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EXPORT TRADE AND THE SRI LANKAN ECONOMY:
AN INQUIRY INTO THE ISSUE OF EXPORT INSTABILITY

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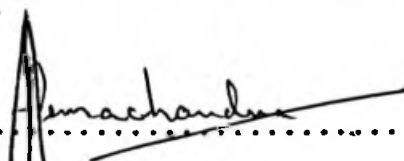
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STATEMENT

Portions of Chapter Three have been published in a paper in the Developing Economies of June 1981 and cited in the References as Athukoralage (1981). With the exception of these instances, this thesis contains no material published elsewhere, or submitted elsewhere for a degree or diploma, except where due reference is made in the text.


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SUMMARY

This study is an empirical examination of the causes and economic implications of export instability in the context of the economy of Sri Lanka.

The study has eight chapters. The first three chapters provide the framework for the ensuing analysis. Chapter 1 outlines the purpose and scope of the study. Chapter 2 reviews the literature. The main structural relationships of the Sri Lankan economy are examined in Chapter 3, in order to identify the key export linkages.

Chapters 4 and 5 analyse causes of export instability. In Chapter 4, the changing pattern of the export structure during the period 1950-79 is studied in order to shed light on the relationship between geographical and commodity concentration and the degree of export instability. The relative contribution of each commodity/commodity group and each market outlet to the instability in total export earnings is also examined. The findings provide little empirical support for the hypothesis that export instability is caused by geographical and commodity concentration. Chapter 5 investigates the contributions of price and volume variations and supply and demand shifts to instability in export earnings derived from the major export commodities. It is found that for the most part instability is attributable to variations in prices which are caused by shifts in foreign demand.

Chapter 6 is concerned with the impact of export instability. First, an econometric model is constructed for the period 1959-77 to capture the salient features of the export dependence of the economy. Second, the model is simulated in a regime of constant annual export growth and the resultant changes in the degree of instability and annual growth rate of each key macro variable are examined. The results suggest that export instability has an adverse impact on the domestic economy, especially as it relates to developmental imports, capital formation and government revenue.

International remedial measures and their relevance for Sri Lanka are discussed in Chapter 7. The chapter suggests that to date progress in the implementation of the proposed Integrated Program for Commodities (IPC) leaves no room for optimism. The effectiveness of the compensatory financing facility (CFF) of the IMF is found to have been constrained by quota-related borrowing limits and rigid repayment conditions.

The study concludes in Chapter 8 that in the long-run Sri Lanka's success in achieving accelerated and sustained growth, while making the economy more resilient to export instability, lies in a concerted and unified development strategy aimed at establishing a wider base of export earnings, promoting domestic agriculture, and restructuring the industrial sector to lessen its undue reliance on traditional exports for imported inputs.

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ABBREVIATIONS

CBC	Central Bank of Ceylon
CFF	Compensatory Financing Facility of the IMF
COMECON	Council for Mutual Economic Co-operation of Nations (the organization to co-ordinate economic policy in the East-European Communist bloc)
CRAS	Convertible Rupee Account Scheme (a foreign exchange incentive scheme for non-traditional exports that existed in Sri Lanka during the period July 1972 to November 1977)
DC	Developed Country
ECAFE	Economic Commission for Asia and the Far-East
EEC	European Economic Community
FAO	Food and Agriculture Organization
FEECS	Foreign Exchange Entitlement Certificate Scheme (the dual exchange rate system which existed in Sri Lanka during the period May 1968 to November 1977)
GDP	Gross Domestic Product
GNP	Gross National Product
IBRD	International Bank for Reconstruction and Development (World Bank)
ICA	International Commodity Agreement
IMF	International Monetary Fund
IPC	Integrated Program for Commodities
LDC	Less Developed Country
OECD	Organization for Economic Co-operation and Development
OPEC	Organization of Petroleum Exporting Countries
SBR	Synthetic Butadiene Rubber
SDRs	Special Drawing Rights (of the IMF)
STABEX	Stabilization Scheme for Exports from African, Caribbean and Pacific LDCs Associated, through the Lomé Convention, with the EEC