

## CHAPTER- VII

### INDO-SRILANKA TRADE POTENTIALITIES

Trade Potentialities of two countries depend on the ability of each country that could meet their reciprocal import requirements. So, Indo-Srilanka trade potentialities depend on India's Export capacity to meet Srilanka's import requirements, and on the reverse, Srilanka's export capacity to meet India's import demand. This reciprocal export capacity to meet each others' import demand would have some positive bearing on their future trade prospects<sup>1</sup>.

Commodity intensity indices of export and import trade is designed to reveal the extent to which a given country's exports to a particular country meet the latter's import demand.<sup>2</sup>

Five Categories of Indian exportables and Srilankan exportables(at SITC-1 digit level) have already been identified. Discussions with those export potentialities with projections have been made in the following pages.

#### India's Export Potential to Srilanka

To compare India's exports to and Srilanka's imports from the world Table-7.1 and Table-7.2 have been constructed to present values of the five selected categories having higher potentialities in India's exports to Srilanka.

Table-7.1 shows the exports of five selected categories from India to the world during 1980 to 1986 at 7,400.25 million US

dollars on average ; in which 'Manufactured goods classified by materials(SITC-6)' constituted the highest percentage at 43.28 percent. "Food and live animals(SITC-0)" stood second position at 29.96 percent. The other most potential exports were of "Crude materials, inedible except fuel(SITC-2)", average percentage being 12.92 percent. shares of other selected categories are "Machinery and Transport equipment (SITC-7)", 8.67 percent and - "Chemicals (SITC-5)", 5.17 percent.

On the other hand, Srilanka's imports of five selected categories from world were 869.06 million US dollars on average for the periods 1977 to 1987 as shown in table 7.2. "Machinery and transport equipment(SITC-7)" have shown the highest potentialities of Srilanka's imports from world, average percentage being 43.35 percent. The second highest import potentialities have been shown the "Manufactured goods classified by materials (SITC-6)" with average percentage share of 36.89 percent. Chronologically, the other potentials imports were of "Chemicals(SITC-5)", Crude materials inedible, except fuel (SITC-2)", and "Food and live animals(SITC-0)" with average percentage shares of 15.20 percent, 3.97 percent and 0.59 percent respectively.

It is found from the above two tables that India's exports values of those five selected categories are always above the import values of Srilanka for the same. So, it stands that India was in a position to meet all requirements of Srilanka's imports of those five selected categories except "Machinery and Transport Equipment." This is so because the higher export values

for machinery does not alone determine India's export capacity to meet 100% import need of Srilanka for that particular category<sup>3</sup>. India could, however, meet the import needs of Srilanka for "Machinery and transport equipment" partially.

On the basis of the above two tables, Table-7.3 has been prepared to show India's potential exports and Srilanka's potential imports of those five selected categories<sup>4</sup> and their projections upto the end of this century. Projections are, however, made with the help of straight line Equation by using the Method of least square.

It is visualised from table-7.3 that India's exports as well as Srilanka's imports of those five selected categories would be the value of 6,208.1 and 1,331.8 million US dollars in 1995, if the present trend prevails. At the end of this century these values would be 6,551.6 million US dollars Indian exports - and 1,526.8 million US dollars for Srilanka's imports will constitute mostly 23.3 percent of India's projected exports of those five selected categories having same trend over years. So, India is always in a advantageous position to meet Srilanka's imports demand in the past and also in the coming future.

Table-7.1

## India's Exports of Five Selected Categories to World during 1977-1987

(Million US dollars)

<u>Selected Categories/year</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>Average</u>
1. Crude materials, inedible, except fuel(SITC)2	n.a.	n.a.	n.a.	1004.44	978.76	910.59	921.41	966.83	941.13	969.66	n.a.	956.12 (12.92)
2. Food and live animals (SITC-0)	-	-	-	2105.06	2426.30	2114.60	2135.57	2358.80	2107.74	2272.61	-	2217.24 (29.96)
3. Machinery and transport equipments(SITC-7)	-	-	-	648.77	780.53	645.82	545.09	633.56	569.13	669.26	-	641.74 ( 8.67 )
4. manufactured goods classified by materials(SITC-6)	-	-	-	2857.16	3261.31	2938.57	3053.05	3488.01	3117.24	3702.86	-	3202.60 (43.28)
5. Chemicals(SITC-5)	-	-	-	289.63	474.59	388.18	338.16	461.99	328.76	396.57	-	382.55 ( 5.17)
<b>TOTAL:</b>				<b>6905.06</b>	<b>7921.49</b>	<b>6997.76</b>	<b>6993.28</b>	<b>7909.19</b>	<b>7064.00</b>	<b>8010.96</b>	<b>-</b>	<b>7400.25</b>

Source: UN Statistical Year Book for Asia and the Pacific.

