

Srilanka Bilateral Trade: Past Trends and Future Challenge

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Abstract

India-Sri Lanka relations are excellent, underpinned through close high-level political exchanges and strong economic cooperation in diverse areas. Following the ushering of peace in Sri Lanka after years of ethnic strife with the signing of the Ceasefire Agreement between the Sri Lankan Government and the LTTE, Sri Lankan economy has witnessed a resurgence and revitalisation to which India's contributions are noteworthy. These contributions have manifested in the form of Indian tourists comprising the single largest tourist component in Sri Lanka, a large aid and assistance programme, a healthy trade turnover that has crossed the US\$ 1 billion mark and liberalised trade regime that includes the Indian US\$ 100 million line of credit. India supports all action taken by the Government of Sri Lanka to peacefully resolve the ethnic conflict within the territorial integrity and unity of Sri Lanka through a negotiated settlement consistent with democracy, pluralism and respect for human rights fulfilling the aspirations of all members of Sri Lankan communities. India believes that an enduring solution has to emerge purely through internal political processes. Any interim arrangement should be an integral part of the final settlement

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Introduction

India -Srilanka Bilateral Trade Relations Sri Lanka maintained an open trade policy regime with only a few exceptions as in the past. Four categories of exports remained under license (coral chuk and shells, wood and articles of wood, ivory and ivory products and passenger motor vehicles registered in Sri Lanka prior to 1945) on the grounds of protection of environment and preservation of antiques. The remaining import licensing requirements were due mostly to public health, public morals, environmental protection and national security reasons. The import licensing requirement of four items, namely, wheat, meslin, wheat and meslin flour was maintained in terms of a past contract entered into by the Government with a private flour milling company. Certain agricultural items, namely potatoes, big onions, chillies and maize, remain under license with the objective of providing protection to domestic producers.

Sri Lanka has been gradually reforming its trade policy. Almost all import quotas and licenses have been removed. In particular, imports of capital goods and raw materials for export processing are free from duties. A four-band tariff regime with a maximum rate of 45% has been introduced. Most foreign exchange controls have been lifted although the Rupee is not fully convertible. The export sector continues to be provided with several fiscal, financial and institutional incentives. These include the duty rebate scheme, the manufacture-in-bond scheme and the duty-free clearance of machinery scheme.

India – Sri Lanka Free Trade Agreement (FTA) was signed in December 1998 and became operational from December 15, 2001. India is committed to provide immediate duty-free concession on 1012 items. A 50% duty concession applied on 400 items, which would become duty free in three years. A Joint Study Group was constituted to make recommendations for the establishment of a comprehensive economic partnership between India and Sri Lanka. It completed its deliberations in September 2003. The Co-Chairmen of the Joint Study Group presented their recommendations to the two Prime Ministers on October 20, 2003. The Prime Ministers directed that negotiations begin immediately with the target of concluding the Comprehensive Economic Partnership Agreement by end of March 2004.

India and Sri Lanka signed a bilateral air services agreement in New Delhi on December 21, 1948. Bilateral talks have been held at regular intervals to review the working of the Agreement. Sri Lankan Airlines has already increased the number of its weekly flights to Indian destinations from 29 to 44. It is operating from 8 cities Delhi, Mumbai, Chennai, Gaya, Bangalore, Hyderabad, Cochin, and Trichy. During the Sri Lankan Prime Minister's visit without prejudice to already existing arrangements, India has offered the facility of Daily air services by its designated airlines between Colombo and Delhi, Mumbai, Kolkata, Bangalore, and Hyderabad.

In addition, unlimited access would be available for air services to and from 18 tourist destinations in India.

A MoU was signed on March 1, 2003 to build and strengthen partnership in the IT sector, to recognize the potential for extensive trade between the two parties in this sector and to advance growth of investment, joint ventures, joint initiative, technology development and markets in the IT sector. Sri Lanka Telecom Limited (SLT) signed a commercial agreement with Department of Space (DOS), Government of India at Colombo on February 18, 2002 for the use of INSAT capacity for its services. SLT have already started using the INSAT capacity for 'occasional services' (TV Satellite News Gathering). **India – Sri Lanka Trade Relations:**

The trend of India's Trade with Sri Lanka has been discussed in three parts

- (a) India's recent exports to Sri Lanka
- (b) India's recent imports from Sri Lanka
- (c) India's recent trade balance with Sri Lanka

