their new industries. Their role and importance in the Japanese trading system can be gauged by the fact that the ten top Sogo Shoshas handle around 60% of the total export and import trade of Japan.⁷⁵⁾

Sogo Shoshas are, by no means, new to the Sri Lanka industrial and business community. Four of these top ten, Mitsui, Marubeni, Itoh and Sumitomo have invested in joint venture enterprise in Sri Lanka between 1955 and 1976 (See Appendix 3). They can play a useful role in Sri Lanka by performing such functions as (i) identifying marketable products and organizing marketing of the exportable output of numerous small and medium sized firms, which by themselves may find it difficult or uneconomical to do so. They also would be able to impress on the local entrepreneur the need for production of standardized goods, elegant design and packing for semi-processed and processed goods which satisfy the peculiar consumer characteristics of the Japanese market. They also would be able to promote joint venture investment in export-oriented industries.

IV. Cost of Economic Cooperation

We have so far discussed benefits of economic cooperation to our two countries. However, it is not without its own costs and sacrifice for the two sides.

Japan may have to increase its aid and investment in Sri Lanka, without decreasing its aid and investment elsewhere, thereby increasing pressure on her balance of payments. As long as the surpluses in her current account are sufficiently large, outflow of capital may be even justified. However, such surpluses may have to be earned by Japan in her trade with developed countries

75) For a good account of these Sogo Shoshas refer Marubeni—The Unique World of the Sogo Shosha. 1978.

rather than with developing countries who need her assistance most. This gives rise to pressurization of Japan by these developed countries to cut down her exports to, and increase her imports from, them. Such pressure has already been exerted on Japan by the U.S.A. and the EEC. This is a cost with which Japan has to reckon, if she wishes to increase her net outflow of resources to developing countries for their long-term mutual gain. Japan also have to sometimes face the conflicts arising from her overpresence in any one area, as it has been already evidenced in Thailand.⁷⁶⁾

On the other hand, a receiving country like Sri Lanka, would have to incur such costs as the additional expenditure in the provision of special infrastructure services and supporting facilities, foregone revenue from tax holidays and other incentives and the costs of cultural conflicts which may arise between the Japanese community and the local population. Although we are unable to quantify these costs, the benefits from increased economic cooperation seem so overwhelming as to eclipse them.

Chapter V

Summary and Conclusion

During the Second World War the trade between Sri Lanka and Japan was at a standstill and it was not until the late forties that this trade was resumed. The Korean War gave a boost to both economies and by 1952 the trade between the two countries had reached their pre-war level.

By 1954, Japan had reached the 1939 pre-war peak level in her GNP and had joined the International Economic Cooperation Scheme under the Colombo Plan, in October the same year. During the first four years of her joining the Colombo Plan, i.e., 1954-1958, her technical assistance to Sri Lanka was substantial while during the next six years it declined significantly. One reason which could be attributed to this is the decline in Sri Lanka's imports from Japan during the period of trade restrictions in the late fifties and early sixties.

Until 1965, Japan did not play a big role in economic cooperation as she was committed to war reparation payments. But by 1965, she had settled most of them and also achieved a remarkable growth unsurpassed by any other nation, with a much faster growth in her exports than her imports. She could, therefore, easily assume a leading role in economic cooperation. Sri Lanka became a donee of Japan for the first time during this period, with the latter becoming a member of the Sri Lanka Aid Consortium of Nations. Sri Lanka received her first "Yen Credit" loan of \$5 million in 1966.

76) Thailand went to the extent of organizing a campaign to boycott Japanese goods in 1972. See for details, S. Okita, *The Developing Economies and Japan. op.cit.* pp. 263-264.

The trade between Sri Lanka and Japan was growing all the time. By 1979, Sri Lanka's exports to Japan had risen to nearly 10% of her total exports and her imports from Japan to nearly 16%. Japan had, by this time, become the third biggest market for Sri Lanka's exports and the number one source for Sri Lanka's imports, with import surpluses showing a secular rise. The relatively fast rise of imports since 1977, was the result of trade liberalization in Sri Lanka in November 1977, which Japan quickly turned to her advantage being a competitive supplier of items of imports of Sri Lanka's interest.