Note: i. Figures in the parenthesis in the last column reveal percentages to total.

ii. Dollar values derived by average annual exchange rate as provided by -

Reserve Bank of India Bulletin; June-1993.

Table-7.2

Srilanka's imports of Five Selected Categories from world during 1977-1987  
(US million dollars)

<u>Selected categories/year</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>Average</u>
1. Crude materials, inedible, except fuel(SITC-2)	16.7	30.0	38.3	32.0	36.7	33.9	37.9	37.0	44.6	37.5	-	34.46 (3.97)
2. Food and live animals (SITC-0)	1.9	3.0	3.2	3.7	2.9	6.1	5.1	6.8	5.4	7.4	10.9	5.13 (0.59)
3. Machinery and transport equipment(SITC-7)	83.9	224.2	359.8	508.3	410.1	419.7	469.0	449.0	368.5	415.1	436.3	376.72 (43.35)
4. Manufactured goods Classified by materials(SITC-6)	89.5	149.5	294.7	354.3	340.7	339.2	354.7	365.2	388.3	530.3	-	320.64 (36.89)
5. Chemicals(SITC-5)	45.3	73.6	121.5	169.9	149.9	120.3	120.4	153.3	163.4	203.5	-	132.11 (15.20)
<b>TOTAL:</b>	<b>237.3</b>	<b>480.3</b>	<b>817.5</b>	<b>1068.2</b>	<b>940.3</b>	<b>919.2</b>	<b>987.1</b>	<b>1011.3</b>	<b>970.2</b>	<b>1193.8</b>	<b>447.2</b>	<b>869.06</b>

Source: UN Statistical Year Book for Asia and the Pacific.

Note: Figures in the parenthesis in the last column reveal percentage to total.

India's potential Exports and Srilanka's potential Imports  
of Five Selected categories and their projection (Million US\$)

Year	Potential		Year	Projections	
	India's Exports	Srilanka's Imports		India's Exports	Srilanka's Imports
1977	n.a.	237.3	1988	5727.2	1058.8
1978	"	480.3	1989	5795.9	1097.8
1979	"	817.5	1990	5864.6	1136.8
1980	4974.4	1068.2	1991	5933.3	1175.8
1981	5794.1	940.3	1992	6002.0	1214.8
1982	5160.5	919.2	1993	6070.7	1253.8
1983	5042.5	987.1	1994	6139.4	1292.8
1984	5723.8	1011.3	1995	6208.1	1331.8
1985	5099.6	970.2	1996	6276.8	1370.8
1986	5890.9	1193.8	1997	6345.5	1409.8
1987	n.a.	447.2	1998	6414.2	1448.8
			1999	6482.9	1487.8
			2000	6551.6	1526.8

Source: UN Statistical Year Book for Asia and the Pacific.

Note: i. The projections are made by applying the formula of "Method of least square".

ii. The equation of the line of Best Fit,

$$Y = 824.8 + 39x$$

To understand the actual bilateral position regarding the same, Table-7.4 is to be examined. It presents India's export potential to those five selected categories to Srilanka, i.e., Srilanka's import potential of the same from India during 1977 to 1987 and their projections.

It is evident from the table that if the present trend prevails, India's exports of those five selected categories to Srilanka will be only 91.4 million US dollars in 1995 and 94.9 million US dollars in 2000 A.D. which will be even less than the level actually attained in 1985 at 104.9 million US dollars. This relatively poor position for the future may be attributed to the fact that though India's potential exports to Srilanka (i.e., Srilanka's potential imports from India) had shown only 4.03 percent annual growth rate for the period 1977 to 1987 with a high dispersion values measured by standard deviation as at 22.23 million US dollars.

