Changes in Economic Policy and their Impact on Internal Trade in Sri Lanka

N.D.Samarawickreme

I. Introduction

Trade normally performs an intermediary function in the process of economic development facilitating interaction among economic agents. The interaction between production and consumption units tends to reinforce linkages, especially the forward ones, in accelerating growth prospects of the economy. Ideally, a market economy with a vector of competitive prices promotes the optimum utilisation of scarce resources leading to a high degree of economic growth.

Sri Lanka's internal trade sector, along with its supportive services sectors, experienced multi-dimensional changes after the second half of the 20th century. To the simple distributive mechanism of the private trading sector which existed even earlier, a new element - the co-operative sector- was introduced during periods of wars and emergencies. After Independence, with the affiliation of the state-trading sector with the internal trade structure, further changes in the structure were experienced. The significant feature of today's trade structure is the asymmetrical distribution of trading activities among the private, state trading and co-operative sectors.

In this paper an attempt is made to identify changes in the structure of the internal trade in relation to changes in Sri Lanka's economic policies. Part II summarises the role of internal trade during the late Colonial period. The contributions of import substitution to the structure of internal trade will be discussed in Part III. Part IV extends the analysis to identify the impact of economic controls on the distribution network. The trade mechanism under the decontrolled economic environment after 1977 is discussed in Part V. Finally, the study of the efficiency of markets is followed by the conclusion which stresses that today's consumer welfare has become vulnerable to the vicissitudes of the foreign sector. In the absence of a sustainable internal supply capacity, the balance of payments situation has become a decisive factor in the internal trade today.

II. Internal Trade Practices in the Colonial Period

The pre-Independence internal trade regime of Sri Lanka was characterised by a small but organised, urban-based trade sector, together with a primitive and small traditional sector which exclusively catered to the rural economy. The organised internal trade sector initiated by the British entrepreneurs in the wake of the plantation economy, operated successfully ensuring classical import-export characteristics (Snodgrass, 1966). The organised private entrepreneurs engaged in trading activities of the 'modern sector' in the plantation and urban sectors. They maintained very few contacts with the traditional sector except for distributing a few imported items to the latter (Karunatilake, 1971). The traditional sector, on the other hand, continued with its own mode of exchange based on traditional values.

The two world wars introduced a number of changes in the sphere of internal trade both qualitatively and quantitatively. One such significant change was the State intervention in the structure of the internal distribution network. The state-owned co-operatives and the marketing department stores began to operate[1] side by side with the private sector trade especially in the distribution of essential food commodities. These ventures engaged in retail and wholesale trading of essential commodities both in the modern and the traditional sectors of the economy. The momentum of growth of the co-operative movement during periods of emergency was tremendous; the number of co-operative societies seemed to have grown[2] from 300 in 1930 to 4000 in 1946. They super-imposed a new structure[3] with controlled prices, quotas and a system of licensing over the competitive market atmosphere that prevailed during the pre-war economy.

Secondly, the exigencies of the war necessitated the production of industrial goods[4] to meet the wartime needs of the system. This opened up a new process of industrial development in Sri Lanka. The shortages of consumption goods during World War II caused prices to rise which compelled the government to intervene in the distributive trade. The ordinary basket of commodities offered for sale during the last quarter of the 1940s normally comprised imported goods, agricultural commodities and a small number of locally produced industrial commodities.

III. Post-Independence Economic Policies and Internal Trade

a. The easy-going period

The structure of internal trade after Independence was greatly influenced by the changes that took place in the country's economic front. The changes were effected after the realisation of weak performance of the plantation economy, the key foreign exchange earner, which exhibited symptoms of exhausting economies of scale as a result of losing its assured market in the West. The classical import-export economy was thus, under continuous threat of the diminution of foreign exchange earnings to meet the country's import requirements (Snodgrass, 1966:56). Some booms, like the Korean War effects, however, resulted only in a negligible recovery.

There was some progress in internal trade during early years of post-Independence under the government's normalisation process of economic activities. Governments effectively withdrew some trade controls with a view to rehabilitating markets, particularly, in the modern sector. In this drive many commodities were decontrolled and handed over to the private sector during the late 1940's. Only a handful of commodities were withheld by the government for direct control[5].

With a certain degree of economic recovery, the governments in power continued with the policy of import liberalisation with the view to restore the previous structure of internal trade under the new economic set up (Karunatilake, 1971:34). The governments provided[6] 'all assistance' to the private sector to take part in business and industrial activities even permitting them to collaborate with foreign counterparts, if required. This policy of import liberalisation during the early 1950s encouraged the private entrepreneurs to resume trading activities, which, to a great extent, helped to ease the problem of scarcity of consumer goods in the market. The private sector showed an interest in modern trade and invested[7] about Rs.37.9 million or 17 percent of their investment funds in distribution activities in 1954. The private corporate sector in particular, invested about 70.4 percent of its total funds in trading activities.

Not all war-related distortions experienced by the internal trade sector did completely disappear after Independence. Some remained to become part and parcel of the skeleton of internal trade. The new structure of internal trade constituted of institutions of the public and private sectors. Not surprisingly, the co-operative sector, the sole distributive counterpart during the Wars, demonstrated a diminishing interest in the involvement of trading activities in normal times. As a result, the number of co-operative societies declined from 4030 in 1946 to 2569 by about 36 percent in 1957(Kurukulasuriya, 1971). The co-operative sector found itself ineffective in competitive trading on account of its in-built problems with regard to managerial functions. The C.W.E., too, maintained a low profile limiting its size and volume of activities in the economy.

Nonetheless, there has been a substantial progress in the traditional sector trading during the post-Independence period as a result of the economic restructuring programme. Under the wet zone and dry zone rehabilitation programmes, many infra-structural facilities ranging from transport, communication, social welfare to health, which helped to promote commercial activities in these areas and to facilitate exchanges of meagre surpluses of farmers in local markets were provided.

The new system called the guaranteed price system[8] (GPS) introduced by the co-operative movement in 1948 produced many far reaching effects on the rural economy. The GPS was expected to provide stimuli to the suppliers in village markets via providing a 'fair price base' for most of the commodities, namely cash crops, food crops and cottage industrial products. The long term consequence of this has been the sustainable growth of output of these commodities and the prospects for exchanging them in a wider market framework. The GPS has effected a 'virtual revolution' in the peasant economy where farmers have become responsive to

prices[9] (Snodgrass, 1966).

The typical market structure of a village in the 1950s comprised boutiques, Co-operative societies, weekly fairs, itinerant merchants and middlemen especially in the paddy market. Both village as well as non-village products were transacted[10] in these markets at relatively low prices or in kind. In most cases, cash crops, food crops and a few cottage industrial products were traded, and in some cases, a limited volume of daily-required non-village consumer goods were transacted in these markets on credit basis without taking any form of security. People purchased their non-village products from small-scale wholesalers in near-by townships.

The fast growth of commercial activities in the traditional sector was severely constrained by the dearth of capital, its technological backwardness and limited business infra-structural facilities which confined businesses onto a few hands. Only about 7 percent of the families had engaged in trade in an average village in 1950-51. As a result, the local businessmen and the middlemen with their control of monopolistic power over village producers and consumers were able to exercise various practices of exploitation[11] offering very low prices for farm products and high prices for consumer goods. The producers were discouraged by these low prices[12] produced only a small volume of commodities adding very little to the local value-added which lowered the volume of transactions in the village market that was already sluggish.

The supportive services for businesses were very poor in rural areas and also access to financial capital market in the organised sector had been extremely difficult. The rate of interest[13] payable for capital, therefore, was as high as 100 percent in the rural money market. However, the co-operative societies managed to establish a loan scheme for farmers to purchase their seeds and materials, and it was put into effective operation in the mid-1950s.

b. The Effects of Import Substitution

Sri Lanka too embraced[14] the policy of 'import substitution', that was in vogue in the 1960s, with the view to ease her growing problem of balance of payments. The policy aimed at bringing about multifarious changes in the structure of the Sri Lankan economy. Its effects on internal trade exhibited two types of distinctive changes in the market mechanism. These can be discussed under two broad themes: one, the effects on the pattern of demand and supply of non-essential and essential commodities which may be viewed from a micro perspective. Two, the dynamic effects of these changes on the structure of the economy. This needs to be seen in a macro paradigm.

