Sri Lanka’s Trade Trade with India

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India is the largest supplier of Sri Lanka’s imports. In 1996 she supplied Sri Lanka with imports valued at Rs 31,056 million or 10.4% of Sri Lanka’s total imports followed by Japan which supplied imports to the value of Rs 27,488 million or 9.2% of total imports. India’s rise as a major supplier of imports to Sri Lanka is dramatic. Ten years ago in 1985 Sri Lanka’s imports from India amounted to only Rs 7,668 million or 3.8% of the country’s total imports. In contrast, the shares of imports supplied by several other countries were very much higher: Japan 14.2%, USA – 6.5%, Iran 6.0% and UK 4.8%. India’s share of Sri Lanka’s imports rose to 4.4% by 1990 which was still below the shares of several other countries. Japan 12.1%, Iran 8.3%, USA 7.7%, Taiwan 5.8%, UK 5.4%, South Korea 4.8% and Hong Kong -4.5%. It was actually in the six years 1990 to 1996 that imports from India rose rapidly to form 10% of Sri Lanka’s total imports.

Between 1990 and 1996 imports from India increased at a more rapid rate than from any other country by 556% or over six fold. The increase in imports from other countries during this period was much less, for example from South Korea 277%, Singapore 248%, Taiwan – 155%, UK 138%, Japan 111% and USA-32%.

Imports from India would be even larger if the unrecorded imports from India are taken into account. A wide range of Indian goods are either smuggled or brought into the country as personal baggage of thousands of Sri Lankan travelers without payment of import duty and without being recorded. Perhaps the most glaring example is Indian silk saris which are available in any textile shop in Sri Lanka. Customs Returns, however, show a trifling amount of about ten million rupees as the value of all saris imported by Sri Lanka from India in 1995!

Pattern of Import

India has for several years supplied Sri Lanka with almost all types of goods except petroleum and sophisticated machinery. In the colonial days and even for some time thereafter, Sri Lanka’s imports from India were mainly food stuffs such as chilies, onions, potatoes, dhal, dried fish, spices, herbal medicines and cotton textiles. With the industrialization of India, however, the pattern of imports changed

in favor of Indian industrial goods such as iron and steel products, buses, lorries, three-wheelers, bicycles, cement, paper, chemical products and drugs and pharmaceuticals. The increasing export capacity of India as a result of industrialization was matched by import liberalization in Sri Lanka which allowed Indian products easy access to the Sri Lankan market.

The leading import from India, as shown in Table I is sugar which formed 11% of total imports from India. Sugar was the fifth largest import from India in 1995, but its value more than doubled in 1996. The second largest import is transport equipment. In 1995, transport equipment was the largest import. The third largest import in 1996 was rice which was not even imported in 1995. It is relevant to note, India has become a major rice exporter in recent years. The fourth is iron and steel products and the fifth cotton fabrics. The other major items in excess of Rs 1,000 million in value are machinery and mechanical equipment, medicaments, cement & clinkers and big onions. There are six items between Rs 500 million and Rs 1,000 million in import value paper and paperboard, oil cake, plastics and plastic products, electrical machinery and equipment, inorganic chemicals, and dried chilies and nine items between Rs 100 million and Rs 500 million in value-pulses, synthetic fiber, knitted fabric, dried fish, beedi leaves, rubber tyres, glass and glassware, malt extract and plywood.

It is clear from the list of imports that the majority are manufactures but food continues to account for a big share. Sugar as mentioned, is the largest import, rice the third largest and big onions the ninth largest. Besides these items, there are dried chilies, pulses, dried fish and malt extract. These food items formed 28% of total imports from India in 1996.

Major Imports from India 1996

	Item	Approximate Value (Rs Million)
1	Sugar	3,508
2	Transport Equipment	3,261
3	Rice	2,861
4	Iron & Steel	2,518
5	Cotton Fabric	2,207
6	Machenary and	1,483
7	Mechanical Equipment Medicaments	1,148
8	Cement	1,057
9	Big Onions	1,036
10	Paper & Paper Board	933
11	Oil Cake	865
12	Plastics & Products	773
13	Electrical Mechenary & Equipment	703
14	Inorganic Chemicals	622
15	Dried Chillies	621
16	Dried Leguminous Vegetables (Pulses)	393
17	Synthetic Fibre	350
18	Knitted fabric	305
19	Dried Fish	270
20	Beedi Leaves	236
21	Tyres	235
22	Glass & Glassware	233
23	Malt Extract	156
24	Plywood	136
	Total	31,056