The net ODA received from Japan fell very much short of the import surpluses until recently. Since 1977, with the spectacular expansion in trade between the two countries arising from the new social and economic policy of the country, net ODA from Japan also improved and in 1979 came very nearly to match the import surplus.

On the contrary, direct private investment of Japan in Sri Lanka has, instead of rising, been on a downward trend. The conclusion, the present author draws from this is that Sri Lanka has not yet been able to impress upon the Japanese business community her attractiveness as an avenue for Japanese investment vis-a-vis the other countries of Asia, in which Japan has been hitherto heavily investing.

The author has suggested several remedies to bridge this information gap and improve the dialogue between the two countries as well as to overcome certain other deficiencies which may, in his view, still exist in Sri Lanka.

The trade structures of the two countries have been changing in the seventies. This has resulted from the changes in their production structures and other contributory factors. While Sri Lanka has been shifting from agriculture and forestry to mining and manufacturing of labour-intensive light industrial products, Japan has been shifting from labour-intensive industry to capital and knowledge intensive one. There has also been a simultaneous easing of the tariff structure of Japan with an introduction of a generalized system of preferences favouring exports of developing countries like Sri Lanka.

With a change in outlook and policy of both Governments and their peoples and a favourable turn in the thinking and attitude of Japanese business community towards Sri Lanka, increased resources both in the form of official development assistance and direct investment should flow into Sri Lanka. This should help her accelerated development programmes like the Mahaweli Diversion and the Free Trade Zone as well as her development in the rest of the economy. Greater Japanese "joint venture" investment should accelerate the export-led growth of Sri Lanka which has been rightly adopted as the strategy of development in place of the earlier inward-looking strategy of import substitution.

Consequent upon this development, Sri Lanka's exports in a number of selected items to Japan should substantially increase, as well as imports from Japan. Increased economic cooperation would thus benefit both countries. Nevertheless, Sri Lanka may continue to suffer trade deficits with Japan in the foreseeable

future. She should be able to cushion against them with increased ODA. In the long run, however, when her development programme has got fully under way, and production both for export and domestic consumption has substantially increased, the position of trade balance will improve. Exports to Japan should increase relatively to her imports from Japan and the import surplus should gradually tend towards zero. She should then be able to reduce her excessive dependence on Japan for ODA and be more "self-reliant".

It has been shown that whenever Sri Lanka had adopted an "open door" policy in her international trade, trade between her and Japan had expanded. The expansion, however, had always been in Japan's favour with exports rising much faster than imports. There are two reasons for this. Japan, it is repeated here, is a competitive supplier of import items of Sri Lanka's interest. Even more importantly, because of her very efficient (though seem complex to the foreigner) trading system and the skilled business community, she is able to quickly turn into her advantage any such liberalization. At least on the second count Sri Lanka suffers.

Despite her relatively high and continuing growth, invariably with export surpluses, Japan's policy of economic cooperation had been guided more by her own economic interests than by the poverty priority needs of developing countries. Its aid policy until late sixties was biased towards promotion of her own exports. After the oil crisis, this bias seems to have shifted towards assuring her of her sources of supply of fuels and industrial raw materials. Such a biased policy of economic cooperation could have been justified as long as she was making reparation payments and had an unfavourable balance of payments. With unsurpassed growth and continuing trade surpluses, she could now well afford to have her aid programme biased towards the promotion of donee's exports while placing top priority on the satisfaction of basic human needs (BHN) of the poorer peoples. This means more aid to non-oil developing countries than to OPEC or newly industrialized countries. It also means more grants than loans and more project than commodity aid or export credits to accelerate development rather than finance consumer imports.

We have shown that even under pessimistic assumptions, Japan will reach a GNP (at 1970 prices) of \$1,000 billion by 1990 and that 1% of this to developing countries should be her target. 60% of this to Asia will mean \$6 billion and to allocate 1/24 (or 2.5% of the Japanese total) of this to Sri Lanka would be minimal and would prove her genuine accord with the changed BHN approach to economic cooperation which she has seemingly accepted.