In the static sense, the short-run effects of the new policy contributed to the change in the volume of commodities available in markets and thereby the price vector which in turn influenced the structure of distribution. After the new policy, the market for non-essential commodities was in a disarray. The imposition of protective tariffs on certain imported consumer goods created shortages for these items in the local market. Quantitative restrictions[15] like quotas,

licenses and import duties introduced in the mid-1960s aggravated the already existing scarcity of goods in the local market. As a result, the prices of imported commodities and other domestic items in local market rose[16] on an average by about 17.2 percent in the 1960s.

In the dynamic sense, the shortages cum the resultant higher prices that prevailed in the market seemed to encourage the local industrialists to invest their funds in domestic production. The local production space widened and the locally manufactured new industrial products[17] like electrical items, confectionery and household items penetrated local markets in the medium term. Broadly speaking, there were about three types of commodities available in market, viz. imported items, locally substitutable ones and domestic goods. The share of imported goods in the local market was found to be declining, at least marginally, over the years. The volume index of import of consumer goods dropped marginally from 100 in 1961 to 98 in 1970.

The locally manufactured commodities began to penetrate in the local market in the medium term. The supply volume index[18] of items like food, drink, tobacco and textiles drastically rose by about 300 percent from 100 in 1961 to 398.8 in 1970. The production of consumer goods (which was about 63.7 percent of total industrial production) increased from 16.9 percent in 1963 to 77.3 percent during 1964-67. The imported (non-essential) items were relatively scarce in the market and their prices were high compared to their local substitutes in proportion to the premium of protective tariff tagged tin them. The mean price index of imported commodities was 109 in the 1960s compared to 99 in the 1950s showing a rise of about 10.2 percent over the period. The mass supply of locally made household items and light producer goods to the local market in the latter part of the 1960s has somewhat eased the problem of scarcity in markets.

The private sector supplied about 21 categories[19] of such products including food, beverages, tobacco, chemicals, petroleum, coal, rubber and plastic goods. Along with this, some 26 public sector corporations, too, supplied different light consumer and producer items to the local market. The overall supply of non-essential commodities was undertaken by three broad groups of suppliers, namely, the importers, state enterprises and private sector suppliers who shared the market (by the rupee value of sales) in the proportion of 4:3:3, respectively. The private sector tended to dominate the sale of consumer goods in urban markets. They later catered to the growing virgin market for locally manufactured consumer goods in the rural economy especially in the late 1960s.

The distribution of essential commodities, wholesales and retail distribution, was undertaken by both the private and the public sector institutions. The multipurpose co-operatives, established in 1958 for this purpose, recorded a rapid progress. Their number grew from 3878 in 1958 to 5074 stores in 1968. the CWE[20], the sole importer and the distributor of such commodities, was authorised to import and distribute certain commodities subject to the given foreign exchange budget. Unlike in the case of non-essential commodities, the prices of essential commodities were determined by the State, based on costs of production.

A few other trading corporations like the Lanka Salu Sala Ltd[21] were formed in 1968 to promote the distribution of other scarce commodities. The Ceylon Fisheries Corporation[22] was formed in 1964 for the purpose of production, processing and marketing of fish in the Island. The distribution of fish in the past had been thoroughly unsatisfactory and monopolistic in nature. It was based on the contract and market system that operated in typical fish markets, especially in rural areas (Stirrat, 1974:180-207). The distribution of petroleum products was done in the past by the private sector mostly the multinational companies. These were nationalised and the Ceylon Petroleum Corporation was formed in 1961. The Fertiliser Corporation was formed in 1958 to import and distribute fertiliser among farmers and cultivators.

In general, the markets in the urban and rural sectors exhibited a mediocre performance in the early phase of import substitution, perhaps, owing to supply constraint where much of the imports had been virtually banned or restricted. But, the firms in the private and public sectors gradually grew over time to supply a wide variety of consumer goods to urban as well as rural markets. The volume index of locally manufactured food, beverages & tobacco that stood at 89 in 1967 rose to 127 in 1971, a rise of about 43 percent. However, in the latter part of the 1960s, some new bottlenecks were experienced disturbing the process of local supply of manufactured goods. This time, the shortage[23] of imported inputs due to the scarcity of foreign exchange, obstructed the full utilisation of capacities of plants in the manufacturing sector.

The impetus of the import substitution policy appeared to have been adequately felt by the rural economy in many ways. First, there was the drive to produce food crops, cash crops and cottage industrial products on a commercial basis and to supply them to local markets. For example, the minor export crops and other agricultural products showed an increase in supply of about 8 percent between 1965 and 1971 (see table I in annexure). These increases have been the result of the high prices offered after the introduction of Guaranteed prices and other stimuli provided to promote a competitive atmosphere in rural markets.

Secondly, there has been a flow of income into the rural areas as a result of the favourable market conditions for village products. The shift in demand for agricultural products like rice grains, onions, potatoes, vegetable, fish and curry stuffs raised income levels of village farmers whose level of supply of these products kept pace with the growing demand. Thirdly, there was also some flow of other incomes that sprang out of the new drive for exports growth. The growing foreign markets for non-traditional minor crops brought in additional incomes to villages which income circulated in village markets. Since the 1960s, the market for gems, too, flourished which also channelled income into the hands of village miners.

These activities helped some villages to grow[24] up to semi-village-townships by the 1970s. It has been observed that the urban population was increasing at 4.23 percent in the early 1970s compared to 2.2 percent in 1946; an increase that was even faster than the rate of growth of the average population (See annexure, Table II). The process of commercialisation was quickened largely due to the provision of infra-structural facilities ranging from communications,

postal and health facilities to road transport facilities to the rural economy. The commercialisation and the higher money incomes (and in turn, the higher purchasing power of farmers) tended to shift the pattern of consumption of villagers in favour of non-essential consumer goods. As a result, there was a gradual expansion of markets for consumer goods and light consumer durables[25] in the village economy reflecting the 'renewed demonstration effect' of new elite.

Internal trade provided employment opportunities to the youths in the urban and rural sectors of the economy. The urban sector trading activities absorbed about 19.6 percent of the total urban employed in 1971 of which about 5.9 percent were engaged in wholesale trade, restaurants and hotels (Table III, Annexure). The retail trade accommodated about 13.7 percent of urban youths, of which about 25.5 percent appear to have been engaged in the informal sector trading activities. Compared to the urban sector, approximately about 34 percent of rural youths were employed in wholesale and retail trade sectors in rural areas of Sri Lanka.

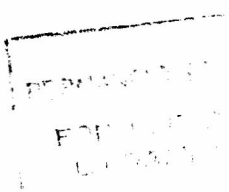
The changes that took place in the overall business hierarchy under the new policy were not much significant. The total investments in wholesale and retail trade had gone up from Rs. 51.56 million to Rs. 81.67 million. But, the composition of businesses as seen in the table below suggests that the structure is more biased towards unincorporated business forms. The majority of enterprises were either partnerships or owned by individual proprietors.

TABLE I. STRUCTURE OF BUSINESS ORGANIZATIONS
(Investments in wholesale & retail trade)

TYPE	1964- 65 Rs. Mn.	%	1966- 67 Rs. Mn.	%
Companies	20.44	40	23.48	28
Partnership	19.97	39	34.84	43
Individual Proprietors	6.54	13	16.17	20
Co-operative Societies	4.49	8	6.05	8
Others	0.12	-	1.33	1
TOTAL	51.56	100	81.67	100

Source: Survey of Private Investment, Central Bank of Ceylon, 1970.

