

Changing Trends in Trade

The thrust for markets in major Western and Middle East countries for Sri Lanka's exports, since the introduction of the liberalised trade policy, continued throughout 1980. Up to the end of November last year U.S.A., U.K. and West Germany alone had together taken 24 per cent of the value of the country's exports. One significant change, however, in the direction of the country's trade was the re-emergence of China as a major buyer ranking fourth in the list of main buyers of Sri Lanka produce. In 1979 China had dropped to fifth position from second and first position in previous years. Also significant was the fact that India, which has always maintained a heavily unfavourable balance of trade with Sri Lanka, had stepped up the value of its purchases and was now in seventh position among the leading buyers of our products; followed by Pakistan in eighth position. Japan, which was the leading supplier of Sri Lanka's imports over the last three years, upto October 1980, and also among the ten leading markets during this period had now dropped to eleventh position.

Iraq, Saudi Arabia, U.A.R. and Iran also stood out prominently among leading buyers of Sri Lanka produce mainly due to their large purchases of tea and to a lesser extent spices. Despite the larger purchases of some of the main buyers of Sri Lanka produce such as Saudi Arabia, Japan, Iran, Iraq, India and UK the balance of trade between these countries and Sri Lanka still remains considerable. This factor points to possibilities of increased exports to these countries.

For the first time in several years Saudi Arabia moved into top position as the main supplier (value-wise) of Sri Lanka's imports; the increased price of petroleum products being the main reason. Up to the end of November 1980 Sri Lanka's petroleum bill was Rs. 9,883 million (30 per cent of the total import bill) as compared with Rs. 3,960 million (17 per cent of the total import bill) during the same period in 1979. Imports from Saudi Arabia amounted to Rs. 5,799 million in the 1980 period, as against Rs. 1,299 million in the 1979 period. As a result Japan dropped to second place as a supplier of foreign products to Sri Lanka though by the end

of November 1980 as much as 11.6 per cent of the country's imports (by value) came in from Japan. Imports from Japan amounted to Rs. 3,852 million in the 1980 period as against Rs. 2,736 million in 1979; and from U.K. Rs. 2,877 million in 1980 as against Rs. 1,869 million in 1979. Value of imports from India fell considerably from Rs. 2,145 million in 1979 to Rs. 1,463 million in 1980.

The major products that came in from Japan were transport equipment, iron and steel products, electrical goods and fertilisers; while supplies from UK comprised mainly transport equipment, electrical equipment and other machinery and equipment. In the case

of Saudi Arabia, Iran and Iraq it was essentially oil supplies. A more prominent feature of the country's trade pattern was the growing imbalance in imports and exports.

The three traditional crops were trailing behind in their value of exports during the first eleven months of 1980, when compared to the same period in 1979. Earnings for the 1980 period from these three traditional crops amounted to Rs. 9,145 million as against Rs. 9,168 million in the same period of 1979. During this period only tea had shown a very slight improvement in earnings; whereas rubber had fallen from Rs. 2,340 million to Rs. 2,319 million; and earnings from coconut kernel products had fallen from Rs. 1,158 million to Rs. 693 million. The largest increase has been recorded in the earnings from ready-made garments which went up from Rs. 993 million in the first eleven months of

Table I
EXPORTS (ELEVEN MONTHS ENDED NOVEMBER 1979 AND 1980)
THE TEN MAIN BUYERS OF SRI LANKA PRODUCTS

Country	1979		1980	
	FOB Value in Million Rs.	% to Total	FOB Value in Million Rs.	% to Total
1. U.S.A.	1,437.4	10.2	1,735.8	11.2
2. U.K.	1,153.4	8.2	1,173.6	7.5
3. Germany F.R.	865.1	6.1	821.9	5.3
4. China	817.1	5.8	757.3	4.9
5. Iraq	421.3	3.0	573.6	3.7
6. Saudi Arabia	441.6	3.1	549.1	3.5
7. India	195.2	1.4	539.4	3.5
8. Pakistan	653.5	4.6	528.2	3.4
9. U.A.R.	391.8	2.8	522.5	3.4
10. Iran	302.1	2.1	507.1	3.3
Others	6,265.4	44.2	6,323.0	40.5
Ship Stores and Bankers	1,235.6	8.8	1,536.0	9.9
Grand Total	14,179.5	100	15,567.5	100