Japan will not be all a loser of this increased cooperation. She would be, at least somewhat, compensated by the increase in Sri Lanka's import of Japan's producer goods as well as her sophisticated industrial products for consumption made possible by the increasing purchasing power of Sri Lanka's people resulting from accelerated balanced development.

Sri Lanka is a very small country—a "dwarf"—in comparison with the

Japanese "giant", the most viable economy in the world today. A small increase in the dosage of Japan's imports from Sri Lanka and her aid and investment in Sri Lanka would amount to a massive flow of resources to the latter. From this increased economic cooperation Sri Lanka can benefit enormously. To this end, Sri Lanka, on her part, should continue with the appropriate policies and the right political and socio-economic conditions. Japan, on her part, should adopt a humanistic approach towards Sri Lanka. She should not be in the least suspicious of Sri Lanka's good intentions and determination for accelerated growth to improve the quality of life of her people. Japan also should not be over-cautious or pessimistic, as she seems to have been hitherto, in regard to greater investment in Sri Lanka.

Sri Lanka has once again adopted an open-door policy and is increasingly looking towards industrialized democracies for aid. In particular, she is turning towards Japan, an economic global power, not only because she is culturally closer to Japan than any other developed country but also because she happens to be one of her most important trading partners today. Increased economic cooperation from her, as analyzed in this study, would contribute a great deal to build in Asia, yet another self-reliant and economically viable nation with a stable democratic political base.

SELECT BIBLIOGRAPHY

A. Publications of Government and Allied Agencies

Sri Lanka

- Department of Census & Statistics, Thirty Years Trade Statistics and Statistical Abstracts.
- Central Bank of Ceylon, Annual Reports
- Ceylon Customs Returns
- Colombo Economic Commission, Greater Colombo Economic Commission Law
- Constitution of the Democratic Socialist Republic of Sri Lanka
- Ministry of Finance & Planning, A Guide to the Foreign Investor
- Ministry of Information and Broadcasting, Greater Colombo Economic Rehabilitation Area: Free Trade Zone
- Ministry of Mahaweli Development, Mahaweli Projects & Programme. Dec., 1979

Japan

- Prime Minister's Office, Monthly Statistics of Japan and Statistical Handbook
- Ministry of Foreign Affairs, Japan's Generalized System of Preferences 1980
- Ministry of International Trade & Industry, News from MITI
 - Japan's Industrial Structure: A Long Range Vision. 1978 Edition
 - White Paper on Small and Medium Enterprises
- JETRO, Economic Cooperation of Japan (Annual)
 - White Papers on International Trade (Annual)
 - Access to Japan's Import Market Series

B. United Nations & Similar Agencies

- Yearbook of International Trade Statistics
- Yearbook of National Accounts
- Demographic Yearbook
- ESCAP, Economic Surveys

ILO, Labour Statistics

OECD, Development Cooperation, Annual Reviews

C. General

Currie, Jean, Investment: The Growing Role Of Export Processing Zones
Economic Intelligence Unit, London, June 1979

Denison, Edward F. & William K. Chung, How the Japanese Economy Grew So Fast: The Sources of Post-War Expansion, Brookings Institution, Washington D.C., 1976

Hiroshi Kitamura, Choices for the Japanese Economy. The Royal Institute of International Affairs, London, 1976

Kiyoshi Kojima, Japan and a New World Economic Order. Charles E. Tuttle Company, Tokyo 1977

Marubeni Corporation, The Unique World of the Sogo Shosha. Tokyo, 1978

Saburo Okita, Post-War Japan's Rapid Economic Growth and Its Causes: Japan Economic Research Centre (JERC) Series No. 3. 1966

—Causes and Problems of Rapid Growth in Post-War Japan and their Implications for Newly Developing Economies. JERC, 1967

—Essays in Japan and the World Economy. JERC, 1977

—Japan in the World Economy. Japan Foundation, 1975

—The Developing Economies and Japan: Lessons in Growth, Tokyo University Press, 1980