A growing enthusiasm, however, was witnessed among individual proprietors to invest in trade activities. Their share of total investment grew from 13 percent to 20 percent even in a period of sluggish economic growth as in the late 1960s.



c. Controlled Economic Environment

The alternative economic and trading strategies were the result of disturbances that took place in the early 1970s, namely, the Insurrection in 1971, the oil crisis in 1973, the world food shortages which further weakened the balance of payments situation. The price of a barrel of crude oil rose from US $ 1.80 in 1970/71 to US $ 12.33 in 1977/78 causing a rise in the prices of all goods and services in the world market, particularly, of those goods which contained petroleum inputs. The world food shortage led to the rise in international prices of such commodities like rice, flour and sugar by about 393 %, 217 % and 370 %, respectively (see Annexure, Table IV).

Remedial measures such as the curtailment of some non-essential imports substantially helped to ease the deterioration of balance of payments situation. The import of certain consumer, intermediate and investment goods was curtailed drastically and at the same time, local production of substitutes was provided with all possible assistance during this period aiming to achieve `self reliance'.

These developments produced no direct impact on the sphere of internal trade during the 1970s. As for the supply side, the markets in the modern sector mostly sold locally produced commodities ranging from light consumer goods, subsidiary food items like chillies, red onions, bombay onions, potatoes to industrial products for which the demand[26] rose by 153.7 percent between 1970 and 1977. From the demand side, there was evidence to believe that certain significant changes in the purchasing habit of consumers had occurred over the period. Certain shifts in the state of consumer preference (voluntary or involuntary) from imported to locally manufactured goods were experienced within the market. This change in behaviour is evident by the drop of imported consumer goods in the total consumption expenditure by 6 % from 18 % in 1970 to 17 % in 1976 and the rise in demand for locally produced goods by about 9 % from 64.5 % to 70.5 % as shown in Table 2 .

TABLE 2.PERCENTAGE COMPOSITION OF CONSUMPTION EXPENDITURE

Items	1960	1965	1970	1972	1974	1976
1. Imported goods	**38.0**	**27.0**	**18.0**	**16.0**	**15.0**	**17.0**
1.1 Rice, wheat, flour, Sugar	10.0	10.0	8.0	9.0	12.0	12.0
1.2.Other personal consumption items	28.0	17.0	10.0	7.0	3.0	5.0
2. Locally produced goods	**44.6**	**51.8**	**64.5**	**69.4**	**73.7**	**70.5**
i. Consumption types	28.7	28.9	34.4	33.7	44.8	36.9
ii. Industrial product	15.9	22.9	30.1	35.7	28.9	33.6

Source: Annual Report, Central Bank of Ceylon, various years.

Both imported and locally manufactured goods were in short supply in the market during the period of the controlled economic regime. In local markets the average price index of imported commodities shot up by 62 percent from 109 to 177 between the 1960s and the early 1970s. Similarly, the price indexes of domestic goods in the local market for the period 1960-70 was 121 as against 177 between 1970 and 1977 indicating a rise in the price level by 47 percent.

The public sector --the main actor already in business-- and some private trading organisations performed the internal distribution of goods in the system. The latter played only a subsidiary role in the process of distribution of scarce commodities in situations of disturbances in internal trade. The Co-operative Wholesale Establishment (CWE) strengthened its activities in urban and semi-urban areas and also undertook import as well as wholesales and retail functions. The Multipurpose Co-operative Stores were responsible for the equitable distribution of essential commodities at controlled prices largely on a rationed basis. The private sector maintained a low profile in the distributive network of essential commodities.

The introduction of public trading corporations[27] to the internal trade network was expected to serve two complementary functions. First, they were to monitor the existing distribution of non-essential commodities and to assist the private sector within the guidelines given by the foreign exchange budget. Secondly, they[28] were to encourage local producers by providing required ancillary services like marketing facilities, technological know-how and financial assistance.

The private sector played only a secondary role in the network of internal distribution. Consequently, the formal trading activities, wholesale and retail, experienced a sluggish growth during the controlled economic environment. Commerce provided only about 7 percent[29] employment opportunities in 1973 compared with 12.6 percent in 1963. Its contribution to the GDP was 14.3 percent in 1970 and 13.6 in 1977 which appeared to be relatively low.

The policy of import substitution and strict restriction of imports helped to divert existing excess demand for food and consumer goods towards local producers. There was a positive supply response from the traditional sector to the new price signals generated by the market for food and cash crops. Many traditional commodities[30] became tradable and commercially profitable and became available in most local markets. There was also a rapid growth of production of certain minor crops[31] like cinnamon quills, cinnamon chips, pepper and cloves in this period.

IV. Internal Trade under the Liberalised Economic environment

a. New developments

The new policy of open economy aimed at effecting many dimensional changes in the overall economic and trading structures. It emphasised the need for the elimination of bottlenecks in the distribution network as a pre-requisite for the sustainable growth of domestic production. The objective, therefore, was to promote a competitive environment within the economy which

was considered to be the stepping stone for the effective reallocation of scarce resources among alternative uses. The policy makers devised strategies to liberalise internal trade and rationalise prices for the establishment of a competitive environment and a vector of competitive prices in markets.

Many measures were taken to strengthen markets and to revamp market forces in the system. From the supply side, incentives ranging from tax concessions to infra-structural facilities were provided to the private sector with a view to build their confidence in trading as well as in other productive activities. The adjustments in the exchange rate to reflect the true opportunity costs of foreign products were realised. Barriers like controls, rationing, quotas and licensing were abolished in most cases paving the way for the private sector to have easy access to foreign trade. The import of many commodities was liberalised and freed from all restrictions. However, the import of certain essential food items such as onions, rice, chillies and potatoes continued to remain under the monopoly of the state-trading sector[32].

In the sphere of internal trade many changes were effected for the purpose of improving internal supply conditions. The abolition of price ceilings, rationing and quotas appeared to have stimulated the local suppliers to increase their supply to the local market. The private sector was permitted to engage in the distribution of food items which was earlier handled solely by the Food Commissioner for many years.

As far as the market demand was concerned, over time there were some changes in the pattern. The demand for some imported food items (the percentage expenditure on imported foods out of total private consumption) like rice, wheat, sugar as seen in Table 3 below showed a mild drop during the pre -1977 period. But the demand for the above items dropped steadily by about 83 % after 1977. One explanation for the changing pattern of demand for imported food items would be the effect of the switch over to consume local rice when supply of local rice increased substantially over this period.

However, the demand for other imported personal consumer goods has risen significantly (at a rate of about 160 %) from 5 percent of the private consumption expenditure in 1976 to 13 percent in 1986 under the free market economic environment. The explanation to this development may be that the consumers were free to make rational choices and demand more for such imported commodities when their incomes were rising under the market economic environment. It was also evident that the demand for locally produced consumer goods, which were used previously as substitutes for imported ones, dropped by 15 percent from 53 percent of private consumption expenditure in 1976 to 45 percent during the open economic environment. In general, there was a reduction in the consumption of locally made-goods under the open market policy compared with the level in 1976.

TABLE 3. COMPOSITION OF PRIVATE CONSUMPTION EXPENDITURE AT CURRENT PRICE

	1970 %	1974 %	1976 %	1978 %	1980 %	1982 %	1984 %	1986 %
1. Imported goods	**17.9**	**15.0**	**16.5**	**22.3**	**22.0**	**19.3**	**15.0**	**16.5**
1.1Rice,Wheat Sugar	7.9	11.6	11.7	12.3	7.5	3.6	2.0	3.0
1.2. Other Personal Consump.Goods	10.0	3.4	4.8	10.0	13.5	15.7	13.0	13.5
2. Local Products	**80.0**	**83.3**	**82.3**	**76.7**	**74.7**	**76.0**	**80.5**	**78.0**
2.1. Consumpt.goods	55.0	56.0	53.0	52.0	48.0	47.0	48.0	45.0
2.2. Industrial products	33.0	27.3	29.3	24.7	26.7	29.0	32.5	33.0

Source: Extract from Annual reports, Central Bank of Sri Lanka

The overall responsibility of supplying imported commodities was vested in the hands of several institutions, both in the public and private sectors, those had been engaged in foreign trade for a long time. The public sector, however, was restricted mostly to the import of essential commodities. The C.W.E, for instance, was engaged only in the import of some essential foodstuffs. These public sector institutions operate more like 'holders of buffer stocks' in internal trade.