The wide disparity in economic developments between the two countries had caused such low performance in exploiting the trade complementarities existing between them. This will be more vivid if we see the share of India's potential exports of those five selected categories in India's total exports to Srilanka during the same period in Table-7.5. It is shown on an average 97.10 percent of India's total exports to Srilanka in their actual bilateral trade performance. The five selected categories with so high exports potentialities for India to Srilanka would fail to attain the level of 1985 at the end of this century in 2000 A.D. is a serious concern over the Indo-Srilanka trade prospects.

Table-7.4

India's Export potential of Five Selected Categories to Srilanka(i.e., Srilanka's import potential of Five selected Categories from India) during 1977-87 and their projections (Million US dollars)

<u>Potential</u>		<u>Projections.</u>	
<u>Year</u>	<u>Value</u>	<u>Year</u>	<u>Value</u>
1977	42.4	1988	84.5
1978	60.9	1989	85.2
1979	105.7	1990	85.9
1980	105.8	1991	86.6
1981	99.7	1992	87.3
1982	55.9	1993	90.0
1983	82.5	1994	90.7
1984	96.4	1995	91.4
1985	104.9	1996	92.1
1986	64.0	1997	92.8
1987	65.4	1998	93.5
		1999	94.2
		2000	94.9

g = 4.03

v = 22.23

Source: - DGCI & S-Calcutta-Statistic of Foreign Trade of India By Countries-Vol.II(Various issues)

Note: i. Dollar values derived by average annual exchange rate as provided by Reserve Bank of India Bulletin June, 1993.

ii. The projections are made by applying the formula of "Method of least Square".

iii. The equation of the line of Best Fit,  $Y = 80.3 + 7x$

iv. g = Annual compound growth rate; v. = Standard Deviation

Table-7.5

Share of India's potential Exports of Five Selected  
Categories in India's Total Exports to Srilanka  
(1977-1987)

<u>Year</u>	<u>Share in percents</u>
1977	97.77
1978	96.71
1979	98.24
1980	93.35
1981	97.95
1982	96.83
1983	96.83
1984	98.08
1985	98.35
1986	97.17
1987	96.86
<hr/>	
Average	97.10

Source: DGCI & S - Calcutta-Statistics of Foreign Trade of  
India by Countries-Vol.II(Various issues)

SRILANKA'S EXPORTS POTENTIAL TO INDIA

The following five Selected Categories of commodities of Srilanka have been identified having high potentialities in trading with India : (i) "Food and Live animala (SITC-0)", (ii) "Miscellaneous Transactions and commodities n.e.s.(SITC-9)"; (iii) "Crude materials, in edible, except fuel(SITC-2)"; (iv) "Animal and vegetable oils and fats(SITC-4)", and (v) "Miscellaneous manufactured articles(SITC-8)". These commodity groups, however, have been identified with the help of commodity intensity indices<sup>5</sup>.

Table-7.6 is designed to show Srilanka's exports of those five Selected categories to world during 1977 to 1987. it shows the highest percentage share on average at 55.7 percent for "Food and live animals(SITC-0)" with average value of 497.2 million US dollars. The second highest position has been attained by "Miscellaneous manufactured articles(SITC-8)" having average percentage share as well as average value - of 22.0 percent and 196.0 million US dollars respectively. Similarly, the third commodity group with high potentiality has been shown by "Crude materials in edible, except fuel(SITC-2)". its average share is found at 19.7 percent with average value of 175.8 million US dollars. The other two commodity groups have shown some low numerical values in terms of percentage and money values.

On the other hand, Table7.7 has been designed to show India's imports of the same five selected categories from world

during 1980 to 1986. It shows the highest 35.57 percent on average for India's imports of "Crude materials, inedible, except fuel(SITC-2)" from world with average value of 1040.49 million US dollars. "Animal and vegetable oils and fats(SITC-4)" and "Food and live animals(SITC-0)" have been ranked second and third highest import potentialities with average share of 25.53 percent and 25.36 percent respectively. The fourth highest share has been noticed for "Miscellaneous manufactured articles (SITC-8)" at 12.84 percent with average value of 375.55 million US dollars. The other commodity group viz., "Miscellaneous Transactions and commodities n.e.s.(SITC-9)" has very low values.

