THE IMPACTS OF THE WOOD INDUSTRY ON THE NATIONAL ECONOMY: COMPARISON OF CANADA & SRI LANKA

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Abstract: Compared with the development of other industries operating in Sri Lanka, the wood industry needs to show faster progress. Sri Lanka's wood-related products have the potential to contribute significantly to the country's Gross Domestic Product (GDP). However, in Canada, the highest contribution to the country's GDP is from wood products. In contrast, there is a local demand for wood products in Sri Lanka and some foreign customers. However, whether wood-related products are being exported sufficiently needs to be clarified. At the same time, we need to identify Pre Covid-19 epidemic and post-pandemic wood prices and the market. In the post-pandemic, the adverse economic situation affected most consumers in Sri Lanka. The study aims to seek better ways to earn a higher income for the local wood producers and export them to gain dollars. This study is based on a mixed methodology using both primary and secondary data using an interview method and a questionnaire to collect data. The study indicates that a timber council of experts in countries such as Canada and Malaysia contribute more to the wood industry's progress. Moreover, government support for these industries is high in these countries. However, in Sri Lanka, machinery and raw materials prices are comparatively higher, especially after the pandemic. Therefore, the prices of wood products also raised. This causes a decline in the demand for both local and foreign markets. At the same time, timber smuggling is common in Sri Lanka, and the existing laws and regulations must be revised. Furthermore, we found that wood producers are mostly male-dominant; therefore, gender balance

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and attracting more young, energetic producers for this industry can reach growth. Export of wood products should be simplified, and industry-related institutions, government, and entrepreneurial organizations should have more access to producers.

Keywords: *Wood Industry, Wood Exports, Foreign Exchange, Economy*

1. Introduction

Humans have utilized wood since antiquity. Trees provided a source of many products required by early humans, such as food, medicine, fuel, and tools. For example, the bark of the willow was used as a painkiller in early Greece and was the precursor of present-day aspirin. The importance of wood as a raw material supplying fiber, energy, and chemicals is similar in magnitude to its use as a solid material. Fiber production consumes about 25 percent of the total timber use. Although the relative value of wood as a source of energy and chemicals has varied through the decades, wood continues to be an essential source of specialty chemicals and renewable energy. It may even be more critical in the future.

This research aims to identify the problems of wood products in Sri Lanka by comparing two cities in Canada. Canada is the country that contributes the highest percentage to the country's Gross Domestic Product (GDP). Wood production in Canada is done on a large scale using modern technology and machinery. Mainly furniture is manufactured, and they are also given priority for export. Notably, most houses in Canada are made of wood products in their own country. Cedar, Douglas fir, and pine are the primary sources of wood, and various plants can withstand the Mediterranean climate as the temperature is 28 centigrade in summer. Canada has three main wood industry subsectors: solid wood products, pulp and paper manufacturing, forestry, and logging. Most Canadians know traditional forest products like lumber, structural panels, newsprint, pulp, paper, tissue, and packaging. However, there are also wood components in various other products Canadians use daily. Canadian wood products are traditionally manufactured products such as lumber, panels, wood pulp, newsprint, and other printing and writing papers. In 2021, wood products contributed $ 34.8 billion to Canada's nominal GDP, representing a 33% growth in GDP compared to 2020. Real GDP also increased by 5.3%. For comparison, nominal GDP for the total economy increased by 19.5% during that period and by 5% in real terms (The State of Canada's Forests, Annual Report, 2022).

The wood-based manufacturing sector in Sri Lanka depends almost entirely on the local wood supply and raw materials. They mostly made furniture and other wood products, and only less than 20% of them targeted the export market. High-quality wood products for local consumption in Sri Lanka are available from the State Timber Co-operation and various outlets nationwide. Hence, the final wood products must be exported through the export development board. Thus, this process is complicated and complex. Therefore, most of the producers who target only the local market.

Sri Lanka's wood-based products contributed over $ 176 million to the country's GDP with over 50000 employees in 2019 (Annual report of central bank of Sri Lanka, 2019). However, in 2020, with the impact of the covid-19 pandemic, the income from wood products has decreased to $ 150 million.