Although both the private and public sectors were engaged in internal wholesale and retail trade it was the private sector that played the dominant role in the total supply function. Certain functions in the distributive trade previously undertaken by the state trading corporations like the Co-operative Wholesale Establishment, the Paddy Marketing Board and the Building Materials Corporation (in wholesale activities) now have been transferred to the private sector under the new market economic environment. The state trading corporations now compete with the private sector trading institutions performing a function of 'price checkers' of the system. The C.W.E and P.M.B operate as units[33] maintaining buffer stocks in the system.

There were a few state-trading corporations which were vested with certain monopolistic powers in the new structure of trade. For instance, the Petroleum Corporation enjoyed absolute monopoly power in the import of petroleum products and the distribution of those in wholesale and retail markets. The Electricity Board generated the power and distributed it through its own grids. The prices of products of these corporations were regulated[34] and often were determined by the Price Commission under the guidelines set by the Department of Internal Trade. The structure of the business sector under the open economic policy followed new directions. First, the organised trade both wholesales and retail, in urban areas has largely been concentrated in the hands of businessmen in the formal sector. Some venture capital corporate companies owned by local and/or foreign shareholders administered the chain of distribution of goods in the urban sector.

The formal business sector received services of the supportive service sector. New Institutions like advertising firms and the network of televisions supplied their advertising facilities to this sector. In addition, the conventional institutions like broadcasting bodies, newspapers, magazines etc., also provided their services to this sector. Both groups of institutions employed standard marketing strategies[35] ranging from advertising to sales promotional techniques to promote businesses of their clients.

The trading activities were competitive and the competitive market forces determined prices. The prices of these commodities were normally set on the basis of 'border prices'. At times these prices were subject to short-term fluctuations due to short term variations in demand and supply conditions and the variations of the rate of foreign exchange.

The ventures engaging in the formal sector trade experienced a rapid growth under the open economic environment (see table 4 below). The share capital of limited commercial companies increased by 389 % between the 1970s and the 1980s where the mean share capital of public and private Companies between 1984 and 1986 was about Rs.695 million in real terms compared to 142 million during 1974 and 1977. The share capital of private commercial companies increased at an attractive rate of 449 % under the open economic environment compared with that of the public sector commercial companies which increased only about 89.5 % between the 1970s and the 1980s. The new dimension of retail trade has been the introduction of super-markets into the internal trade structure with a whole range of commodities under one roof.

TABLE 4. BUSINESS COMPANIES IN THE ORGANIZED SECTOR

	Mean No. of businesses Registered		Mean share capital	
	Western Province	Other Province	Public ltd. Cos. Rs.Mn.	Private ltd.Cos. Rs.Mn.
1970's	3881	3550	36.0	106.0
1980's	8345	6158	67.7	582.0

Source: Vital Company Statistics, Registrar of Commerce.

Under the dualistic economic structure that prospered in urban centres, the distribution of foods and other consumer items especially for the urban middle class and the working class communities was carried out by the informal sector. The informal (sector) markets in urban areas after 1977 grew rapidly (Silva at. el., 1992). With the expansion of the service sector, especially large-scale commerce and trade, the need arose of a subsidiary trading sector within the informal sector to cater to the middle grade consumers. The majority of consumers was relatively poor and came from the low-income groups of the society. They mostly demand commodities like vegetables, consumer goods, food stuffs and fish products available in places which were situated either in fixed or shifting locations.

TABLE 5. INFORMAL SECTOR- COLOMBO CITY: ACTIVITIES AND PARTICIPATION

Type	Activities No.	%	Participation No.	%
Commerce	16115	53.6	17913	52.1
Manufacturing & Process	3712	12.3	4862	14.1
Services	6571	21.8	8184	23.8
Transport	2448	8.2	2128	6.2
Agriculture	843	2.9	883	2.6
Others	369	1.2	420	1.2
Total	30058	100.0	34390	100.0

Source: Informal Sector in Colombo City, Marga Institute, 1975

Although data on the performance of the informal trade sector are scarce, a research on this sector in the Colombo City by the Marga Institute provides some information as shown in table 5. Accordingly, within the informal sector, about 56.6 percent of the activities and 52.1 percent of employment are generated by commerce. These activities ranged from the sale of commodities manufactured by the organised sector like raw and processed food, tobacco, textiles, beverages and other miscellaneous items to produce of the non-organised sector like vegetable, subsidiary food crops which consist of a substantial part of grain produce and the marketing of fish.

The suppliers of the informal market were either small scale entrepreneurs, partners, sole proprietors or itinerary street vendors who possessed a limited stock of commodities investing a relatively small circulation capital in them. In term of ownership, the shopkeepers themselves owned about 93 percent of establishments, the family members or relatives jointly owned about 5 percent and the shopkeeper and outsiders[36] jointly owned the rest.

As far as the location of the informal sector activities was concerned, it has been revealed[37] that about 65.5 percent of the business activities were in fixed locations and that about 34.5 percent were in shifting locations. Among the fixed location establishments 46.1 percent were in open pavements without structures and about 24.3 percent were in temporary or semi-temporary structures. Of the shifting location ventures there were about 18.3 percent in open

pavements, 42.6 percent in carts (mobile), 5.2 percent as cycle vendors, 17.7 percent as pedestrian vendors and 16.2 percent as head basket carriers.

b. Village Markets Under the Liberalised Economy

A variety of commodities are exchanged in village markets today. The volume so exchanged is not smaller than that of neighbouring townships. They range from consumption goods to household items which appear to be in abundance in village boutiques as disclosed by the findings of a survey on village markets in the Nuwara Eliya district. Columns 1 and 2 in Table 6 give the number of items in each category of commodities offered by typical shops in a township and boutiques in a village in Nuwara Eliya district. It reveals that the numbers of items of consumer goods and locally made agricultural equipment thus found in both markets were more or less the same. Of the list of household items sold in these boutiques, the items those were produced outside villages were relatively few.

TABLE 6. COMMODITIES IN VILLAGE BOUTIQUES AND TOWNSHIPS IN NUWARA ELIYA DISTRICT

Commodity Items	# items in towns (1)	# Items in village boutique (2)	[i] * % profit margins towns (3)	** % profit margins village boutique (4)	*** % price charged by Village/ township (5)
1.Consumption Goods					
a. Village prod.			23.2		-
b. Non village[ii] prod	24	24	17.9	29.0	12.5
	37	37		23.5	11.0
2.Non Village Medicine	15	17	20.5	29.9	4.0

[i] The values were computed as follows:

$$*\% = \frac{P^{t}s - P^{t}p}{P^{t}p}; \quad **\% = \frac{P^{v}s - P^{v}p}{P^{v}p}; \quad ***\% = \frac{P^{s}v - P^{s}t}{P^{s}t}$$

Where, P: Price, t: Township, s: Supply, p: Purchase, v: Village

[ii] Non-village products are the ones brought from townships and urban areas. They may be locally produced ones or even imported ones.

3.Households items					
a. Village Metal Prod.	3	2	27.3	17.0	n. a
b. Vill. non-metal prod	11	3	20.3	16.0	-13.0
c. Non-vill. Metal prod	23	15	20.8	23.0	22.0
d. Non-vill. Non metal prod.	21	9	30.0	29.3	6.0
4.Agricultural items					
a. Locally made	6	6	21.2		6.0
b. Imported	1		n .a	19.3	
				-	-

Source: Survey conducted to study the potential for Rural Business Promotional Centre in Nuwara Eliya district sponsored by Ministry of Small industries, 1989.