Source: Sri Lanka Customs

Lower Cost of Imports

There may be a few items of import which only India can supply such as beedi leaves, dried chilies and medicinal herbs, but the large majority of imported goods are also available in many other countries but we import them from India mainly because of their lower cost. India is able to supply goods at a lower price than many other countries for several reasons. First, her cost of production is lower than in developed countries mainly because of lower labor costs. Second, many large transnational corporations have made India their regional industrial base and manufacture first class goods under their brand names for both the Indian domestic market and for export to neighboring countries, for example Tata Benz, Ashok Leyland, Suzuki-Maruti, Union Carbide, Hoechst. Such products, if purchased from the parent companies in developed countries, would also be far more expensive. Third, India being so near Sri Lanka geographically, cost of freight to Sri Lanka is lower than from any other country. The short distance also enables some imports to be shipped in traditional ships or small boats at lower freight than in standard ships. Fourth, the shorter shipping time facilitates quicker delivery particularly of products such as food- stuffs which may be required at short notice. Fifth, transport equipment in particular has benefited from the Indian line of credit extended to the purchase of Indian capital goods. Sixth, the reduction of tariffs under the SAPTA has also reduced the import cost of Indian products vis-a-vis non-South Asian Countries

Exports

The performance of Sri Lanka’s exports to India is in striking contrast to that of Sri Lanka’s imports from India. In 1996, exports to India amounted to only Rs 2,370 million or 1.0% of Sri Lanka’s total exports to the world and were equal to 7.6% of Sri Lanka’s imports from India. Between 1990 and 1996, Sri Lanka’s exports to India nearly trebled in value. whereas her imports from India increased by over six times. While exports to India rose by only 187% in this period, those to other major markets rose by much more, for example, to South Korea by 854%, Hong Kong 412%, UK – 366%, USA – 291% and Japan 245 %. Consequently, whereas the share of Sri Lanka’s exports going to India declined from 1.1% of the country’s total exports in 1990 to 1.0% in 1996, the shares of exports of several other countries rose, for example, the US share of Sri Lanka’s exports rose from 25.8% to 34.0%, of UK from 6.0% to 9.5%, Hong Kong from 0.9%, to 1.5% and of South Korea from 0.3% to 0.9%. Indias share of Sri Lanka’s exports in 1996 was even lower than that of Hong Kong, or Singapore.

The relatively small volume of exports to India reflects both the limited range of export items and their virtual stagnation. While India has increasingly diversified her exports to Sri Lanka, shifting from foodstuffs to manufactures, Sri Lanka has continued to export more or less the same primary commodities such as natural rubber and spices which have a limited demand in India. Sri Lanka's leading export to India in 1996 was natural rubber valued at Rs 368 million, forming 16% of her total exports to India, as shown in Table II. The second largest export was scrap iron valued at Rs 362 million. In 1995, the position was reversed scrap iron was the leading export followed by natural rubber. There were seven items each exceeding Rs 100 million in export value: natural rubber, scrap iron, other fruits, machinery parts and accessories, pepper, zirconium and other ores, and petroleum products. There were two items with export value between Rs 50 million and Rs 100 million each: arecanuts and scrap and waste paper, while there were four items between Rs 10 million and Rs 50 million each: tea, coconut oil, rutile and copper scrap. Industrial exports of any significance were only two: machine parts and accessories and petroleum products. Some of the industrial exports of 1995 such as glycerin, electrical boards and panels, leather, methylated spirits, batteries, rubber surgical gloves, ceilings, fabrics and printed paper do not appear to figure prominently in 1996. This is a matter which needs further investigation.

Main ExportsTo India 1996

	Item	Volume MT	Value Rs M
1	Rubber	5,009	368
2	Scrap Iron	46,586	362
3	Other Fruits	1,589	176
4	Machinery Parts and Accessories		138
5	Pepper	782	109
6	Zirconium and other Ores	26,000	107
7	Petrolium Products	19,950	102
8	Arecanuts	1,654	71
9	Scrap Iron	8,252	52
20	Copper Scrap	444	43
11	Rutile	680	19
12	Coconut Oil	194	12
13	Tea	83	11
14	Nutmeg	167	10
15	Cloves	180	7
16	Miscellaneous Chemical Products	103	5
17	Diamonds		4
18	Graphite	104	3
19	Essential Oil	13	3
	Total	-	2,370

Some exports from Sri Lanka no doubt, are facing high tariffs and import restrictions in India, but the main reason for the low volume of exports is that Sri Lanka does not have the exports India requires because of her undiversified export structure and limited range of exports. Sri Lanka has new industrial exports such as fabrics, garments, shoes, toys, rubber goods, jewelry and travel goods but they are also manufactured in India and therefore not needed. Sri Lanka's manufactures, particularly those made in export processing zones, are geared to the developed country markets and are unlikely to find markets in developing countries producing similar goods. India is able to supply goods

India's imports from the world increased from $25.3 billion in 1993 to $29.3 billion in 1994 or by nearly 16% and then to 835.0 billion in 1995 or by 19% and her imports from developing countries increased by nearly 5% in 1994 and 29% in 1995. Sri Lanka apparently has not benefited from this rise in India's imports, as it produced few products required by India on a large scale. The kind of products India buys from abroad is illustrated by what it imports from Singapore: TV picture tubes, paper board, accounting machines, telecommunications equipment electronic microcircuits, polythene primary forms, ball bearings, printed books, electrical switch-gear and different parts and components of different machines and equipment. All these goods are machinery, equipment and intermediate products not consumer goods. Sri Lanka is not in a position to supply such goods and can do so only with rapid industrialization and export diversification.