

Importance of India's Trade with Sri Lanka

Sri Lanka has enjoyed an unbroken record of close cultural and economic ties with its closest neighbour India for several centuries. In the economic sphere India had upto recent years been a leading Asian trading partner for Sri Lanka and also one of its first ten international trading partners over most of this period. The liberalised economic policies introduced after 1977 affected India's position in the 1980's and have considerably altered Sri Lanka's trading patterns in the region. Japan, Singapore, Taiwan, Hong Kong, South Korea and the People's Republic of China have, in the 1980's, moved ahead of India in total turnover of trade. Most of these countries have also tended to step up their imports

from Sri Lanka in recent years while India's imports have remained comparatively low over a long period. Two significant factors in this new situation are that Pakistan, though marginally behind India in total trade turnover, in 1986, had imported Rs 546 million more from Sri Lanka than neighbouring India, (See Table 1); while Taiwan, which was a minor trading partner up to the 1980's, emerged as Sri Lanka's biggest supplier of merchandise, after Japan.

A general overview of Sri Lanka's external trade performance in 1986 shows that total trade turnover reached a record level of Rs 85.4 bn.

TABLE I
SRI LANKA TRADE AMONG THE ASIAN COUNTRIES
(Value in Rs Million)

	1975	1980	1985	1986	Total Turnover 1986
Japan Exports	179.7	553.5	1,777.8	1,813.1	10,747.0
Imports	447.0	4,301.8	7,668.4	8,933.9	
China P.R. Exports	480.1	848.4	464.5	477.3	2,895.5
Imports	661.5	840.2	1,920.5	2,418.0	
Singapore Exports	50.8	196.6	1,190.7	784.8	2,795.3
Imports	103.8	1,520.1	2,003.2	2,010.5	
Taiwan Exports	-	340.8	33.4	35.3	2,704.4
Imports	-	408.2	1,558.6	2,669.1	
Hong Kong Exports	58.5	173.8	286.8	294.1	2,690.2
Imports	7.6	689.4	1,563.0	2,398.1	
India Exports	2.8	571.3	183.4	330.7	2,552.8
Imports	149.8	1,594.2	2,027.9	2,221.9	
Pakistan Exports	344.9	568.0	749.0	849.3	2,241.6
Imports	219.8	496.2	922.6	1,292.3	
Korea South Exports	.1	3.4	14.8	58.9	2,021.4
Imports	17.7	583.4	1,247.1	1,862.5	
All Asian countries Exports	1,086.5	3,255.6	4,700.4	4,743.5	28,647.8
Imports	1,607.3	10,433.5	18,909.2	23,904.3	
Grand Total All countries Exports	3,982.9	17,293.8	34,238.0	33,082.3	84,373.8
Imports	5,251.3	33,837.4	49,068.5	51,281.5	

Source: Sri Lanka Customs

Among the other records established as a result of the high rupee value of Sri Lanka's trade last year were imports of Rs 51.3 bn as against Rs 49.1 bn in the previous year; a trade deficit of Rs 17.2 bn in 1986, as against 14.0 bn in 1985; and exports registering a fall in value to Rs 33.1 bn in 1986 from Rs 35.0 bn in 1985. Also, the overall terms of trade according to the Central Bank index, continued to drop from 134 in 1984, to 108 in 1985 and 102 in 1986.

The largest market area for Sri Lanka's trade was the Developed market economy countries to which exports in 1986 reached Rs 20.2 bn, while imports went up to Rs 25.1 bn, leaving a deficit in the trade balance of Rs 4.9 bn. The second largest group of trading countries were the Developing countries from where imports reached Rs 22.9 bn while exports to these countries was only Rs 9.6 bn resulting in a Rs 13.3 bn deficit with this area. The Socialist countries of Asia also provided Rs 2.5 bn worth of imports by Sri Lanka but took Rs 0.5 bn of Sri Lanka's exports, leaving a trade deficit of Rs 2 bn. The only grouping where the trade balance was favourable with Sri Lanka was the Socialist countries of Eastern Europe from which Sri Lanka imported Rs 0.73 bn, and exports to these countries were Rs 0.98 bn, giving a surplus of Rs 0.25 bn. Sri Lanka's largest export market was the United States which took Rs 8.5 bn worth of merchandise; while the biggest supplier was Japan from where Sri Lanka imported Rs 8.9 bn of merchandise in 1986.