The information on village markets lead us to surmise that the village consumers are not worse off than their counterparts in townships under the market economy. For example, the information on village markets given in column 5 indicates that the prevailing prices of commodities in village markets were not so different from those of adjoining townships in the Nuwara Eliya district. The average percentage increase in prices of products sold in villages compared to the prices in townships was only about 3.4 % which indicates that the price structures prevailing in both markets tend to be more or less similar. In fact the higher prices of some commodities are outweighed by lower prices of certain other types of commodities in the village market.

The average profit margins received by sellers in village boutiques and in adjoining townships were about 23.4 percent and 22.7 percent, respectively (the averages of columns 3 and 4 in the above table). This uniformity in profit margins characterises the fair distribution of commodities and markets in both environments. The entrepreneurs in both environments may earn more or less similar rates of return on investments.

The data in Table V in the annexure (based on the sample results) refers to the state of development of boutiques in village economy. Column 1 refers to the size of the circulation capital invested in stocks by an average businessman in the sample of villages. His regular investment in stocks was about Rs.24,000 on average. The average monthly turnover of a village boutique was about Rs.11,860 (or daily average turnover of Rs.395) as shown in column 2, Table 3 in annexure.

Theoretically, there can be no room for unfair trade practices within a framework of competitive trade as competitive market forces themselves abolish such practices promptly. However, the semi-competitive environment that prevailed in Sri Lanka's internal trade, at

times, creates opportunities for malpractice in trading activities as observed by the Internal Trade Department in the recent past. To eliminate such amoral practices, the following legal arrangements have been introduced and institutions were established.

a. The Consumer Protection Act No.1 of 1979 as amended by Act No.37 of 1980,
b. The Control of Prices Act of 1950 with its subsequent amendments,
c. Weights and Measures Ordinance,
d. The Consumer Credit Act No.29 of 1982,
e. The Fair Trade Commission,
f. The Co-operative Wholesale Establishment, and
g. Import and Export Department (licensing).

At the end of 1983, the Department of Internal Trade had specified about 444 items as articles of which all traders should exhibit retail prices under the Consumer Protection Act. The Department issued about 48 directives concerning unfair trade practices and devised mechanisms to supervise the implementation. In addition, the Department registered about 1514 consumer societies in 24 districts by 1983. It provided consumer educational facilities and published a journal called `Paribhogika Handa' distributed among societies. The Department detected[38] violations of the Act by some traders.

c. Efficiency of Markets

The efficiency audit of internal trade measures the degree of success of the distribution network inter/intra traditional and modern sectors of the economy. The economic efficiency of the distributive network of a market-oriented economy is, after all, reflected in the efficient distribution of the price vector in the system. In other words, the competitive market structure with the non-existence of monopoly elements usually displays a normal distribution of prices across the country.

Pricing of commodities today is determined by many factors. First, the wholesale prices of tradable commodities and domestically produced ones are determined on the basis of 'border prices' (plus the excise tax attached). The wholesale prices of non-tradable commodities are largely fixed at the supply price. Secondly, the determination of retail prices of these commodities is based on many factors depending on their importance in the market. Of these, the distribution mechanism and elements like transport, financial facilities and flow of information play important functions in the successful distribution of commodities and the determination of prices in the system. These variables plus government excise duties explain much of the difference between the 'border price' and the retail prices of the commodity concerned.

The inter-temporal comparison of island-wide distribution of commodities is hindered by the lack of information. Yet, a study of efficacy of internal trade is still possible with a cross-sectional database[39] compiled by the Central Bank. A satisfactory comparison could be made

with the information on island-wide retail prices of some commodities with prices of others prevailing in a given period of time. The variation of prices, if any, may be analysed for the purpose of assessing the degree of functional efficiency of market forces in the system.

The markets for consumer goods whether imported or locally- produced evidently function quite competitively in fixing more or less a competitive price structure in all districts. Table 7 below summarises the district mean prices of some groups of commodities (manufactured in organised and unorganised sectors) and the percentage (relative) dispersions of prices for three different periods. The relative operational efficiency of individual markets is appraised using the index[40] of relative dispersion of prices (which is derived by dividing the standard deviation of prices of a commodity prevailing in markets in different areas by its mean price). This serves as a uniform measure to assess the degree of variations of prices of individual commodities across the country.

The mean price was estimated from a frequency table of prices of given commodities prevailing in 24 major towns[41] for three different years. In the table below, items in rows 7 to 12 are related to commodities which are either imported or locally manufactured by the organised sector in Sri Lanka. The distribution network of these commodities throughout the country appears to be relatively efficient. This was evident by the presence of significantly low mean variations of prices (5.63 and 4.80 in 1979 and 1982, respectively) among markets in different districts as marked by the price dispersion index in columns 4 and 5 in Table 7.

The explanations to the unique distribution of prices of non-essential commodities are many. First, the organised wholesale sector[42], that is competitive, sells many commodities to its consumers. It could control the overall supply function efficiently and the distributive channel down to the phase of final consumers. Secondly, the consumers possess adequate information on prices; standards and the protective rights regarding these commodities which are well informed by the media and other sources[43]. Thirdly, the measures taken by the government to supervise the effective distribution of commodities ensure the maintenance of a fairly uniform price vector throughout the economy. Such measures like the declaration[44] of ceiling prices for certain commodities, maintenance of buffer stocks by CWE & the Department of Food, and the requirement of displaying[45] prices of commodities (under the Consumer Protection Act) for the benefit of consumers help to stabilise prices.

So far as the domestically manufactured commodities in the unorganised sector are concerned, trade practices appear to be relatively less satisfactory. Rows 1 to 6 in Table 7 point to the existence of high rate of dispersions of prices of these commodities across the country. The mean rate of dispersion of prices for all non-organised sector commodities was about 17.9% in 1979 and dropped marginally to 16.5% in 1982. The rate again rose to 22.4% in 1986 showing some deterioration in the distributive network in the eighties.

TABLE 7. MEAN PRICES OF SELECTED COMMODITIES AND THE PERCENTAGE DISPERSIONS OF DISTRIBUTION AMONG DISTRICTS

Sub-Groups of Items	Mean Prices of Sub-Groups of Commodities			Relative Dispersion index of Prices		
	1979	1982	1986	1979	1982	1986
1.Rice	3.25	5.61	7.02	14.6	16.1	8.9
2.Up-country vegetables	4.36	7.50	12.73	15.9	15.1	20.7
3.Low-country vegetables	2.97	4.82	8.03	25.3	23.1	20.1
4.Yam	3.91	6.50	11.38	18.5	16.5	39.2
5.Meat and Eggs	10.88	16.78	24.11	16.7	11.9	22.9
6.Fish Fresh & dried	14.29	25.97	36.04	16.4	16.0	14.8
7.Curry stuff	18.41	22.69	29.96	5.0	11.0	8.1
8.Pulses: Imported	12.24	21.97	n .a	12.6	4.7	n .a
9.Milk food Local	6.45	13.20	n .a	5.20	1.5	n .a
Imported	1.39	26.68	n .a	6.80	1.5	n .a
10.Cigarette	0.35	0.55	n .a	0.0	0.0	n .a
11.Clothing (Local)	30.96	37.25	n .a	6.4	13.9	n .a
12.Other Household items	0.75	1.32	n .a	3.43	1.0	n .a

Source: Table V1 in the Annexure.

The improvement in the distribution network after 1979 was obviously the result of the rapid growth of economic activities in Sri Lanka under the decontrolled economic environment. The gradual deterioration of trading activities in the mid 1980's could be ascribed to the adverse effects of the ethnic problem and the related transport problems which weakened marketing functions and supportive services in some parts of the Island. The abnormally high prices of

commodities in areas like Jaffna, Mullaithivu, Trincomallee, Batticaloa and Mannar after the ethnic disturbances that were included in our database raise the rate of dispersion artificially. For instance, the dispersion rate for fish in 1986 was substantially high because of the drop in supply of fish to the market from the north-eastern areas and the presence of poor transport network owing to ethnic disturbances.