It is remarkable that even today, Canada maintains its forest cover at 38.7%. In 2021, Canada's wood sector employed 205,362 people, an increase of 10% from 2020. The growth is due to the economic recovery from the covid-19 pandemic. Canada will receive $ 44.9 billion in wood product exports in 2021. It is 7.3% of total exports. In 2021, the value of the trade balance of wood products is close to $ 32 billion. In 2020, wood products contributed $ 19 billion to Canada's GDP.

However, due to decades of deforestation in Sri Lanka, the forest cover, which was 49% in 1920, decreased to 19% by 2005. In 2021, Sri Lanka's wood sector employed 50,000 people. In 2020, Sri Lanka's wood products contributed $ 0.15 billion to the GDP. Accordingly, it is a significant difference between the incomes of wood products in the two countries.

Compared with the development of other industries operating in Sri Lanka, the wood-related sector needs to show more progress. At the same time, there needs to be more literature on the wood industry's progress in Sri Lanka. Hence, the need to sustainably develop the wood and wood-related products industry in Sri Lanka has been recognized while maintaining a balance between the production and production capacity of the forests. There is a demand for wood products locally, and some foreign customers also demand wood-related products. Nevertheless, it is a problem whether wood-related products are being exported sufficiently. **Accordingly, the main research problem was whether sufficient export income is obtained.** After the covid-19 epidemic, most of the consumers in Sri Lanka also affected the economic situation, as they are directed to buy only essential goods, apart from furniture and kitchen equipment, and there is a lack of purchase of other wood-related products. In particular, it is a problem that most producers need to get the right price in the country.

This study analyzed the reasons for the Canadian wood industry's success and how we can implement that in Sri Lanka. There is an income gap in Sri Lanka in different industrial sectors. Even in the wood industry, different producers are receiving different income levels due to their knowledge and education and using advanced technologies. Therefore, this study dug deeper into this point and identified the reasons for that through research. Moreover, before the Covid-19 epidemic and after the epidemic, it is a problem that some rural wood-related producers need to get proper prices and social status. At the same time, producers' problems, such as purchasing raw materials and machinery, problems in obtaining loans from financial institutions, and problems in the export process, were also observed. Timber smuggling is a significant problem in the country, which has been carried out by timber smugglers for a long time, damaging the environment. Hence, the operation of timber smuggling under the influence of many high-ranking people in Sri Lanka was a problem affecting the timber industry. These issues were addressed as research sub-problems. Furthermore, one of the main reasons the export of products has stayed the same is that the process is quite complicated compared to other countries. Hence, valuable assets that can be received as treasure and foreign exchange will decrease. Further, a major problem in the timber industry has been labor shortages and unemployment in the country for some time.

This study organized as follows, section two shows some literature, section three and four indicates the methodology and results. Finally, section five gives a conclusions and way forward for wood industry in Sri Lanka with key findings.

2.   Literature Review

The existence of a wood economy or, more broadly, a forest economy is a prominent matter in many developing countries and in many other nations with a temperate climate, especially in those with low temperatures. The use of wood in furniture, buildings, bridges, and as a source of energy are widely known. Additionally, wood from tree bushes can be used in various products such as wood pulp, cellulose in paper, early photographic film, cellophane, and rayon. (a substitute for silk) At the end of their ordinary usage, wood products can be burnt to obtain thermal energy or used as a fertilizer.

Wood production in Canada is done on a large scale using modern technology and machinery. Mainly furniture is manufactured, and they are also given priority for export. It is also extraordinary that most of the houses in Canada are made of wood products in their own country. Cedar, Douglas fir,

and pine are the primary sources of wood, and various plants can withstand the Mediterranean climate as the temperature is 28 centigrade in summer. Plant stems cut from the riverside areas are transported with the help of motorboats and big trucks using modern technical tools, and thin boards are prepared and used to build buildings in factories with modern facilities.

In 2021, wood products contributed $ 34.8 billion to Canada's nominal GDP, representing a 33% growth in GDP compared to 2020. Real GDP also increased by 5.3%. For comparison, nominal GDP for the total economy increased by 19.5% during that period and by 5% in real terms (The State of Canada's Forests, Annual Report, 2022).