Imports from India

In 1986 Sri Lanka imported as much as 67 percent of her requirements from Japan and all other countries in the Asian region. Of these Japan accounted for 17.4 percent and Taiwan 5.2 percent of total imports. India was 4th on the list supplying 4.3 percent of Sri Lanka's imports in 1986. Details of annual imports are available only for 1985 and as may be observed from Table 2 imports from

IMPORTS FROM INDIA

TABLE II

(Rs Million)

	1975	1980	1985
Onions	-	63	322
Cotton	-	122	291
Dried Fish	-	35	210
Mechanical Machinery	4	202	185
Vehicles & parts	-	405	184
Other Medicaments	9	43	171
Iron Steel articles	9	62	68
Electrical Machinery	3	134	63
Beedi Leaves	11	6	63
Soya Bean Oil	-	-	46
Articles of Aluminium	7	18	40
Dried Vegetables	-	-	39
Dried Garlic	-	-	28
Preparation of Flour and Starch	-	33	27
Inorganic Chemicals	-	-	16
Dried Chillies	-	80	16
Tallow	-	-	16
Cardamoms	-	-	12
Sugar	28	01	-
Cumin Seed	-	14	0
Corriander Seed	-	02	-
Others	79	365	231
Grand Total	150	1,594	2,028

Source: Department of Commerce.

TABLE III

EXPORTS TO INDIA

(Rs Million)

	1975	1980	1985
Rubber	-	-	38
Cloves	-	170	37
Tea	-	12	31
Pepper	-	-	12
Dried Vegetable	-	5	6
Shelled or Split	-	-	-
Raw hides & skins	-	-	6
Natural Sands of all kinds	-	-	4
Natural Graphite	1	4	3
Residual Fuel	-	-	-
Oils	-	348	-
Plants and parts of trees	-	-	3
Precious or Semi-precious stones	-	-	3
Compressed Gas	-	-	2
Others	1	29	24
Grand Total	2	568	169

Source: Dept. of Commerce

India had gone up from Rs 150 mn in 1975 to Rs 2,028 mn in 1985. The main items of import from India were Onions (Rs 322 mn), followed by Cotton yarn (Rs 291 mn) and Dried Fish (Rs 210 mn). Other major items supplied to Sri Lanka were mechanical machinery, vehicles and parts, iron and steel articles, machinery, and beedi leaves. There was also a ready market for agricultural produce from India such as Soya-bean oil, dried vegetables, dried chillies and preparations of flour and starch. All these items could be either produced locally or purchased at competitive rates from other neighbouring trade partners. When some Indian uninformed newspapers suggest cutting off trade ties between these two neighbouring trade partners

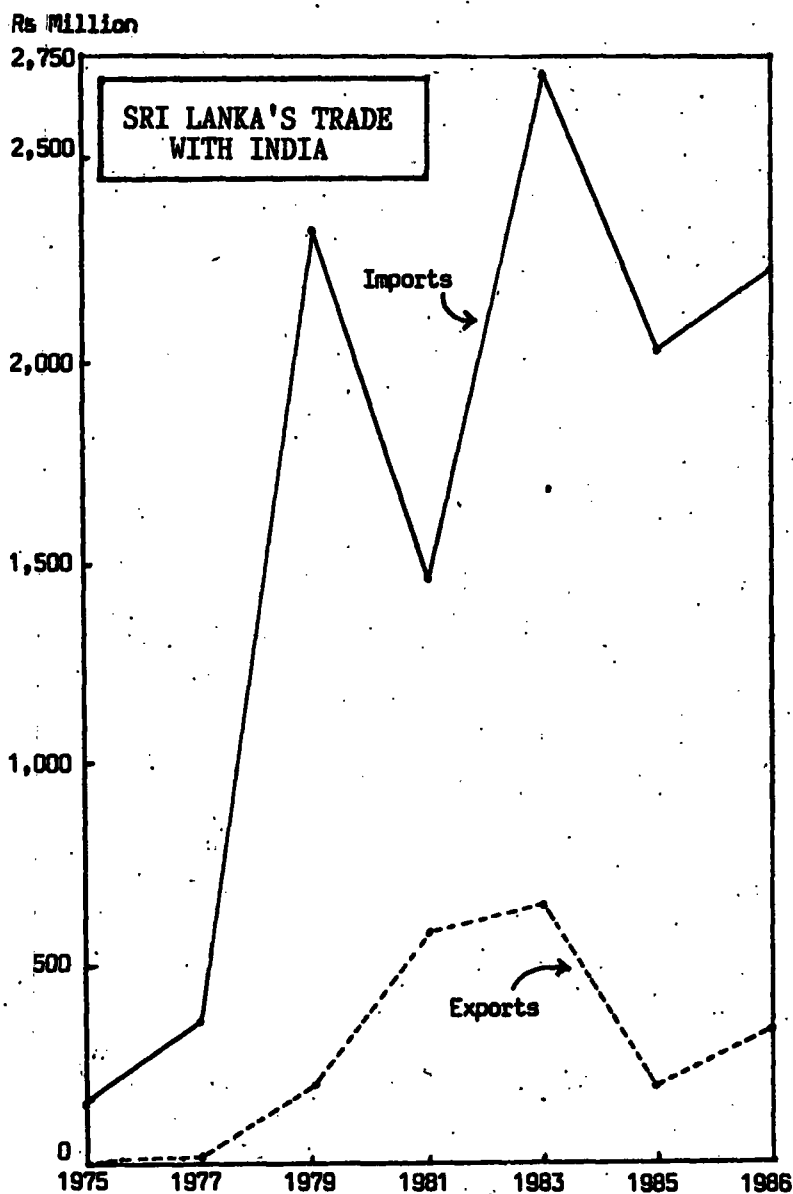
they little realised that it was the Indian exporter and not the Sri Lankan consumers who would be most affected.