The primary market for vegetables, in particular, has shown a relatively poor performance due to market segmentation. It is found that the supply aspect problems[46] exogenous to the sector, mitigated growth potential of the primary vegetable market which, as a result, cleared only at very low prices. There was a big gap between producer price and retail price which was absorbed by the middlemen in the market. The rate of difference in retail price over supply price at times exceeds 137% as seen in rows 6, 10, 12 and 14 in Table VII in the annexure. The super normal profits accruing to middlemen in the primary market for vegetables point to the fact that market forces appear to be inactive in this market due to lack of competition.

The spatial distribution of markets has taken a skewed pattern over these years such that about 54 % of (non-manufacturing) businesses were located in centres like Colombo, Gampaha, Kandy and Jaffna. The rest was scattered in peripheral townships as can be seen in Table VIII in the annexure. The reason for the heavy concentration of businesses in towns is quite obvious. In the early stages of open economic policies it is argued that the spatial distribution of economic activities and supportive services was generally biased towards the urban centres of the country. In Sri Lanka the majority of large and medium scale industries and even some small scale industries have been located in main towns (Table VIII in the annexure). Consequently, as much as 43 % of industrial employment and about 77.1 % industrial value-added were generated in the urban industrial sector (in Colombo and Gampaha).

There has been a significant improvement in the domain of internal trade over these years specially the trading of goods manufactured by the organised sector viz. consumer goods, household items, and building materials in urban as well as the traditional sectors of the economy. Some improvement in markets for domestic products is witnessed which helps the process of commercialisation of activities of the traditional sector. On the other hand, the substantial growth of mini-markets in the informal sector in urban and semi-urban areas tends to disturb the process of qualitative development of trade practices under the liberal economic policies although these are treated as the breeding grounds for new entrepreneurs in the system.

VIII. Conclusion

The performance of internal trade under different economic regimes must be appraised not only on the basis of achievements in the short-run but also of its contribution to the process of economic development in the long run. The trade practices must also be geared to the enhancement of the social and economic capacity of the country and to widen the economic (industrial) base for the purpose of achieving a self-sustained economic development.

In this regard, the post Independence policy of import substitution helped to create conditions for promoting local production and trade through a two-way process. First, from the supply side, the State directly provided various stimuli to the class of entrepreneurs to establish an industrial base in the economy. Secondly, from the demand side, this led to the increase in income of households which flew to the market augmenting an additional demand for goods in market. There. also have been some shifts in consumer and producer preferences favouring locally manufactured goods. As a result, there were changes in the composition of the basket of commodities demanded by the consumers whose new basket contained items like locally made-consumer goods, luxury goods and consumer durables. The decontrolled economy after 1977 was primarily geared to satisfy the consumer welfare by mobilising financial resources to import consumer goods for the purpose. The new regime established a competitive market environment which helped the private sector to engage effectively in production and distribution of goods and services in the economy.

Internal trade has accelerated the process of commercialisation of the rural economy. Today, the village consumers and producers are quite familiar with market signals and act on such signals to organise their economic activities. Remarkably, the pattern of consumption of village consumers appears to be, more or less, similar to that of consumers in nearby townships. The development economists, nevertheless, are quite concerned with certain developments in today's trade, in particular, the heavy participation of the informal sector in trade activities in rural and urban sectors.

The present structure of internal trade, especially the competitive character and the broad network, is highly sensitive to changes in the foreign front. Also, the political disturbances have disturbed the growth momentum of internal trade and its contribution to the economic development. These have lowered the efficiency of internal trade and gave way to the formation of a mixed trade structure where the public sector has become a permanent feature. Today, the public sector trading activities perform the function of a 'reserve (policing) force' to monitor disturbances and to maintain fair trade practices in the semi-competitive trade structure.

The dominant variables in determining the policy of internal trade have been the balance of payments situation, economic and political stability in the country, the objective function of the state in power and the business infra-structural facilities in the economy. These should necessarily be taken into account in any study to assess the nature, structure and the development of internal trade in Sri Lanka.

TABLE I. NON-TRADITIONAL CASH CROPS AND THEIR DEVELOPMENT

	Cinno-mmon quills	Cinno-mmon chips	Pepper Th.cwt	Cardom-on Th.cwt	Cloves Th.cwt	Cocoa beans Th.cwt	Tobacco Un mir Th.cwt	Manufac Product groups
1965	47.4	7.4	13.7	2.8	0.7	28.3	n.a	71.3
1967	52.8	7.9	2.9	2.4	0.8	23.2	337.7	24.9
1969	65.9	21.6	17.9	3.2	4.6	25.4	402.6	136.6
1971	72.6	15.3	0.9	3.7	0.2	30.1	426.5	288.2
1973	87.3	40.8	40.4	3.7	12.1	22.6	n.a	682.4
1974	99.2	51.8	6.6	3.0	11.3	20.2	n.a	n.a

Source: Annual report, 1974, table II (k) 17, Central bank of Ceylon

TABLE II. PATTERN OF URBANAIZATION

	1946	1953	1963	1973	1981
1. Number of Towns	95	105	118	126	n.a
2. Rate of Increase in urban Pop. %	2.20	2.77	4.88	4.23	1.21
3. Average Annual growth of total Pop. %	1.52	2.84	2.65	2.20	1.67

Source: Census reports of population and housing.

TABLE III. EMPLOYED POPULATION, TRADE -SECTOR WISE

Type of trade	Urban sector %		Rural sector %	
1. **Wholesale trade**	1.8		0.6	
2. a. Restaurant, Cafe, Other eating & drinking places	3.9	(I)	1.2	(I)
b. Hotels, rooming houses camps, other lodgings	0.2	(I)	0.0	(I)
3. **Retail trade**	13.7	(I)	4.7	(I)
a. Vegetable & fruit	1.0	(I)	0.1	(I)
b. Meat and fish	0.6	(I)	0.2	(I)
c. Other food stuff & bevgs.	1.8	(I)	0.6	(I)
d. Textile and apparel	1.2		0.2	
e. Drugs and medicine	0.2		0.0	
f. Hardware and Building mat	0.4		0.1	
g. Books and stationary	0.1		0.0	
h. Furniture	0.2		0.1	
i. firewood	0.1	(I)	0.0	(I)
j. Department stores & variety of stores	5.4		2.6	(I)
k. Petrol & oil	0.2		0.0	
l. Non classified	2.5		0.8	(I)

(I): Informal sector professions

Source: Census of population 1971, vol., Economically active population, Department of Census and Statistics.

TABLE IV. INTERNATIONAL PRICES OF SOME COMMODITIES

	1973	1974	1975
C & F price of rice per ton	953.18	2685.82	2141.32
C & F prices of flour per ton	1214.20	2124.04	2249.65
C & F prices of sugar per ton	1752.18	5485.75	4370.24

Source: Annual reports, Central bank of Ceylon.

TABLE V. CAPITAL INTENSITY AND TURNOVER OF VILLAGE BOUTIQUES

Capital / Turnover values of boutique	Boutiques with i^{th} capital value	Boutiques with i^{th} value of turnover
Xi	fi	f2
0 - 1000	1	2
1001 - 5000	15	21
5001 - 10000	17	20
10001 - 15000	12	7
15001 - 20000	8	7
20001 - 25000	7	1
25001 - 50000	11	9
50001 - 75000	8	
75001 - 100000	5	
	84	67

Source: Survey findings on Rural Business Promotional Centre.