The difference in growth between nominal and real GDP is due to elevated prices for most wood products, especially lumber, and panels. While some wood sector operations slowed down because of supply chain issues, most gains resulted from economic recovery from the Covid-19 pandemic and the resulting improvements in demand.

In wood product manufacturing, real GDP increased by 10%. This increase reflects high demand from industries such as the home building and renovation market.

By the end of September 2022, State Timber Co-operation has made a profit of 3.7 billion rupees. Currently, the government has suspended the import of goods from foreign countries. Therefore, it is a remarkable feature that there is a very high demand for the interests of the State Timber Co-operation.

Sri Lanka's wood-based products play an essential role in the national economy, contributing over $ 176 million to the country's GDP with over 50000 employees in 2019 (Annual report of central bank of Sri Lanka, 2019). But in 2020, with the impact of the covid-19 pandemic, the income from wood products has decreased to $ 150 million. Due to the impact of the covid-19 pandemic, Sri Lanka's manufacturing sector showed an annual decrease every month except July 2020. Although wood production showed growth of about 3% in the first quarter of 2019, it slowed down by about 4% by the first quarter of 2020 (Central bank report, 2020).

3. Methodology

This study is based on a mixed methodology using primary and secondary data. Primary data was obtained through a sample survey by giving a questionnaire to the wood producers. Using the interview technique, we have collected some qualitative data. We used both quantitative and qualitative data analysis techniques to analyze these data.

The simple random sampling method selects 80 manufacturing families, wood mills, and workstations. This study uses the Yamane method to select the sample as the population size is known. Therefore, A sample of 44 families, shops, and mills was selected with 90% confidence from 80 families, shops, and mills belonging to the Kundasale Divisional Secretarial.

For quantitative data, we got the data on the age of the workers, their income, the export income (if the products are exported), and the time of production per day. Using SPSS software, we analyzed the data using a t-test and chi-square test for hypothesis testing.
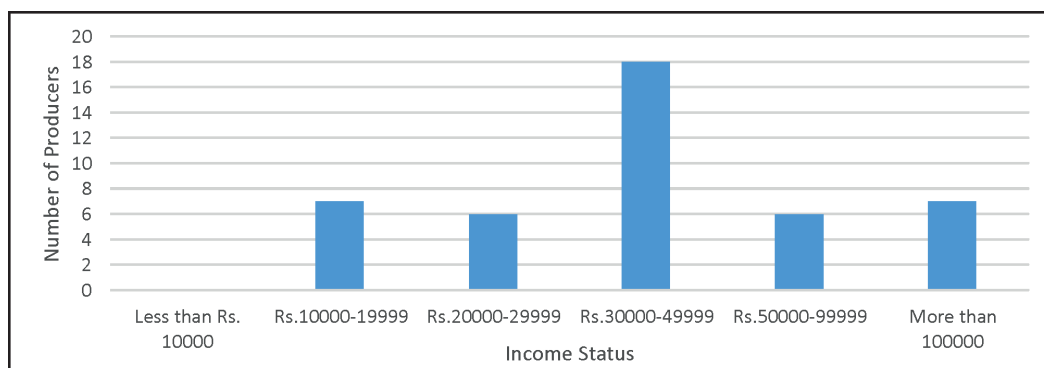
For qualitative data, we interviewed ten workers who carried out the wood production current in the same area. We have collected data on how to procure raw materials for products, difficulties encountered in transporting wood, how value-added products are made, and whether there is a suitable local and foreign market.

Moreover, using diverse secondary data sources, we have investigated the behavior of the wood industry in Canada, which contributes the highest contribution to the country's GDP through wood products. An analysis is done comparing the wood production of several cities in Canada with the wood production of the Kundasale region selected as the sample for this research.

4. Results and Interpretations

4.1. Descriptive Data Analysis

Figure 1 indicates the income status of the wood producers in Sri Lanka. According to that, most people who make wood-related products earn less than 50000 rupees. However, 31 people in the sample earn less than 50000 rupees

Figure 1: Income status of the producers

Source: Using Sample Survey 2023 conducted by the author's creation

income. This represents 70% of the sample. 6 people in our sample received payment between 50000-100000 rupees, and seven people who received more than 100000 rupees.