On the basis of the respective totals of the values of the five selected categories as shown in table-7.6 and table-7.7, Srilanka's potential exports and India's potential imports of those categories<sup>6</sup> and their projections have been presented in Table-7.8. It shows that if the present trend prevails in both the countries, Srilanka's exports of those five selected categories will be of 1385.2 million US dollars in 1995 and 1538.2 million US dollars in 2,000 A.D. Such imports into India will be to tune of 4251.1 million US dollars in 1995 and 4803.6 million US dollars on 2000 A.D. So, Srilanka will be in a position to meet 31.9 percent and 32.0 percent of India's imports requirements of those five selected categories having higher imports potentialities in 1995 and 2000 A.D. respectively, if the present trend prevails.

Table-7.6

Srilanka's Exports of Five Selected Categories to world: 1977-1987(Million US dollars)

<u>Selected Categories/year</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>Average</u>
1. Food and live animals (SITC-0)	483.6	502.8	482.1	475.6	453.3	422.9	466.2	741.0	548.7	426.1	466.9	497.2 (55.7)
2. Miscellaneous transac- tions and commodities (SITC-9)	51.7	1.2	1.1	1.0	1.2	0.7	0.9	1.2	-	-	-	7.4 (0.8)
3. Crude materials, inedi- ble, except fuel(SITC-2)	170.2	204.1	210.3	207.5	191.6	162.9	161.6	171.6	140.8	144.6	168.7	175.8 (19.7)
4. Animal and vegetable oils and fats(SITC-4)	5.3	2.1	33.3	3.2	10.7	17.7	20.1	12.4	35.1	25.1	8.7	15.8 ( 1.8)
5. Miscellaneous manufac- tured articles(SITC-8)	18.1	39.0	73.7	112.9	158.9	175.6	214.9	312.8	299.6	349.2	401.6	196.0 (22.0)
<b>Total :</b>	<b>728.9</b>	<b>749.2</b>	<b>800.5</b>	<b>800.2</b>	<b>815.7</b>	<b>779.8</b>	<b>863.3</b>	<b>1239.0</b>	<b>1024.2</b>	<b>945.0</b>	<b>1045.9</b>	<b>892.2</b>

Source: UN Statistical Year Book for Asia and the Pacific.

Note: Figures in the parenthesis in the last column reveal percentages to total.

Table-7.7

## India's Imports of Five Selected Categories from world: 1980-1986.

(Million US dollars)

<u>Selected Categories/Year</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>Average</u>
1. <u>food and live animals</u> (SITC-0)	n.a.	n.a.	n.a.	469.26	872.44	713.04	1075.70	709.48	738.44	613.41	-	741.68 (25.36)
2. <u>Miscellaneous transac-</u> <u>tions and commodities</u> n.e.s. (SITC-9)	-	-	-	2.59	4.68	5.24	6.93	9.32	43.73	71.63	-	20.45 (0.70)
3. <u>Crude materials, inedi-</u> <u>ble, except fuel</u> (SITC-2)	-	-	-	698.02	1066.12	855.07	985.83	1086.46	1263.58	1328.37	-	1040.49 (35.57)
4. <u>animal and vegetable</u> <u>oils and fats</u> (SITC-4)	-	-	-	875.06	869.79	499.11	825.44	974.66	647.69	536.63	-	746.91 (25.53)
5. <u>Miscellaneous</u> <u>manufactured articles</u> (SITC-8)	-	-	-	261.11	314.41	324.19	403.21	355.03	421.03	549.88	-	375.55 (12.84)
<b>Total:</b>				<u>2306.04</u>	<u>3127.44</u>	<u>2396.65</u>	<u>3297.11</u>	<u>3133.95</u>	<u>3114.47</u>	<u>3099.92</u>	-	<u>2925.08</u>

Source: UN Statistical Year Book for Asia and the Pacific.

Note: i. Figures in the parenthesis in the last column reveal percentages to total.

ii. Dollar values derived by average annual exchange rate as provided by -

RBI Bulletin, June 1993.