TABLE V1. DISTRIBUTION OF PRICES OF VARIOUS COMMODITIES IN 22 TOWNS

Type	Mean Prices			Standard Deviation			Index		
	1979	1982	1986	1979	1982	1986	1979	1982	1986
1.Boiled rice	3.25	5.61	7.02	0.47	0.34	0.63	14.6	6.0	8.9
2.Green Beans	4.45	7.21	12.05	0.27	1.13	3.05	13.0	16.0	25.3
3.Carrot	4.25	7.98	13.18	0.28	1.36	2.69	14.7	16.9	20.4
4.Leeks	3.98	7.48	13.05	0.33	1.24	2.86	18.2	16.5	21.9
5.Tomatoes	4.71	7.33	12.62	0.38	0.79	1.90	17.9	10.8	15.1
6.Ash Plantain	3.19	5.05	6.66	0.25	0.76	1.53	17.1	14.9	22.9
7.Wetakolu	2.40	3.88	6.14	0.27	0.71	1.43	24.5	18.2	23.3
8.Ladies Fingers	2.75	4.95	8.40	0.24	0.59	2.31	19.4	22.8	27.5
9.Gotukola	3.52	5.40	10.90	0.65	2.57	4.23	40.3	47.5	38.6
10.Potatoes	6.50	10.66	18.41	0.12	0.76	2.90	3.9	7.0	15.8
11.Manioc	1.32	2.35	4.34	0.20	0.62	2.70	33.0	26.0	62.2

12.Beef	9.87	14.89	23.28	0.70	2.64	4.39	15.7	17.7	18.9
13.Chicken	21.89	33.97	47.33	1.03	4.12	16.0	10.3	12.1	38
14.Eggs	0.88	1.48	1.73	0.21	0.09	0.19	24.2	5.9	11.2
15.Kelawalla	14.97	26.73	37.26	1.23	4.58	6.21	18.0	17.1	16.7
16.Hurulla	13.61	25.21	34.82	0.91	3.58	4.46	14.7	14.2	12.8
17.Dried Chilies	27.20	32.08	41.63	0.59	3.18	2.60	2.0	9.9	6.2
18.Goraka	9.62	13.30	18.28	0.37	1.83	1.85	8.0	13.7	10.1

	1979	1982	1979	1982		1979	1982	
19.Dhal (Mysoor)	12.84	21.97	0.74	1.04		12.6	4.7	
20.Cond'Parakum	4.58	10.88	0.09	0.32		1.8	2.9	
21.Cond'Alaska	5.13	12.08	0.12	0.44		2.2	3.6	
22.Powd Lakspray	8.31	13.79	0.65	0.13		8.6	0.01	
23.Powd Anchor	27.16	35.24	0.91	0.60		2.8	0.01	
24.Lactogen milk	10.38	29.74	0.53	0.40		11.2	1.4	
25.lactogen crea	10.14	29.68	0.51	0.31		10.9	1.0	
26.Cigarett.Brist	0.35	0.55	0.01	0.001		1.7	0.0	
27.Poplin (W)(L)	10.18	13.35	0.57	1.17		6.4	8.7	
28.Drill Blue(L)	16.19	18.36	0.70	0.91		4.6	15.8	
29.Trussore (L)	15.48	18.39	1.30	3.51		9.0	19.1	
30.Sarees Nylex	82.00	99.01	4.97	11.9		6.0	12.0	
31.Ex.Books 40pg	0.68	1.18	0.02	0.04		3.3	2.9	
32.Sunlight Soap	1.34	2.38	0.02	0.02		1.4	0.01	
33.Safety Matches	0.25	0.39	0.01	0.01		5.6	0.01	

TABLE VII. MIDDLEMEN'S PROFITS PER KILO GRAM (Rs.)

Commodity	1981	1982	1983	1984	1985	1986
Upcountry vegetables						
1.Cabbages	2.90	2.95	3.59	4.37	3.95	4.51
2.Leeks	3.50	3.96	4.21	5.55	4.81	5.45
3.Carrot	4.01	3.91	4.06	5.54	4.82	6.00
4.Beet Root	2.00	2.87	3.01	4.11	3.79	4.48
5.Tomatoes	3.60	3.63	3.07	5.70	4.49	5.25
Percentage increase in profits over cost	137.50	104.80	85.00	98.00	86.00	81.50
Low country Vegetables						
6.Ash Plantain	1.85	2.03	2.43	2.94	2.62	3.00
7.Watakolu	1.45	1.65	1.87	2.64	2.90	3.05
8.Ladies Fingers	1.58	1.89	2.35	2.98	2.87	3.24
*.Percentage increase in profits over cost	67.40	60.40	65.50	75.00	78.70	74.90
9.Dried Chilies	7.37	8.43	8.63	9.74	11.82	n.a
*.Percentage increase in profits over cost	35.80	35.50	33.40	34.20	31.70	n.a
10.Red Onion	3.57	3.57	4.03	6.89	5.26	n.a
Percentage increase in profits over cost	46.90	53.20	60.50	32.60	44.10	n.a

$$* \frac{\text{Average Retail Price} - \text{Average Producer Price}}{\text{Average Producer Price}}$$

Source: Price and Wage Statistics: retail, Producer and Input Prices and Wages, 1979, 1982, 1986, Statistical Department ,Central Bank of Ceylon.

TABLE VIII. SPATIAL DISTRIBUTION OF BUSINESSES

Regions	Large & Medium Scale Industries				Small Scale Industries		
	# Non mfg Busi. %	# Estab ments %	# Employ ed %	Value Added %	# Estabment s %	# employe d %	Value Added %
1.Colombo / Gampaha	37.7	25.9	43.1	77.1	18.5	21.5	36.9
2.Anuradha pura	4.5	1.2	0.8	0.5	2.7	2.6	2.4
3.Badulla	4.4	5.8	3.4	2.3	1.7	1.8	2.4
4.Baticaloa	4.9	1.9	1.4	1.1	3.4	3.3	1.7
5.Galle	4.1	6.5	5.2	1.8	13.0	11.9	7.2
6.Jaffna	7.1	5.1	3.3	2.3	3.3	3.8	6.5
7.Kalutara	5.6	5.2	3.6	1.1	8.0	7.6	4.5
8.Kandy	9.5	14.0	9.3	2.1	6.4	6.8	5.6
9.Kegalle	4.3	4.3	6.4	1.1	11.5	9.6	9.2
10.Kuruneg ala	3.9	8.2	5.5	2.8	13.5	13.7	12.5
11.Matara	3.6	3.9	2.8	1.7	11.0	11.9	4.6
12.Nuwara Eliya	5.9	8.8	9.4	3.7	1.2	1.2	1.5
13.Ratnapu ra	5.4	9.3	5.8	2.6	6.0	4.9	5.0

Source: Annual Reports-Department of Inland Revenue.

Notes

1. (Karunatilake, 1971), and see also in the report of the Royal Commission on Co-operatives, June 1969.

2. Memorandum submitted to the Royal Commission on Co-operatives, June 1969.

3. See (Corea, 1975) and also (Snodgrass , 1966).

4. (Snodgrass, 1966) and Sessional Papers 1938 1943.

5. `Production goods were all out of control by end of 1946, and many consumption goods were decontrolled. But foods such as rice, flour, sugar, dried fish, curry stuff and milk food, clothing and house rent were under control', p.54, Das Gupta, *A Short Economic Survey of Ceylon*, The Associated Newspapers of Ceylon ltd. Lake House, Colombo.

6. Address by the Hon Sir John Kotelawala, at the opening the 10th Session of ESCAFE Feb. 8, 1954 in vol. 4, p. 13, Central Bank of Ceylon Bulletin, 1954.

7. On average about 12.5 % of income received by business entrepreneurs from trading industry between 1953 and 1963, and wholesale and retail industry became the second largest industry which employed about 7.9 % of total employed, Consumer finance Survey, p.63, 1956.

8. Susantha Gunatilake, Credit and Other Government supports for Small Farmers: History and Present Status, Study Papers, Research Department, Peoples' Bank.

9. Susantha Gunatilake, p.45, ibid.

10. A comprehensive study of the marketing system in H/area Mahaweli, by People's bank, ibid., also H.N.S.Karunatilake specifically discusses the role of middlemen in rural market.