Figure 2 indicates the types of products. This shows that the production mode of most of the wood-related products in this area is carvings. In this sample, 16 people are doing carvings-related products. 11 people make housing items, and six make cabinets. In this sample, 75% make these three types of products. There is one person who makes wooden toys, two who make kitchen utensils, and four who do shelves and molding. Accordingly, there is a diversity in the products of the wood producers in the sample area.
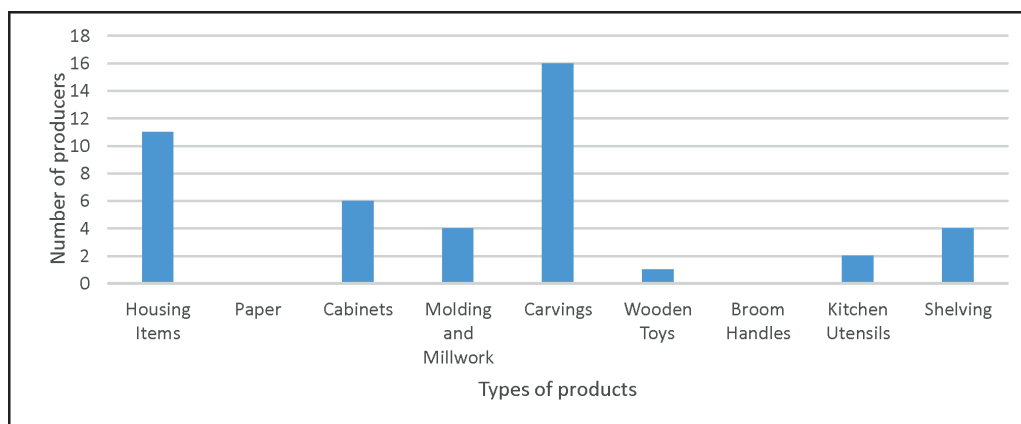

Figure 2: Types of products

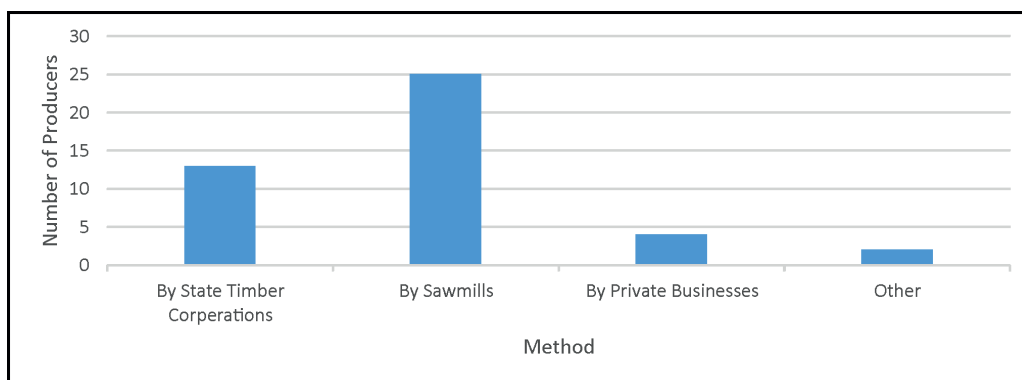*Source:* Using Sample Survey 2023 conducted by the author's creation
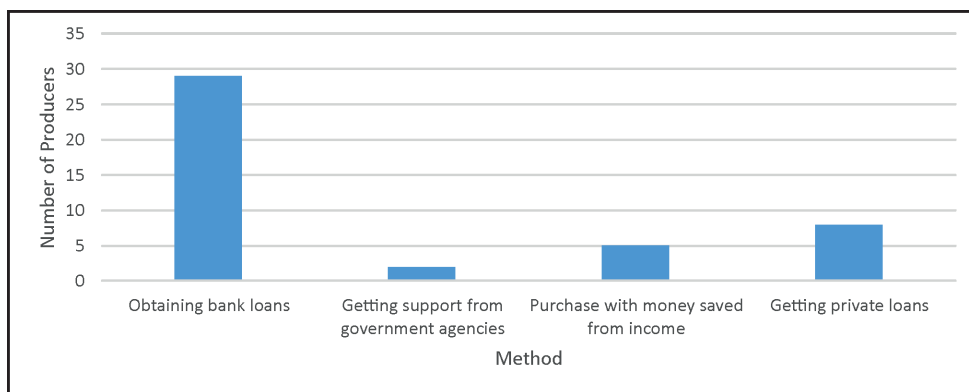