It is apparent that with trade liberalisation India has been able to expand its exports to Sri Lanka, although at the same time countries such as Singapore, Taiwan, China, Hong Kong, South Korea, Pakistan and Malaysia have been able to enlarge export markets to Sri Lanka faster than India, and many of these countries supply the entire range of Sri Lanka's requirements on very competitive terms.

Exports to India

As far as exports to India are con-

cerned there has been a heavy drop from Rs 568 mn in 1980 to Rs 169 mn in 1985. There is very little of Sri Lanka's primary produce or manufactures that India does not produce. The only items India appeared to need in 1985 were cloves (Rs 37 mn), pepper (Rs 12 mn), rubber (Rs 38 mn), and tea (Rs 31 mn) to supplement its own supplies. For all these items, however, Sri Lanka has established markets with many of its traditional buyers. The details of exports given in table 3 indicate the limitations of Sri Lanka's exports in the Indian market. There is, however, a thriving unofficial market between India and Sri Lanka and part of this trade is intercepted by the Customs authorities of the two countries. The value of such intercepted items



flowing into India, recorded by the Customs, was Rs 63.8 mn in 1984, Rs 47.7 mn in 1985 and Rs 40.5 mn in 1986. It appears that either the Customs have been more vigilant over

these years and slowed down the pace of illegal traffic in goods between the two countries or that more of this trade has gone progressively undetected in the last three years.

Table 1V

**VALUE OF COMMODITIES (OF WHAT IS DETECTED)
FLOWING ILLEGALLY BETWEEN THE TWO COUNTRIES
(RS MN)**

	1984	1985	1986
From SL to India	63.8	47.7	40.5
From India to SL	4.7	6.8	12.0
Sri Lanka's Deficit	59.1	40.9	28.5

A major commodity taken across illegally from Sri Lanka is gold, and gold jewellery and silver and in 1986 of the Rs 40.5 mn detections these commodities accounted for as much as Rs 27.5 mn. Other detected items that figured in this illegal trade to India are currency, narcotics, clocks, radios, videos, video cassettes and other electrical items. Zip fasteners is another major item illegally taken across to India in millions; textiles is another. The items brought in from India through this illegal route are mainly narcotics, foreign currency, textiles and beedies. If this type of trade is continued on a considerable scale it could undermine or distort the real balance of payments situation of a small country like Sri Lanka.

The balance of trade has always been largely unfavourable for Sri Lanka, but traditional trading contacts permit this situation to persist. Sri Lanka's trade deficit with India reached a record of Rs 2,505 million in 1984 from Rs 147.3 million in 1975. In 1986 it came down to Rs 1,891 million.

It is apparent from the patterns of trade between the two countries over the last few decades that the Indian exporters always had the better deal in the comparatively small Sri Lankan market. Sri Lanka also gets a worse deal in the illegal flow of goods between the two countries, as the records maintained by the authorities reveal. The adverse balance for Sri Lanka averaged almost Rs 50 million annually over these last three years as the table below indicates.

In terms of investment too whatever has come into Sri Lanka from India's enormous capital stock and advanced technology and investment potential has been comparatively negligible. For instance, of the 93 foreign investors currently operating projects in the GCEC only 5 of these have Indian investment. In this regard it appears that some of Sri Lanka's new trade partners have established far firmer ties economically.