(a) India's Export to Sri Lanka

Historically, Sri Lanka has depended heavily on her neighbors for her import needs. In the beginning of the present century, the Indian sub-continent supplied over 50% of island's import requirements. In the year 1950-51 nearly 15% of its average annual imports can from India. Textiles and subsidiary food items like chillies, onions, pulse, and dried fish etc. figures largely in the imports. The introduction of import curbs on these items in the sixties caused a decline in the imports from India. Since then, there has been a marked shift in the pattern of imports and new items like commercial vehicle equipment, machinery spares and chemicals have replaced the traditional items. At present India is exporting the following major items to Sri Lanka

- 1 TEA
- 2 COFFEE
- 3 PULSES
- 4 RICE
- 5 WHEAT
- 6 CEREALS
- 7 DAIRY PRODUCTS
- 8 FLORICULTURALLTR PRODUCTS
- 9 TOBACCO
- 10 SPICES
- 11 SUGAR

- 12 MARINE PRODUCTS
- 13 COTTON RAW INCLUDING WASTE
- 14 SPORTS GOODS
- 15 POULTRY PRODUCTS
- 16 IRON ORE, MICA & COAL

At present India's export to Sri Lanka has not increased at a fast rate as compared to earlier years. Table no. 1 depicts the India's recent exports to Sri Lanka. As per table India's export to Sri Lanka reaches to Rs. 4457 Cr. in year 2002-03 from Rs. 3001 Cr. in the year 2001-02. Thus, there was a surplus of 48% on the 2001-02 exports of India's to Sri Lanka. Figure 1 also reflects the increased export with the help of green bar diagram during the year 2002-03 in which it has improved its height as compared with the 2001-02 bar. Table no. 2 gives the commodity wise details of export to Sri Lanka for the said year.

During the year 2003-04 India's export to Sri Lanka were gone to Rs. 6067 Cr. from Rs. 4457 Cr. in 2002-03, resulting again a significant increase of 36% on exports of 2002-03 to the Sri Lanka.

In the year 2004-05 India's exports to Sri Lanka were Rs. 6350 Cr. as compared with the 2003-04 when it was Rs. 6067 Cr. Thus, the increase in trend of India's export to Sri Lanka during the year were 5% which is not significant. Figure 1 also reflects the increased export with the help of green bar diagram during the year 2004-05 in which it has improved its height to a little as compared with the 2003-04 bar.

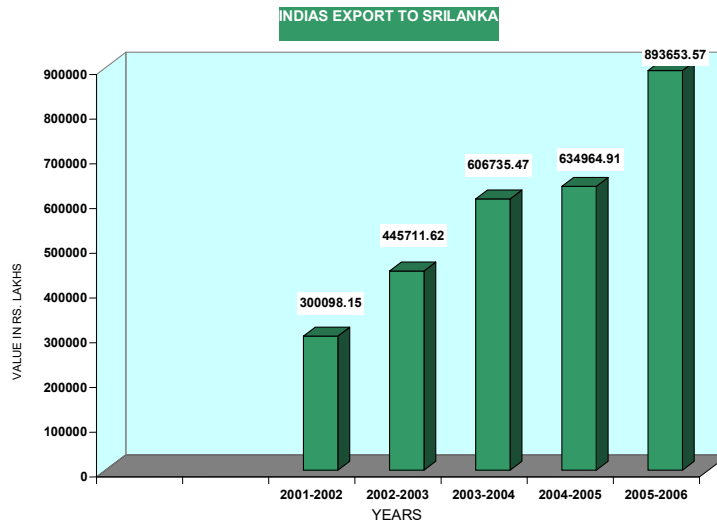
Table 1 also brings out that India's export to Sri Lanka during the year 2005-06 were Rs. 8936 Cr. which in the year 2004-05 were Rs. 6350 Cr. Comparing both the values the conclusion comes that there had again been an increase in the India's export to Sri Lanka and on computing this increase is approx. 41% on the export of 2004-05 which means that in the present scenario the India's export to Sri Lanka is in growing stage.

TABLE 1

INDIA'S EXPORT TO SRI LANKA

YEAR	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
VALUE IN RS. LAKHS	300098.15	445711.62	606735.47	634964.91	893653.57

FIGURE 1



TRENDS OF INDIAS EXPORT TO SRI - LANKA

Using Least Square Trend Value Equation: $Y = a + bX$

Where

Y = Required Trend Value of Export to Sri Lanka.