Figure 3: Procurement of timber for manufacturing

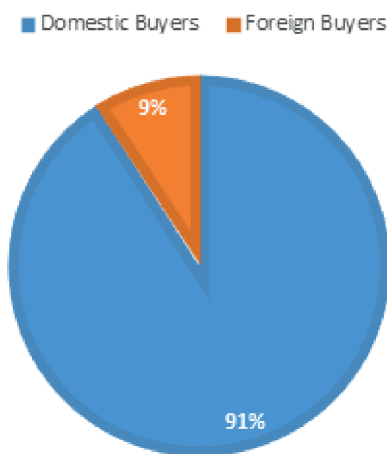*Source:* Using Sample Survey 2023 conducted by the author's creation

Figure 3 indicates the Procurement of timber for manufacturing. It is clear that more than 50% of the people in this area, that is, 25 people from the total sample, procure the required wood for the products from wood mills. 13 producers procure timber from the State Timber Corporation and 4 from private businessmen.

Figure 4 indicates the Purchase of machinery required to carry out production. This indicates that 29 people take bank loans to buy the machinery needed to make wood-related products, and 8 take personal loans to carry out production activities. Very few producers buy machines with the money saved from income and with the help of government agencies.

Figure 4: Purchase of machinery required to carry out production.

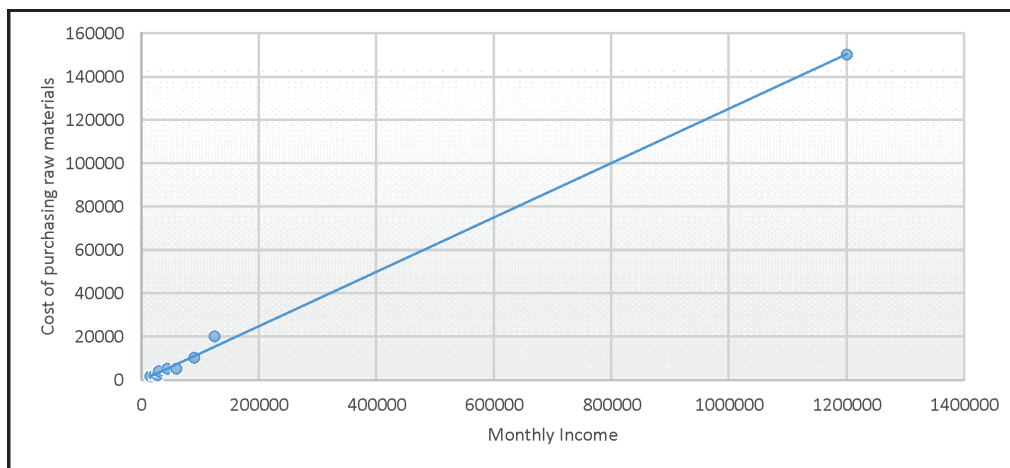*Source:* Using Sample Survey 2023 conducted by the author's creation

Figure 5: Purchase of wood products

Source: Using Sample Survey 2023 conducted by the author's creation

Figure 5 indicates the Purchase of wood products. This shows that about 40 people who make wood products sell their products to local buyers, which is 91%. Interestingly, only four wood producers sell their products to foreign buyers. Figure 6 indicates the correlation between monthly income and the cost of purchasing raw materials and machinery. Plots are close to the straight line and show a Positive correlation between monthly payment and the purchase of raw materials. The correlation between these two variables is found to be 0.999233.