Table II
IMPORTS (ELEVEN MONTHS ENDED NOVEMBER 1979 AND 1980)
THE TEN MAIN SUPPLIERS OF FOREIGN PRODUCTS

Country	1979		1980	
	FOB Value in Million Rs.	% to Total	FOB Value in Million Rs.	% to Total
1. Saudi Arabia	1,299.7	6.2	5,799.0	17.5
2. Japan	2,736.3	13.2	3,852.1	11.6
3. U.K.	1,868.9	9.0	2,876.8	8.7
4. Iran	739.8	3.6	1,814.3	5.5
5. Iraq	621.1	3.0	1,649.5	5.0
6. India	2,144.6	10.3	1,463.5	4.4
7. U.S.A.	1,164.7	5.6	1,408.1	4.3
8. Singapore	1,276.8	6.1	1,317.8	4.0
9. France	479.5	2.3	1,271.4	3.8
10. Germany	1,141.7	5.5	1,043.6	3.2
Others	7,420.4	35.5	10,643.1	32.1
Grand Total	20,893.5	100	33,190.2	100

Source: Statistics Division, Department of Commerce.

Table III
IMPORTS OF SELECTED PRODUCTS
FOR ELEVEN MONTHS ENDED NOVEMBER, 1979 & 1980

Commodity	1979 (Jan-Nov)		1980 (Jan-Nov.)	
	Value Mn-Rs.	% to Total	Value Mn-Rs.	% to Total
Sugar & Sugar Confectionery ...	843.5	4.0	1,712.4	5.2
Petroleum Products ...	3,603.6	17.2	9,883.3	29.8
Fertilizer ...	632.4	3.0	1,151.4	3.5
Iron & Steel and articles thereof ...	1,090.5	5.2	1,457.7	4.4
Boilers' machinery Mechanical applian- ces and Parts thereof ...	1,901.8	9.1	3,053.2	9.2
Electrical machinery Equipment and parts ...	819.8	3.9	1,389.7	4.2
Vehicles other than Railway and parts Others	1,901.4 10,140.4	9.1 48.4	2,769.5 1,180.1	8.4 35.4
Grand Total ...	20,933.4	100.0	33,168.3	100.0

Source: *Sri Lanka Customs Returns*

1979 to Rs. 1,532 million in the same period in 1980. Meanwhile, the country's import bill was considerably boosted through imports of petroleum products; fertilizer; iron and steel articles; boilers, machinery and mechanical appliances; electrical machinery and equipment; and vehicles. (See table above).

As observed in the table below the trade deficit had exceeded Rs. 17 billion by the end of November 1980 as compared with a gap of Rs. 6.8 billion in the same period in 1979. An increase of nearly 160 per cent. This increasing deficit both in absolute terms and percentage terms seemed inevitable in a situation where substantial amounts of assistance were recorded in the form of long term aid for development. The trend in such a situation is for the country to run into short-

term deficits, while aid is used for imports of machinery, equipment and essential raw material required for development. It is vitally necessary that the export sector is expanded rapidly in such a situation in order to bridge the trade gap in the medium and long term. However, a notable feature is that when the inflation rate in a country like Sri Lanka moves up much faster than its trading partners, imports will be encouraged and the competitiveness of exports will fall. In such a context, further rounds of devaluation/depreciation are required to recover the lost ground. If inflation continues unabated, a vicious circle of devaluations can follow — exchange rate depreciations leading to further inflation and further depreciation of the rate in an endless succession.

Table IV
VALUE OF EXPORTS AND IMPORTS
(Rs. Million and SDR)

	Year 1979	Eleven Months Ended Nov.		Changes in 1980 period over 1979 period	
		1979	1980	Value	Percentage
Total Exports ...	15,272.5 (758.3)	14,043.9 (697.2)	15,656.5 (732.0)	+1,656.5 (+34.8)	+11.5 (+5.0)
Imports ...	22,560.5 (1,120.2)	20,865.5 (1,036.0)	33,139.2 (1,549.3)	+12,273.7 (+513.3)	+58.8 (+49.5)
Balance of Trade in Merchandise (In Brackets-Values in SDR million)	-7,287.9 (-361.9)	-6,821.6 (-338.8)	-17,482.7 (-817.3)		

Source: *Statistics Division, Department of Commerce*