X = Unit of time

a = Constant Value $a = \Sigma Y/N$

b = Intercept $b = \Sigma XY/X^2$

1. Table for Computing the Value of Constants

(Values in 000' Rs. Lakhs)

YEAR	Y (EXPORT VALUE) IN 000' Rs. LAKHS	X (TIME DEVIATIONS) BASE YEAR= 2003-2004	X ²	XY
2001-2002	300.09	-2	4	-600.18
2002-2003	445.71	-1	1	-445.71
2003-2004	606.73	0	0	00.00
2004-2005	634.96	+1	1	+634.96
2005-2006	893.65	+2	4	+1787.30
N = 5	? Y = 2881.14		? X ² =10	? XY =1376.37

2. Computation of the Value of Constants and Trend Value Equation

(Values in 000' Rs. Lakhs)

Value of Constant (a)	Value of Constant (b)	Trend Value Equation
$a = ? Y/N$	$b = ? XY/X^2$	$Y = a + bX$
$a = 2881.14/5 = 576.22$	$b = 1376.37/10 = 137.63$	$Y = 576.22 + 137.63X$

3. Forecasting the Trend Value of Total Exports to Sri Lanka for 2006-2007 (Values in 000' Rs. Lakhs)

$$\begin{aligned} Y_{2006-2007} &= a + b(+3) \\ Y_{2006-2007} &= 576.22 + 137.63(+3) \\ Y_{2006-2007} &= 576.22 + 412.89 \\ Y_{2006-2007} &= 989.11 \end{aligned}$$

or say Rs. 9,89,110 Lakhs

So from above we may say that the India's total Exports to Sri Lanka for the year 2006-2007 can be expected to Rs. 9,89,110 Lakhs (approx).

(b) India's Imports from Sri Lanka

Since the Indo-Sri Lanka Bilateral Trade Agreement came into existence in March 2000, India's Imports from Sri Lanka has registered a sharp increase. A disaggregated analysis shows however, an unevenness which indicates the need for smoothening the trade process and regulations. Moreover, preferential exports have grown at 620 per cent in 2002 compared to 54 per cent in 2001. It can be seen from customs data that new products such as multiwall paper sacks, marble slabs, ceramic ware, jewellery, ice cream machines, furniture, etc, have shown an export expansion during 2002, whereas, export items such as soft drinks, polyester spun yarn, gloves, slippers, sandals, fibre products, measuring devices, safes, lighting fixtures, prefabricated Buildings (roof), etc, which entered the Indian market in 2000 and 2001. At present India is importing the following major items to Sri Lanka

- 1 CEREAL
- 2 TEA
- 3 WOOLEN YARN & FABRICS
- 4 COTTON YARN & FABRICS
- 5 MAN-MADE SPUN YARN
- 6 MADEUP TEXTILE ARTICLE
- 7 FRUITS & NUTS
- 8 SPICES
- 9 TEXTILE YARN,FABRICS,MADEUP ARTICLE
- 10 READYMADE GARMENTS
- 11 LEATHER
- 12 IRON & STEEL
- 13 NON-FERROUS METALS

- 14 SILVER
- 15 MANUFACTURES OF METALS
- 16 MACHINE TOOLS
- 17 MACHINERY
- 18 ELECTRONIC GOODS
- 19 MILK AND CREAM

Table no. 2 depicts the India's recent imports from Sri Lanka. As per table India's import from Sri Lanka reaches to Rs. 439 Cr. in year 2002-03 from Rs. 321 Cr. in the year 2001-02. Thus this resulted in an increase of 37% on 2001-02 imports of India's from Sri Lanka. Figure 2 also reflects the decreased import with the help of blue bar diagram during the year 2002-03 in which it has improved its height as compared with the 2001-02 bar. During the year 2003-04 India's import from Sri Lanka were gone to Rs. 893 Cr. from Rs. 439 Cr. in 2002-03, Thus there was a surplus of 103% on the 2001-02 imports from the Silence. It is also evident from the figure 2 that the growth of India's import from Sri Lanka during the year 2003-04 has gone up to almost double. In the year 2004-05 India's imports from Sri Lanka were Rs. 1700 Cr. as compared with the 2003-04 when it were Rs. 893 Cr. Thus the imports of India from Sri Lanka during the year increased considerably. Comparing both the import values the increase was of 90% on the 2003-04 imports which is significant.

Table 2 also discloses that India's imports from Sri Lanka during the year 2005-06 were Rs. 2531 Cr. which in the year 2004-05 were Rs. 1700 Cr. Comparing both the values the conclusion comes that there had been a significant increase in the India's import from Sri Lanka and on computing this increase is approx. 49% on the imports of 2004-05.