Figure 6: Relationship between monthly income and cost of purchasing raw materials and machinery

Source: Using Sample Survey 2023 conducted by the author's own creation

4.2. *Empirical data analysis*

t-test

This study uses the independent sample t-test to examine the factors influencing wood production in the Kundasale area and the relationship between the independent variables. That is, whether the wood-based output varies according to the gender of the producer is examined here. The T-test at $\alpha = 0.05$ level is subjected to conclusions based on the probability value. That is, if the probability value is more significant than 0.05, then there is no reason to reject H0, and if the probability is smaller than 0.05, there is enough evidence to reject H0. When identifying the field of study, we used 3 hypotheses, and the t-test was used to determine whether there was a difference in the wood-related production by the producer's gender.

Table 1: Summary of overall *t*-test results

Hypothesis	T value	df	Sig
H1: The difference between the monthly income of wood products and the gender of the producer. -0.99	42	0.328	
H2: The difference between the number of workers performing production and the gender of the producer.	-0.033	42	0.974
H3: The difference between taking loans for the purchase of raw materials and machinery and the gender of the producer.	2.214	42	**0.032**

Source: Sample Survey 2023 (SPSS Output)

According to Table 1, there is no significant difference between the gender of the producer and monthly income status from wood products, the gender of the producer, and the number of workers performing wood production. However, there is a significant difference between the gender of the producer and the availability of loans from banks or privately to purchase raw materials and machinery for production.

Chi-Square Test

The chi-square test is used to collect data on the changes in wood production in the Kundasale area. In particular, it analyzes whether there is a relationship and differences between the monthly income of producers from wood-based products and other variables. The chi-square test measures the relationship

Table 2: Summary of overall chi-square test results

Hypothesis		Pearson Chi Square Value	Significant Value
H1	Relationship between the monthly income from wood products and the gender of the producer.	6.059	0.195
H2	Relationship between the monthly income from wood products and the educational level of the producer.	34.261	**0.024**
H3	Relationship between the monthly income from wood products and production types.	56.399	**0.000**
H4	Relationship between the monthly income from wood products and procurement of wood.	26.346	**0.010**
H5	Relationship between the monthly income from wood products and awareness about other wood products.	24.777	0.074
H6	Relationship between the monthly income from wood products and production time per day.	15.613	**0.048**

Source: Sample Survey 2023 (SPSS Output)

between the relevant variables. The chi-square test is used at a significant level of α = 0.05, which draws conclusions based on the probability value. We used six hypotheses to see the significance of the variables in Chi-square estimation. The results are shown in Table 2.

The above values clearly show the relationship between the status of income received from wood-related products and other variables. Accordingly, there is a significance between the monthly income received from wood-related products and other variables. According to the chi-square tests mentioned above, the gender of the producer and awareness about other wood products do not affect the monthly income from wood products. Hence, the educational level of the producer, production types, procurement of wood, and production time per day affect the monthly payment from wood products (See table 2).

4.3. Comparative Analysis of Sri Lanka Wood Industry with Canadian Wood Industry

A comparison with the wood-related products of two cities in Canada, Prince Edward Island (PEI) and Yukon, which are like the population of the Kundasale area selected for this research, is presented.

Prince Edward Island has a small but vibrant Maple syrup industry. Most producers are small-scale, family-owned, and operated businesses that produce a range of high-quality maple products. Also, there is a high domestic and foreign demand for housing equipment made in Yukon City. However, it was clear that although the Kundasale area produces various wood-related products, there is no one high-income production line. If there is one type of product that attracts tourists and can be used in daily work, it will provide a large amount of foreign exchange to the economy of the people and the country. A variable substitute, such as coconut shells and wooden spoons, can be expanded into a brand if improved. This is because it is a beneficial and valuable product based on local ingredients.

And one of the reasons for the success of wood products in these cities in Canada is the implementation of special courses related to wood products. Prince Edward Island has introduced wood stamping, carving, and mass production-related courses. Also, in the Kundasale region of Sri Lanka, more than 50% of people traditionally make wood-related products, but in cities like Prince Edward Island and Yukon most young people make wood products for the first time. They acquire knowledge through the latest courses. It gives insight into the possibility of earning a higher income.

At the same time, most of the people who make wood-related products in cities like Prince Edward Island and Yukon are more satisfied with their products compared to those in the area selected as the sample of this research. They work with job satisfaction. The people of our area have low job satisfaction due to problems such as low income, problems in selling products, difficulties in wood transportation, lack of methods to sell products to foreign buyers etc.