K. Okawa & Y. Hayami (EDT), Economic Growth: The Japanese Experience Since the Meiji Era. JERC

Patrick, Hugh & Rosovsky, Henry, Asia's New Giant: How the Japanese Economy Works

Wee Mon-Cheng, Economic Diplomacy in the Land of the Cherry Blossom. MPH Distributors. Singapore, 1977

Appendix 1. Production Structure of Sri Lanka

Sector	1959	1970	1971	1972	1973	1974	1975	1976	1977	1978
	%	%	%	%	%	%	%	%	%	%
1. Agriculture forestry, Hunting and Fishing	38.8	34.7	33.9	34.3	32.5	32.9	32.1	30.9	31.8	30.6
2. Mining and Quarrying	0.5	0.7	0.7	0.7	2.5	1.8	2.2	3.1	2.6	3.2
3. Manufacturing	11.5	13.6	14.0	13.8	13.5	13.0	13.0	12.9	12.5	12.5
4. Construction	4.8	5.9	5.6	5.0	4.9	5.1	4.5	4.6	4.0	4.8
5. Electricity, Gas, Water and Sanitary Services	0.2	0.8	0.7	0.8	0.8	0.8	0.9	0.9	0.8	0.9
6. Transport, Storage and Communications	9.4	9.3	9.4	9.7	9.7	9.7	9.8	9.9	10.0	9.9
7. Wholesale and Retail trade	13.5	14.2	13.4	13.1	13.2	13.3	13.4	13.4	13.5	13.6
8. Banking, Insurance and Real estate	0.9	1.2	1.3	1.3	1.3	1.5	1.6	1.7	1.9	2.0
9. Ownership of Dwellings	3.4	3.1	3.1	3.1	3.0	3.2	3.1	3.1	3.0	2.9
10. Public administration and Defence	5.1	4.7	5.0	5.1	5.4	5.6	5.8	5.9	5.8	5.8
11. Services	12.3	12.0	13.2	13.1	13.1	13.2	13.5	13.8	14.1	13.8
12. Gross domestic products	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Estimates for 1976 to 1978 are provisional.

Source: Central Bank of Ceylon.

Appendix 2. Trade Structure of Sri Lanka — (A) Exports

	66	70	74	75	76	77
1. Food and Live animals	68.0	65.2	51.7	58.0	53.5	63.6
Fish & Preparations	(nil)	(nil)	(0.8)	(0.6)	(1.6)	(1.4)
Fruit & Vegetables	(3.5)	(5.1)	(7.7)	(5.4)	(4.5)	(4.9)
Tea	(61.3)	(56.7)	(39.5)	(49.2)	(43.7)	(52.9)
Spices	(2.2)	(2.6)	(2.5)	(1.7)	(2.4)	(2.6)
2. Crude Materials exc. Fuels	24.7	27.3	30.7	25.6	28.2	22.4
Natural rubber	(20.1)	(22.3)	(21.4)	(16.7)	(18.5)	(14.1)
Textile fibres	(2.3)	(2.4)	(3.2)	(2.0)	(2.0)	(2.0)
Industrial diamonds	(n. a.)	(n. a.)	(3.2)	(4.6)	(5.4)	(4.5)
Natural graphite	(0.4)	(0.5)	(0.5)	(0.3)	(0.3)	(0.3)
3. Mineral Fuels	NIL	NIL	7.5	NIL	0.5	0.4
4. Animal vegetables, Oil and Fat	6.5	6.0	4.2	4.9	4.0	0.7
Coconut oil	(6.4)	(5.9)	(4.0)	(4.8)	(3.9)	(0.6)
5. Chemicals	0.3	0.3	3.1	1.9	3.0	2.4
6. Basic manufactures	0.5	0.6	1.3	0.8	1.0	0.9
Porcelain, China etc.	(n. a.)	(n. a.)	(0.2)	(0.3)	(0.4)	(0.3)
7. Miscellaneous	0.1	0.4	0.9	0.9	1.7	2.4
Manufactured goods						
Clothing	(n. a.)		(0.7)	(0.6)	(1.4)	(2.1)
8. Not classified/other	NIL		0.2	7.5	7.7	6.8
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0

Note: 1. Figures within brackets are sub-headings under the main headings. The total of sub headings may not add upto to the Headings as some sub-headings are not included in the Table.