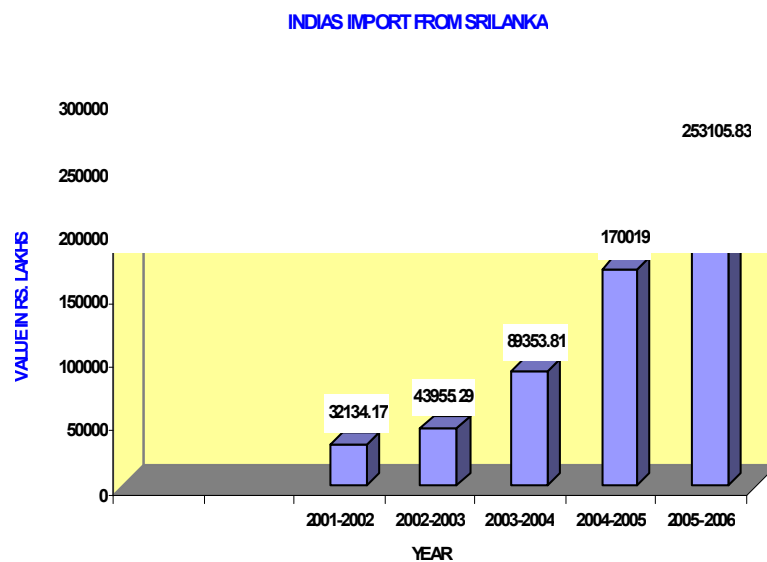
TABLE 2

INDIA'S IMPORT FROM SRILANKA

YEAR	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
VALUE IN RS. LAKHS	32134.17	43955.29	89353.81	170019	253105.83

FIGURE 2

INDIA'S IMPORTS FROM SRILANKA (2001-2006)



TRENDS OF INDIA'S IMPORT FROM SRI LANKA

Using Least Square Trend Value Equation: $Y = a + bX$

Where

Y = Required Trend Value of Import from Srilanka.

X = Unit of time

a = Constant Value $a = \Sigma Y/N$

b = Intercept $b = \Sigma XY/X^2$

1. Table for Computing the Value of Constants*(Values in 000' Rs. Lakhs)*

YEAR	Y (IMPORT VALUE) IN 000 Rs. LAKHS	X (TIME DEVIATIONS) BASE YEAR= 2003-2004	X ²	XY
2001-2002	32.13	-2	4	-64.26
2002-2003	43.95	-1	1	-43.95
2003-2004	89.35	0	0	00.00
2004-2005	170.00	+1	1	+170.00
2005-2006	253.10	+2	4	+506.20
N = 5	? Y = 588.53		? X ² =10	? XY =567.99

2. Computation of the Value of Constants and Trend Value Equation*(Values in 000' Rs. Lakhs)*

Value of Constant (a)	Value of Constant (b)	Trend Value Equation
a = ? Y/N	b = ? XY/X ²	Y = a + bX
a = 588.53/5 = 117.70	b = 567.99/10 = 56.8	Y = 117.70 + 56.8X

3. Forecasting the Trend Value of Total Imports from Sri Lanka for 2006-07*(Values in 000' Rs. Lakhs)*

$$Y_{2006-2007} = a + b(+3)$$

$$Y_{2006-2007} = 117.70 + 56.8(+3)$$

$$Y_{2006-2007} = 117.70 + 170.40$$

$$Y_{2006-2007} = 288.10$$

or say Rs. 2,88,100 Lakhs

So from above we may say that the India's total imports from Sri Lanka for the year 2006-2007 can reach to Rs. 2,88,100 Lakhs (approx).

(c) India's Balance of Trade with Sri-Lanka:

Table 3 states India's recent balance of trade with Sri Lanka. It is clear from the table that in recent years India has undergone to positive balance of trade with Sri Lanka. Figure 3 depicts the India's balance of trade with bar diagrams in positive axis direction which supports the favorable balance of trade of India. The same figure depicts the exports by green color bar diagrams and imports by blue color bar diagrams.

In the year 2001-02 India's exports to Sri Lanka were Rs. 3001 Cr. and imports were Rs. 321 Cr. which resulted in a positive trade balance of Rs. 2680 Cr. during the year. In the year 2002-03 India's total exports to Sri Lanka jumped to Rs. 4457 Cr. where as the imports reached to Rs. 439 Cr. which again resulted to a favorable balance of trade of Rs. 4018 Cr. This favorable effect has an increase of 50 % p.a. on the 2001-02 trade balance of India. Figure 3 also depicts the same in the positive axis direction.