Also, there is a large forest population in the areas where these products are made in cities like PEI and Yukon. Many people who make wood-related products in the cities use the sample types of trees in their town and cut down trees for the need of wood, which is good for the environment. They manufacture by importing the remaining amount of wood required. The need for a significant forest population in Kundasale is a problem. The area's population is as little as 5%, and most of the wood must be brought from other regions. Many difficulties arise in transporting them. The facilities for procuring timber from the areas where wood-related products are made should be improved as much as possible. Products made from Red Oak wood are abundant in PEI city, and products made from Subalpine wood are abundant in Yukon city. It is also a great income generator if you can get valuable products from one such wood.

Modern technology is widely used in sawmills in these two cities. Modern machinery, wood chipping machines, cutters, power saw blades, wood miser machines, etc. are available. Government agencies and companies also provide them to buy them. But the majority of sawmills in the Kundasale area need help in delivering machinery. Yukon City also has a large number of factories for wood production. These factories make wood products using modern machinery. No wood manufacturing factory was found in the Kundasale area. All over Sri Lanka, there is a need for more wood-based factories. When there is a factory like this produces, more job opportunities are created. A large quantity of products can be supplied in a short period.

Most people in this area think obtaining permits is complicated in timber transportation. Licenses have been issued to manufacturing personnel in all Canadian lumber manufacturing cities, such as Ontario, British Colombia, and Yukon. They have been registered as permanent government employees. It was clear that their licensing system was simple. When transporting wood in any city in Sri Lanka, the following documents must be provided, and a permit must be obtained. Such as a letter of permission request, a letter of appointment of agent for transportation, a letter containing details of timber for transport, land deeds, village officer recommendation, report of the site forest officer, and permit used for felling trees.

After these documents are handed over to the Divisional Secretariat, issuing the permit takes another 12 days. Many producers think this process should be simple. Consideration should be given to whether a timber transport permit requires a land deed. Likewise, whether it is necessary to appoint agents separately for transportation should be reconsidered.

Moreover, it was clear that even though the PEI and Yukon in Canada have the same population as the Kundasale area in Sri Lanka, a higher percentage of the cities are engaged in wood-related products. Hence, among the families in the Kundasale area, about 80 families make wood products. Creating formal courses and job opportunities to improve it is also essential.

Timber smuggling is very limited in Canadian cities. In the towns of Prince Edward Island and Yukon, which have the same population as the city of Kundasale, and other towns, timber smuggling is very limited, and those who engage in such activities are severely punished by prosecution in the courts. But in many cities of Sri Lanka, timber smuggling is operating, and they often resort to illegal activities due to the influence of several parties. It is the opinion of many people who make wood products that these wooden houses are mainly used to make furniture. There are many cases where the products are delivered to the homes of some politicians and high government officials. It is a problem that Sri Lanka needs more laws to control timber smuggling. Even if the people involved in timber smuggling are arrested, the trend of only imposing a small fine on them and releasing them under specific pressures must change.

It was also clear that there is a clear difference in the awareness of the people of the two countries about new wood products. Woodworking producers in PEI and Yukon cities are getting more product awareness through social media sites like Youtube. There is also interest in finding new strategies for marketing products using the Internet. According to this sample survey, it was clear that more than 50% of the producers know about their products from the people who make the same products. It was also a problem that most people needed to be made aware of the new products.

A common feature of the product types of manufacturers in all three cities in these two countries was the presence of value-added producers. Some producers make products by adding carvings, designs, chemicals, and other materials to improve their color, shape, quality, and luster. Most of the producers of their products by adding value, and it is clear that there is a problem in purchasing the necessary materials.

4.4. Qualitative Data Analysis by using Interview Data

In our sample, ten people engaged in wood-related products in Kundasale area were selected, and data was obtained through the interview method. This interview aims to get their views on their income status, problems they face, changes that need to happen in product development, etc. Mainly, wood producers need help getting bank loans to buy machinery and other raw materials. Moreover, there needs to be more demand for wood products in both local and foreign markets due to the financial conditions in the post-pandemic era. Moreover, high prices and raw materials and machinery cause expensive final wood products, which also cause the decline of the local market. At the same time, wood producers face significant problems in timber transportation. Removing unnecessary restrictions by streamlining and government intervention is necessary for this industry's growth.