2. The sum of individual headings may not add upto 100 due to rounding.

3. domestic scarcity.

Source: UN Year book of Trade Statistics

Trade Structure of Sri Lanka — (B) Imports

	66	70	74	75	76	77
Food and Live animals	47.2	46.3	45.6	50.0	36.0	39.0
Crude metals exc. Fuels	1.7	2.6	3.6	2.7	3.2	2.4
Mineral fuels	6.7	2.7	20.0	16.7	24.9	24.1
Chemicals	9.1	9.1	12.7	9.7	7.3	6.5
Basic Manufactures	19.7	19.2	10.8	10.1	12.9	12.8
(Textiles)	(8.4)	(8.1)	(3.7)	(2.1)	(4.4)	(6.2)
Machines	13.0	17.7	6.9	8.6	13.0	12.0
Non-electric	(5.3)	(9.2)	(2.9)	(4.8)	(6.4)	(5.9)
Electric	(2.5)	(3.2)	(1.1)	(1.8)	(2.9)	(1.9)
Transport	(5.1)	(5.2)	(1.9)	(2.0)	(3.7)	(4.1)
Other	2.3	2.3+	1.3+	2.0	2.4	3.0
	100.0	100.0	100.0	100.0	100.0	100.0

Source: UN Year book of Trade Statistics

Appendix 3 Sri Lanka-Japan Joint Ventures

Name of Joint venture (1)	Date of Establishment (2)	Date of Commencement of Production (3)	Name of Japanese partner (4)	Line of Business/ Approved item of Production (5)	Capital		Whether raw materials used Foreign/Local (8)	Employment			Dividends		Foreign exchange savings (15)
					Foreign Rs. (\$)	Local Rs.		Total	Foreign	Local	Period end-declared (12)	Rate of Dividend (13)	
1. Ocean food & trade Ltd.	Mar. 10, 1955	July '53	Japan-Ceylon Fishery trade Co.	Fishing and food processing	778,920 (\$153,675)	222,108	Local marine products of Sri Lanka	112 x 11 z 95	3	109	69-70 71-72 101%	5% (\$84,060.34)	n.a.
2. Ceylon glass Co.	May 17, 1955	1. 8. 57	Nippon Glass Ltd. Mitsui Co.Ltd.	Manufacture of glass bottles for beverages, Tumblers and chimneys	402,060 (\$84,020)	2,594,240	Local about 85% Foreign 15%	477 x 17 y 87 z 373	3	474	69-70 71-72 10%	3% (\$790)	n.a.
3. Ceylon bulbs and electricals Ltd.	Oct. 12, 1957	21. 11. 61	Mitsui Co.Ltd. Tokyo shihaura electric Co.	Manufacture of bulbs	800,000 (\$128,000)	980,000	Foreign	158 x 10 z 125	—	158	68-69 70 71 72	76,782 (\$12,900)	n.a.
4. Associated rubber industry Ltd.	Jan. 26, 1962	1959	Mitsui Co.Ltd. Inoue rubber Co.Ltd.	Manufacture of tyres and tubes for motorcycle	800,000 (\$158,000)	200,000	Local rubber chemicals	301 x 4 z 280	—	301	70 71 72	5% (\$84,080)	n.a.
5. Associated batteries Co.Ltd.	Nov. 26, 1962	April '63	Yuasa battery Co.Ltd.	Manufacture of batteries	1,380,000 f (\$285,600)		n.a.	70	—	—	—	—	—
6. Ceylon synthetic textile mills Ltd.	Feb. 12, 1963	May '65	Mitsui Co.Ltd. Sakai textile industry Co. Toke industry Ltd.	Manufacture of synthetic textile	1,000,000 (\$210,000)	5,230,000	Foreign	396 x 27 z 304	—	396	70 71 72	2,675,890 (\$450,760)	n.a.
7. Kundammal industries Ltd.	Nov. 23, 1960	1. 7. 64	C. Itoh Co.Ltd. Teijin Ltd.	Manufacture of synthetic textile	732,000 (\$153,720)	2,100,000	Foreign	588 x 4 z 505	—	588		986,217 (\$16,610)	n.a.