As per table 3 the positive trade balance has increased significantly in the year 2003-04. In the year 2003-04 India's total exports to Sri Lanka amounts to Rs. 6067 Cr. whereas the total imports from Sri Lanka were Rs. 893 Cr. Thus this brought again a favorable trade balance of Rs. 5174 Cr. in 2003-04 as compared to the preceding year 2002-03 where it was Rs. 4018 Cr. As such there was a considerable increase in the positive effect @ 29% p.a. on the 2002-03 India's exports to Sri Lanka.

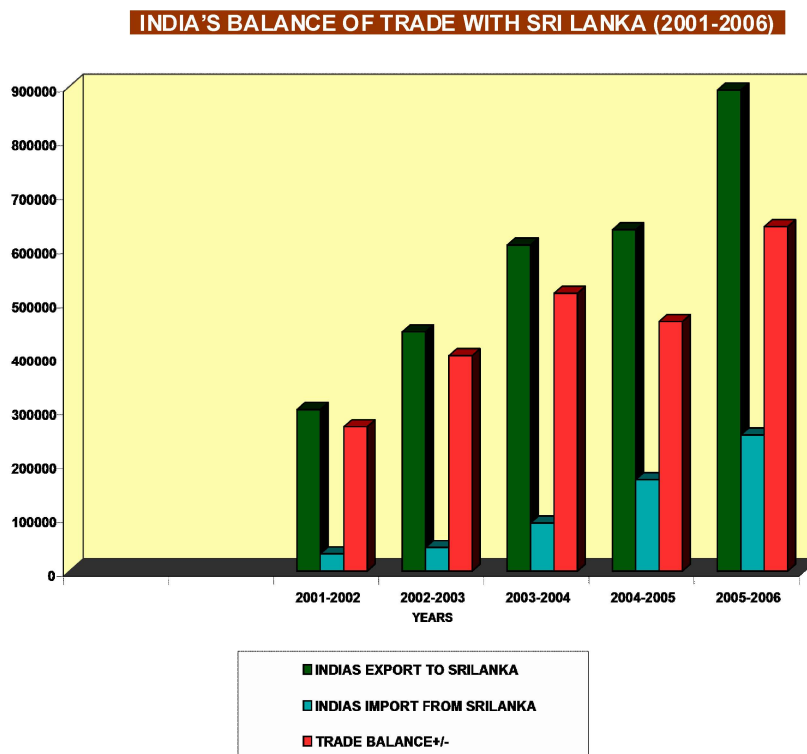
The growth of India's export to Sri Lanka during the year 2004-05 was Rs. 6350 Cr. where the imports were Rs. 1700 Cr. Comparing both the figures again a positive figure (i.e favorable trade balance) of Rs. 4650 Cr. comes. In Table 3 the positive trade balance in the year 2003-04 was Rs. 5174 Cr. and it went to Rs. 4650 Cr. resulting a decrease of 10% p.a. to the 2003-04 trade balance. Figure 8.53 represents the favorable balance of trade of the 2004-05 year in positive axis direction.

In 2005-06 India's exports to Sri Lanka increased to Rs. 8936 Cr. and imports went to Rs. 2531 Cr. accounting a positive balance of trade of Rs. 6405 Cr. On comparing it with the trade balance of the year 2004-05 of Rs. 4650 Cr. an increase of 38% p.a. on the trade balance 2004-05 is recorded. Figure 3 represents the favorable balance of trade of the said year in positive axis direction.

TABLE 3

INDIA'S TRADE BALANCE WITH SRI LANKA		VALUE IN RS. LAKHS				
YEAR	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	
INDIAS EXPORT TO SRILANKA	300098.15	445711.62	606735.47	634964.91	893653.57	
INDIAS IMPORT FROM SRILANKA	32134.17	43955.29	89353.81	170019.00	253105.83	
TRADE BALANCE+/-	+267963.98	+401756.33	+517381.66	+464945.91	+640547.74	

FIGURE 3



C

Sri Lanka is also an immediate neighboring country to India. India's relation with Sri Lanka is age old. The countries since the time immemorial have shared common culture and tradition. The socio-cultural history of Sri Lanka is so inextricable inter woven with that of India which is extensively reflected in the economic relations between the two countries. India and Sri Lanka have an institutionalised arrangement

on cooperation in agriculture under Memorandum of Agreement for Scientific and Technical Cooperation between Indian Council for Agricultural Research (ICAR) and Council for Agricultural Research Policy, Sri Lanka (CARP). The arrangement has been working to strengthen cooperation in the field of Agriculture. The recommendations of the Swaminathan report are incorporated in the ICAR-CARP work plan, which is under consideration of the Government of Sri Lanka for signing the work plan.

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