Trade Sri Lanka's Trade with India

Posted on

Dr JB Kelegama

The Growing Trade Deficit with India

The excess of imports over exports has inevitably resulted in a sizable trade deficit with India. The trade deficit rose from Rs 1,845 million in 1985 to Rs 3,905 million in 1990 and then to Rs 28,686 million in 1996. This deficit is the largest deficit of all Sri Lanka's trade deficits with foreign countries. It has therefore attracted much attention and created much dissatisfaction in Sri Lanka. Many think that the large trade deficit is undesirable and unfavorable to Sri Lanka and something must be done about it.

Trade Deficits with Some

There appears to be much confusion about trade deficits and trade surpluses among traders as well as policy makers. The simple fact is that it is inevitable for any country to have trade surpluses with some countries and deficits with others in multilateral trade and there is nothing wrong or inequitable about it. It is only under bilateral trade that exports and imports between any two countries are required to balance and it is on account of the rigidity of this framework such as difficulty in balancing the trade in a given year, obligation to purchase goods un competitive in quality or price merely to balance the trade, and restriction of the freedom to purchase from the cheapest market and sell to the most profitable, that bilateral trade was rejected by all countries including socialist countries and multilateral trade was accepted. The essence of multilateral trade is the freedom to trade to maximize the country's advantage to purchase from the cheapest and sell to earn the maximum profits.

Now it so happens that India is in a position to supply us with a wide range of goods at lower prices than other countries for reasons shown earlier. It is therefore in Sri Lanka's best interests to import those goods from India as import of such goods from others would certainly be at a higher cost and therefore to the country's disadvantage. Further, it is not only with India that Sri Lanka has trade deficits. It also has large trade deficits with a number of countries. In 1996, for instance, its trade deficits were as follows:- Taiwan Rs 15,466 million, Hong Kong Rs 16,065 million, Japan Rs 13,316 million, South Korea Rs 17,388 million, Malaysia Rs 8,614 million, Singapore Rs 10,981 million, China Rs 7,553 million, Thailand Rs 5,989 million, Indonesia Rs 5,734 mil- lion. Brazil Rs 1,180 million, Switzerland Rs 3,870 million, Saudi Arabia Rs 4,488 million, Iran Rs 6,420 million, Australia Rs 3,568 million, New Zealand Rs 3,466 million and South Africa Rs 2,421 million. Imports from all these countries were purchased at competitive prices.

Trade Surpluses with Others

On the other hand, Sri Lanka has trade surpluses with other countries, particularly developed countries of Europe and America. Thus, the trade surpluses in 1996 with these countries were as follows: USA Rs 66,190 million, the highest of all countries, UK – Rs 7,564 million, Germany – Rs 4,732 million, Belgium Rs 4,216 million, Netherlands Rs 2,262 mil- lion, France Rs 3,253 million and Canada Rs 1,214 million. There are trade surpluses with some Middle Eastern countries such as Jordan- Rs 1,939 million and Libya – Rs 1,062 million and the former Soviet Union Rs 5,952 million. These countries are some of our largest export markets, and we sell much more than we buy from them first because they require the goods we produce and second we get better prices from them than from others. For example, USA purchases more garments from us than any other country: no other country is prepared to buy so much at the price offered by USA. It is therefore in our best interests to continue to sell to them the products they require.

These countries too can argue that Sri Lanka is not buying enough from them, but they do not do so because they believe in multilateral trade. If we were forced to balance the trade with them, we will be compelled to purchase goods which we really do not need or to purchase them at prices much higher than what we pay for them in India, Korea or Taiwan. This type of international trade will not be in our best interests.

What all this means is that in multilateral trade based on world market forces, it is inevitable for Sri Lanka to have trade deficits with some countries which have the goods we need and at competitive prices such as India, Japan or Saudi Arabia and to have trade surpluses with others which provide us with the best market opportunities for our exports but lack the goods we need or are unable to offer them at competitive prices. In these circumstances, there is little to worry about the trade deficit with India. In fact, with the ongoing industrial deepening and upgrading with the assistance of foreign capital and the possible entry of more transnational corporations to create a regional industrial base in India for South Asia, as a whole, Sri Lanka's trade deficit with India is likely to grow even bigger. Once transnational corporations begin manufacturing popular motor cars. in India for export at prices lower than from Japan and Korea, Sri Lanka may import more cars from India than from other countries.

India's Stake in South Asian Markets

The reason why India should buy more from Sri Lanka is therefore not the growing trade surplus with Sri Lanka. That argument applies to all countries which have trade surpluses with Sri Lanka and has little economic justification in a world geared to free multilateral trade under the WTO. The real reason why India should increase her purchase from Sri Lanka, or for that matter from all her neighboring countries, is because it is in her self-interest to do so. India needs expanding markets in the neighboring countries for her rapidly growing industries, but the neighboring countries can absorb Indian exports only if they are prosperous only if they have high growth and increasing employment and income. India can contribute to this rapid growth by providing an impetus to their existing and potential export industries partly by industrial joint ventures to produce export goods for the Indian or third country markets and partly by providing greater access to the exports of these countries in the Indian market through relaxation or removal of trade barriers, purchase commitments, long-term agreements, contracts and subcontracts. India is by far the largest market in South Asia and the stimulus it can provide the neighboring countries is tremendous. By helping in the rapid development of the neighboring countries India at the same time will be expanding the markets in them for her exports. Further, such initiative by India is indispensable to expand intra-SAARC trade from its unsatisfactory low levels and to provide vitality and viability to SAARC as a regional trading and economic co- operation arrangement.

The initiative taken by the Indian government in the recent meeting of the Indo-Lanka Joint Commission should be welcomed in this context. The Indian Minister of External Affairs (now Prime Minister) I K Gujral undertook to remove quantitative restrictions and reduce tariff on 70 to 80 items of export interest to Sri Lanka unilaterally that is without any reciprocity from Sri Lanka. He also indicated that this was only the beginning and further liberalization would follow. This exercise is undertaken within the framework of the SAPTA. Minister Gujral stated 'I see this unilateral initiative not as an isolated step but as a part of a process of liberalization which we would like to carry forward. This can spur greater commercial integration and cooperation to our mutual benefit. I do hope this will be seen as the manifestation of our policy of good neighborliness." This is in keeping with India's new foreign policy relating to her neighbors that India does not ask for reciprocity from her neighbors but gives and accommodates what she can in good faith and trust.

It would be a mistake to assume that unilateral trade liberalization in India would automatically result in an expansion of Sri Lanka's exports to India. The opportunities of market access created by liberalization can be fully exploited only if Sri Lanka can produce the goods demanded by India and which she imports from other countries. This assumes, as stated earlier, rapid industrialization in Sri Lanka and the gearing of some of the new industries to the Indian market. This process is likely to be facilitated by the encouragement of the establishment of joint industrial ventures with Indian business houses who know the Indian market best. The new Investment Protection Agreement between the two countries is designed for this purpose. Minister Gujral stated: 'It should provide a new impetus to trade and investment ties and should help to unleash a new entrepreneurial dynamism. This would pave the way for enhancement of economic ties in a tangible manner.' It is hoped that this optimism is justified and Indian capital will contribute to Sri Lanka's industrialization and economic growth by enabling it to secure a bigger share of the Indian market.

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