5.   Conclusions

The main conclusion that can be drawn through this research is that with the intervention of the government, industry-related ministries, industry-related institutions, Vocational Training Authority, and small and medium enterprises related institutions, there is the possibility of earning more foreign exchange through the wood industry in Sri Lanka than it is currently earning. According to the data analyzed through the sample survey, some producers make more than 100,000 rupees; there is the possibility of getting high local income and foreign exchange from wood products. Moreover, one of the essential things that became clear compared to wood production in Canada is that formal courses and vocational training bring new people into the wood industry. According to the data obtained through the sample survey, it was clear that the income inequality between the wood producers is because of the professional education and working with the new technologies.

Most of the wood-related products in Sri Lanka are men dominated. Hence, the products can grow even more if women are also given business knowledge. Most wood producers in Sri Lanka currently have middle income, and some people have low and high incomes. While Canada received 19 billion dollars in income from wood products, Sri Lanka's income was about 0.15 billion dollars. However, more wood exports are needed in Sri Lanka. With the intervention of public and private institutions, the contribution of financial institutions, including banks, and the active contribution of producers, the wood production industry can be called a way to get high income and high foreign exchange.

5.1. Key Findings and the way forward to Sri Lankan Wood Industry

An important finding found through this research is that out of the 44 producers surveyed in the sample, 7 earn more than 100,000 rupees (per month). They have also provided employment opportunities to several employees and are making many valuable products. They can supply many products which fill the market demand. Therefore, we can confirm that the wood industry can receive high-income levels through products.

By studying the case of Canada, we identified that, in many cities in Canada, youth are engaged in the wood-related manufacturing industry and are high-income earners. We can encourage young Sri Lankans into the timber industry through vocational training courses. Then the young generation's economic and unemployment problems can be solved.

There are special wood products unique to Canada's cities. Another key finding was that when one or more such amazing products exist, they can be developed into brands. Although there are most producers, especially carving products, and housing items, it has not been branded as *Made in Sri Lanka.*

However, we found a high domestic and foreign demand for cutlery and kitchen utensils produced using abundant ingredients such as coconut shells and wood. The Sri Lankan Wood industry needs to focus more on such sectors.

Since timber in many countries is also suitable for Sri Lanka, obtaining permits for cutting timber for timber products and transporting wood should be more straightforward.

It was confirmed that many local producers do not understand how to export the products, and it has been difficult to transport them to Colombo city in some cases. Acquiring more knowledge and awareness is required.

It was clear that the country's forest population should grow by 20% to 30% in the next decade. In countries like Canada, there is a forest population of 38%; in the 1920s, Sri Lanka also had a forest population of 49%. It is possible to obtain income several times the cost of importation by obtaining only essential types of wood for wood products in this forest cover and importing the remaining wood.

The producers who joined the interviews were also of the opinion that there is a need for several large-scale factories that carry out wood products. By building such a factory through investment, foreign buyers will have high confidence in the quality of the products and employment opportunities can also be created.

Wood products should be given publicity through advertisements and social media. At the same time, new innovative products need to be introduced,

such as wood-based sports goods and women's jewelry, which are in high demand worldwide, can be built and sold from wood.

In countries like Canada, special privileges and insurance schemes have been introduced for wood producers, but it was confirmed that Sri Lankan producers still need such facilities. Getting loans through state-owned banks to purchase machinery has also become problematic. They believe that the loans given through Samurdi Banks need to be increased.

Before the covid-19 pandemic, the prices of Power saw blades, Aluminium cutter blades, mobile saws essential machinery prices were low. Hence the prices nearly tripled after the post-pandemic and financial crisis in Sri Lanka. At the same time, wood paint and polish prices also experienced rapid price increases. At the same time, the government also restricts the import of these essential materials. Therefore, the government needs to provide more support and tax relief for these industries, which can gain more foreign currencies for the country.

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