8. Paragon (Textile) industry Ltd.	May 12, 1961	1. 3. 65	Chori Ltd. Teijin Ltd.	Manufacture of synthetic textile	400,000 (\$84,000)	2,100,000	Foreign	345 x 21 z 313	—	345	68-70 70-71 71-72	655,453 (\$110,410)	n.a.
9. G.I. sheet (Ceylon) Ltd.	Sept. 1, 1947	June '70	Sumitomo metal industry, Ohmi industry Co.Ltd.	Manufacture of steel products (plates and sheets)	577,090 (\$90,060)	1,280,010	Foreign	31 x 8 z 13	—	31		Nil	Nil
10. Ceylon galvanising industry Ltd.	June 27, 1967	3. 1. 69	Marubeni Co. Kawasaki steel Corporation	Manufacture of steel products (plates and sheets)	1,500,000 (\$303,060)	1,010,000	Foreign	72 x 5 y 8 z 59	—	72	69 70 71 72	1,541,794.50 (\$259,710)	n.a.
11. Ceylon auto industries Ltd.	Mar. 25, 1968	31. 7. 69	Daichi industry Co.	Manufacture of automobile parts	82,300 (\$15,827)	479,900	Foreign	84 x 1 y 8 z 72	—	84	70-71 71-72 40%	947,000 (\$58,860)	n.a.
12. Siedes electronic industries Ltd.	Oct. 22, 1968	15. 9. 69	Sony Corporation	Manufacture of audio parts	64,500 (\$10,895)	3,935,500	Foreign except for wooden radio cabinets	141 x 5 y 15 z 121	—	141	69-70 70-71 71-72 40%	77,400 (\$13,090)	n.a.
13. Lanka porcelain Ltd.	Aug. 11, 1972	1974	Noritake Co.Ltd.	Manufacture of china wares	7,500,000 (\$1,260,893)	22,700,000	Foreign 85% Local 15%	600	n.a.	n.a.	n.a.	n.a.	n.a.
14. Garments industries (Ceylon-Japan) Ltd.	Oct. 17, 1973	26. 8. 74	Teijin shoji kaisha Ltd. Tozai hosei Co.Ltd.	Manufacture and export of garments	1,800,000 (\$281,104)	2,700,000	Foreign	800	5	795	n.a.	n.a.	n.a.
15. Electronic ceramics (Ceylon) Ltd.	Oct. 23, 1973	1974	Noritake Co.Ltd.	Manufacture and export of electronic ceramics	13,575,000 (\$2,118,994)	500,000	Foreign	113	10	108	n.a.	n.a.	30% of export value
16. Lanka wall tile Ltd.	Sept. 24, 1975	May '77	Nichimen Co.Ltd. Danto Co.Ltd.	Manufacture and export of wall tile	4,000,000 (\$698,616)	16,000,000	Foreign 85% Local 15%	532	n.a.	n.a.	n.a.	n.a.	n.a.
17. Mayura garments industries, Ceylon-Japan Ltd.	Mar. 18, 1976	18. 3. 76	—	Garments	2,250,000 (\$364,830)	6,750,000	Foreign	650	5	645	n.a.	n.a.	n.a.

Note: 1. Rupees converted into dollars at the average rate of exchange prevailing in the year of establishment and the year of remittance respectively, as given in IMF Year Book of Trade Statistics.
2. *As Percentage of Foreign Capital.
3. Figures within brackets, other than percentages, are in dollars.

Total
36,991,810 (\$5,990,890)
(84.58%)
+ 106,143,568
107,563,568
(85.42%)

5,475
CODE INDEX TO CAGE 9
x—Managerial
y—Supervisory
z—Manual

7,109,431
(\$1,045,880)
(19.5%)*