

## THE ECONOMY

### Indo - Sri Lanka Economic Co-operation

In recent years, Sri Lanka has taken some concrete steps to achieve greater economic co-operation with her neighbouring countries. The plan for economic collaboration with India has already made significant progress. A ministerial level meeting of the Indo-Sri Lanka Joint Commission was held in New Delhi in February and a number of important decisions taken at this meeting should further the economic co-operation between the two countries. Similarly, a Joint Committee for Economic Co-operation between Pakistan and Sri Lanka has also been set up and it is now in the process of identifying possible areas for economic collaboration. It is hoped that the Prime Minister's visit to Indonesia, Thailand and Burma in January this year would mark the beginning of an era of economic co-operation with these countries as well.

Ever since the formation of the European Economic Community in the late 1950's, the possibility of evolving some economic co-operation among Asian countries has been a subject of much study and discussion. The ESCAP (formerly ECAFE), for example, carried out a number of studies on the possible forms and potential areas for such regional economic co-operation. The South East Asian countries have formed themselves into a loosely knit regional grouping known as ASEAN which has been used for trade bargaining with the EEC. However, similar steps towards economic co-operation have been markedly lacking among countries in South Asia (Bangladesh, Burma, India, Pakistan and Sri Lanka). Political differences, as between India and Pakistan, have been too pronounced to make possible the needed understanding on economic matters. Among these countries, Sri Lanka is in the unique position of being friendly with all her neighbours and this has given her a valuable opportunity to forge closer economic relationships with all neighbouring countries.

Economic co-operation with neighbouring countries could make a signi-

ficant contribution to the economic development of this country. An autarchic pattern of development, which may be feasible in a country with a large domestic market and a diversified resource base, would certainly be a costly experiment in a small country like Sri Lanka. Given the small size of the domestic market, Sri Lanka has to increasingly look for export markets to support a large scale programme of industrialisation. The neighbouring countries, particularly India and Pakistan, with their large internal markets would naturally be the potential markets for Sri Lanka's products. These markets could be tapped only on the basis of some economic co-operation which would realise a degree of complementarity and co-ordination in development efforts based on mutual trade. Moreover, both India and Pakistan are far more technologically developed than Sri Lanka and there is much that Sri Lanka could gain by technological co-operation with these countries.

#### Trade Pattern with India

Historically, Sri Lanka has depended heavily on her neighbours for her import needs. At the beginning of the present century the Indian sub-continent supplied over 50% of this country's import needs. In the 1950's, nearly 15% of the country's average annual imports came from India. Textiles and subsidiary food-stuffs (chillies, onions, pulses, dry fish etc.) figured largely in such imports. With the introduction of import restrictions on these items in the 1960's, and stepping up of local production, these imports from India have recorded a substantial decline and her relative share in the total import bill fell below 10%. Beginning with 1969, the level of imports picked up and the annual level of imports has remained well over Rs. 200 million upto 1974 with the exception of the two years 1972 and 1973. But again in 1975 imports fell heavily to record the lowest percentage of total imports. The pattern of imports from India has also undergone a change in recent years. Instead of textiles and food

## TRADE WITH INDIA AND THE BALANCE OF TRADE

(Rs. Million)

		Imports from India	% of Total Imports	Exports to India	% of Total Exports	Balance of Trade with India	Overall Trade Balance in the Balance of Payments
1970	...	226	9.7	21	1.0	-205	-315
1971	...	208	10.5	10.4	0.5	-198	-287
1972	...	110	5.3	11.	0.6	-99	-255
1973	...	80.6	3.0	10.6	0.4	-70	-299
1974	...	219	4.8	8.8	0.3	-210	-1227
1975	...	150	2.8	2.1	0.2	-148	

items, imports in recent years have mainly taken the form of commercial vehicles, equipment, machinery, spares and chemicals.

In the case of exports, however, India has never figured as an important buyer of Sri Lanka's products. Even in the early years of the century, when Sri Lanka was obtaining the bulk of her imports from India, less than 10% of our total exports went to that country. Throughout the decades of the 1950's and 1960's India has bought less than 4% of our annual exports. As seen in the table above, a further drop in our exports has taken place in the 1970's. Exports have fallen from Rs. 21 million in 1970 to Rs. 8.8 million in 1974. In 1974, our exports to India were only 0.25% of our total exports. The lowest exports for any year, to date, were recorded last year when India took only Rs. 2.1 million worth of products from Sri Lanka.

The overall trade balance in the balance of payments situation has also kept growing in recent years as seen in the table above. By the end of 1974 it had reached Rs. 1,227 million.

### Bridging the Trade Gap

An inevitable consequence of this export-import trade with India has been the continued existence of a sizeable deficit in our balance of trade with India. An adverse trade-gap has been a characteristic feature of Sri Lanka's trade with India throughout this century. The trading balance deficit which was over Rs. 100 million

per year in the 1960's has reached Rs. 210 million in 1974. It is impossible to achieve a balance in trading with every individual country. Nor is it necessary to do so. But in the context of a sizeable deficit in the overall balance of payments and the adverse foreign exchange situation that this country is faced with, the continued existence of a sizeable trade-gap with any one country naturally becomes a matter of serious concern to this country. As seen in the table, the balance of trade deficit with India is quite high in relation to the overall trading deficit in the balance of payments of this country. The size of this trade-gap can be taken as an indicator of the untapped market potential for our exports in India. The crucial question is: What goods can we hope to export to this market? Our traditional export items cannot play an important role here. The country must develop new lines of export activity which can cater to the Indian market.

Obviously tea cannot be an exportable item since India herself is a leading exporter of this item. India is a deficit country as far as coconut products are concerned. Even here while India has been interested in the import of copra to be used as a raw material for her oil milling industry, Sri Lanka wishes to export the processed product, coconut oil. Although India is a large importer of vegetable oils, she has been buying mainly palm and soyabean oils and has not shown a particular interest to import coconut oil. It is in the case of rubber products that there is the greatest scope for exports to India.

Several items such as tyres and tubes, rubber components and parts and a variety of other rubber-based goods are potential candidates for export to India. The possibility of setting up joint ventures in the field of rubber-based industry has already figured as an important item in the discussions on economic cooperation between the two countries. A number of other potential industrial fields have also been identified or joint ventures. These include industrial machinery, automobile parts, diesel engines, electric motors, laboratory equipment and chemicals and pharmaceuticals. In all these cases, proposals have been made to India for the setting up of joint ventures in Sri Lanka with the ultimate objective of marketing the surplus production in India. Our success in bridging the historical trade gap with India depends crucially on the development of such non-traditional export items.

### Projects Underway

The Indo-Sri Lanka economic co-operation programme has already resulted in the finalisation of several important joint projects:

1. A project for the transfer of surplus electricity to India by linking the powers grid of the two countries. This project is estimated to cost around Rs. 750 million which is to be shared between the two countries. When the project is complete, Sri Lanka is expected to supply daily some 1000 million units of power to India.
2. An Animal Husbandry project, covering a period of five years, under which India will supply Sri Lanka livestock (sheep, cattle and buffaloes), veterinary medicines, equipment and vehicles, and train local personnel. This project would enable Sri Lanka to upgrade her local stock and develop sheep and cattle farming in the coconut triangle. The first shipment of livestock under this project arrived in Sri Lanka in February this year.
3. Setting up a micro-wave link between the two countries.
4. An agreement on a working programme for co-ordination in research in tea, coconut, rubber, other natural products and essential oils.

It is also envisaged that as a result of the economic co-operation between India and Sri Lanka, the two countries could work in close collaboration to strengthen their bargaining position in the world tea market and so realize improved export prices for tea.