11. Inadequacy of marketing facilities to sell their products at fair prices has been highlighted (Karunatilake, 1971).

12. Karunatilake shows that the private businessmen offered as little as Rs.25/= to Rs.28/= per bushel as compared to Rs.40/= offered by the Co-operatives.

13. Tilakaratna quoting Bernard O. Binns's work on `Agricultural Credit for Small for Small farmers' gives figures on interest rates charged by the private lenders from farmers as 100 to 250 percent (Tilakaratna, 1963, p.10). A. Akhtar Khan and J.M.Gunadasa make similar observation in a case study on Small Farmers Credit, Research study Series No.3, Agrarian Research and Training Institute, Feb. 1974.

14. (Karunatilake, 1971, p.60).

15. About 49 items were bought on individual import licenses. The import of several items was prohibited. In July 1961 import quotas were introduced for 31 items and no licenses were issued for many of the remaining individual license items; H.N.S. Karunatilake, p.60, ibid.

16. The average price index on domestic items was 102.9 for the 1950s and 120.7 for the 1960s, (Central Bank of Ceylon, 1963, p.17).

17. In addition other items, cosmetic goods, floor coverings, fruit cordials, jams, jelly, radio components, fibre suitcases, plastic goods, brushes, biscuit confectionery, tea chests, soft drinks, soaps, tobacco, matches, printing, engine oil milling etc., table II,. (Central Bank of Ceylon, 1963).

18. ibid., p.113, 1963 and table II 3 b.

19. It seems that there were about 1853 industrial units to produce these items, P.36, Survey of industrial production, Annual report, 1970.

20. The CWE established in 1950 as a body to distribute essential commodities which in short supply. In 1965, its functions extended to import drugs, fertiliser, printing and monopolist of dried fish, annual report, the Central Bank of Ceylon, 1968.

21. ibid. 1968.

22. Many distribution points and wholesales depots were opened in towns like Kandy, Kurunegala, Colombo, Anuradhapura, Ratnapura etc.

23. Some argue that the import substitution policy based industrialisation seemed not to have induced the reallocation of resources towards export-led development - `rigid import dependency'. Basic Needs & Employment: Industrialisation, Employment and Basic Needs, B.Hewavitharana, Chap.III, Industrialisation and Growth Objectives. And in Techno-economic Survey of Industrial Potential In Sri Lanka, N.D. Karunaratna, 1974.

24. V.S.Ratnasingham: Urbanization, p.64, Chap .IV, Population of Sri Lanka, Country Monograph series No.4, United Nations, Economic and Social Commission for Asia and Pacific, 1976.

25. Sawing Machines, Settees, Wall-clocks etc.

26. Annual report, 1974, the Central Bank of Ceylon.

27. The corporations thus formed are the Coconut Marketing Board (1971), the Sri Lanka State Trading (General) Corporation (1971), the Sri Lanka State Trading (Textiles) Corporation (1971), the Building Materials Corporation (1971), the Weaving Supplies Corporation (1971), the Sri Lanka State trading (Tractor) Corporation (1971), the Paddy Marketing Board (1971), the State Pharmaceutical Corporation (1971), State Gem Corporation (1971), the Sr. Lanka State Trading (Consolexpo) Corporation (1972), the State Tea Corporation of Ceylon (1972) and the State Film Corporation.

28. Laksala, Salusala, Gem corporation, Building Materials Corporation etc.

29. Consumer Finance Surveys, 1953, 1963 and 1973

30. Annual Reports, 1975 and 1977, the Central bank of Sri Lanka

31. Annual Report, 1974, table II (k) 17, Central Bank of Ceylon

32. The CWE was expected to maintain buffer stocks of subsidary food-stuffs, dry fish, milk food etc., ibid., p.157, 1979

33. According to the Deputy General Manager, the CWI maintains its own distributive network through regional depots to supply goods to sub-depots in remote areas.

34. Administration Report of the Commissioner of Internal Trade for the year 1983.

35. Additionally, they advertise in papers, the radio and in magazines, and distribute calendars and diaries. Other sales promotional activities that they employ are the distribution of gifts among customers and sellers, the provision of credit facilities and discount facilities; these have been highlighted in an unpublished dissertation on `an analysis of advertising and sales promotional techniques' in Hettigoda Industries ltd., Department of Economics, Commerce and Statistics, University of Peradeniya, 1986.

36. ibid.

37. ibid.

38. Ibid.

39. Price and Wage Statistics: Retail, Producer and Input Prices and Wages 1979 and 1986, Statistical Department, Central Bank of Ceylon.

40. The following formula is employed to calculate values:

$$\frac{\text{Standard deviation}}{\text{Mean Price}} = \frac{\left((X_i - X)^2/n\right)^{\frac{1}{2}}}{\left(\frac{X_i}{n}\right)} = \text{Relative Dispersion of the ith commodity}$$

Source: (Croxton & Cowden, p.222).

41. The average prices of commodities prevailed in markets of the following towns were considered:
Colombo, Kalutara, Galle, Matara, Ratnapura, Kegalle, Kurunegala, Puttalam, Kandy, Matale, Nuwara Eliya, Badulla, Monaragala, Jaffna, Vauniya, Mannar, Anuradhapura, Polonnaruwa, Trincomalee, Batticaloa, Ampara, Hambantota, Colombo city and Mulative.

42. Interview with the D.G.M CWE, Welisara reveals the following:
The primary market (Wholesale) for local products seems to be very competitive which follows standard rules of competition. The prices are determined competitively based on demand and supply. Market begins to operate in the morning around 4.00 O' Clock at which time all the lorry loads of those commodities arrive at the 4th cross street in Colombo and the wholesale buyers arrive there. The number of lorry loads from both parties helps to determine the day's whole-sale price and in turn the retail prices. Rice, vegetable, fish, fruits onion, dry chillies are some items. The rice market in Marandagahamula is an interesting case to be viewed. Today there are about 200 rice mills around the place which is highly competitive. No proper economic reason to locate this market in Karandagahamula either geographical or any reason but one hotelier in the past having observed the difficulty of getting rice for his hotel started a side business to bring rice for the neighbourhood from outside which has now grown

to a large market. This competitive set up of wholesale markets in other main towns is equally observable.

43. Administrative reports, Commissioner of Internal Trade, op. cit

44. ibid.

45. ibid.

46. Annual Reports, Central Bank of Sri Lanka.

Reference

1. Annual report (1963), The Central Bank of Ceylon.

2. Business and Industrial Advisory Committee, 1969, OECD, Report of the Investment Climate in Ceylon.

3. Corea, Gamini (1975), *The Instability of an Export Economy*, Marga Institute, Colombo.

4. Croxton, Fredrick I.E, Cowden Dudley J and Klein Sidney(1967), *Applied general Statistics*, 3rd ed. Prentice Hall of India, New Delhi.

5. Karunatilake H.N.S., 1971, *Economic Development in Ceylon*, Praeger Publishers INC.

6. Kurukulasuriya .G, 1971, Co-operation: *Its rise and growth in Ceylon, the Co-operative Federation of Ceylon.*

7. Ratnasingham V. S, 1976, *Urbanisation, Population of Sri Lanka*, Country Monograph series No.4, United Nations, Economic and Social Commission for Asia and Pacific.

8. Silva K.T and Atukorala. K, 1992, *Watte-dwellers: A Sociological Study of Selected Urban Low Income Communities in Sri Lanka*; University Press of America.

9. Snodgrass Donald R, 1966, *Ceylon; An Export Economy in Transition,* Richard D. Irvin Inc.

10. Stirrat, R.L, 1974, *Fish to Market, Traders in rural Sri Lanka*, South Asian Review, vol.7, No.3.

11. Tilakaratne W. M., 1963, *Agricultural credit in a developing economy Ceylon*, p.46, Central Bank of Ceylon.