Table-7.8

Srilanka's exports and India's potential imports of Five  
Selected Categories and their projections  
 (Million US dollars)

Potential			Projections		
Year	Srilanka's Exports	India's Imports	Year	Srilanka's Exports	India's Imports
1977	728.9	n.a.	1988	1106.2	3477.6
1978	749.2	"	1989	1142.2	3588.1
1979	800.5	"	1990	1178.2	3698.6
1980	800.2	2306.0	1991	1214.2	3809.1
1981	815.7	3127.4	1992	1250.2	3919.6
1982	779.8	2396.7	1993	1286.2	4030.1
1983	883.3	3297.1	1994	1322.2	4140.6
1984	1239.0	3133.9	1995	1358.2	4251.1
1985	1024.2	3114.5	1996	1394.2	4361.6
1986	945.0	3099.9	1997	1430.2	4472.1
1987	1045.9	n.a.	1998	1466.2	4582.6
			1999	1502.2	4693.1
			2000	1538.2	4803.6

g = 3.52 4.37

σ = 149.96 368.75

Source: UN Statistical Year Book for Asia and the Pacific.

Note: i. The projections are made by applying the formula of "Method of least square".

ii. The Equation of the line of Best Fit are:

a. Srilanka's Exports  $Y = 890.2 + 36x$

b. India's Imports  $Y = 2925.1 + 110.5x$

iii. g = Annual compound growth rate.

iv. σ = Standard Deviation.

Now, if we examine the Table-7.9 showing Srilanka's export potential of five selected categories to India (ie India's Import potential of same categories from Srilanka) and their projections upto the end of this century in 2000 A.D., we will find the real picture of their bilateral trade performance. It shows the projected values of Srilanka's potential exports at 19.4 million US dollars in 1995 and 23.4 million US dollars in 2000 A.D. It is, however, far below the level of Srilanka's actual potential exports in 1984, which was to tune of 28.2 million US dollars.

The annual compound growth rate of Srilanka's potential exports to India was 34.99 percent with a dispersion value of 7.22 million US dollars as measured by Standard Deviation.

so, the future prospects of Srilanka's potential exports to India is not bad. Its average share to Srilanka's total exports to India during 1977 to 1987 is so high as 90.19 percent as revealed in Table-7.10.

Table-7.9

Srilanka's Export potential of Five Selected Categories to India  
(i.e., India's import potential of Five Selected Categories  
from Srilanka) during 1977-1987 and their projections.  
(Million US dollars)

<u>Potential</u>		<u>Projection</u>	
<u>Year</u>	<u>Value</u>	<u>Year</u>	<u>Value</u>
1977	0.2	1988	13.8
1978	2.6	1989	14.6
1979	4.8	1990	15.4
1980	6.1	1991	16.2
1981	13.7	1992	17.0
1982	12.5	1993	17.8
1983	12.4	1994	18.6
1984	28.2	1995	19.4
1985	7.3	1996	20.2
1986	5.5	1997	21.0
1987	5.4	1998	21.8
		1999	22.6
		2000	23.4

$g = 34.99$

$\sigma = 7.22$

Source: DGCI & S - Calcutta-Statistical of Foreign Trade of India by countries - Vol.I(Various issues)

Note: i. Dollar valued derived by average annual exchange rate as provided by R.B.I. Bulletin, June 1993.

ii. The projections are made by applying the formula of "Method of least Square".

iii. The equation of the line of Best Fit,  
 $Y = 9.0 + .8x$

iv.  $g$  = Annual compound growth rate

v.  $\sigma$  = Standard Deviation.

Table-7.10

Share of Srilanka's potential Exports of Five Selected  
Categories in Srilanka's total exports to India  
(1977-1987)

<u>Year</u>	<u>Share in percents.</u>
1977	87.50
1978	96.92
1979	98.49
1980	91.30
1981	95.35
1982	97.39
1983	90.08
1984	92.71
1985	91.43
1986	83.77
1987	67.12
<u>Average</u>	<u>90.19</u>

Source: DGCI & S - Calcutta-Statistics of Foreign Trade of India  
By countries- Vol.I(various issues)

SUMMARY

It has been estimated that at the end of this century, only 23.3 percent of projected total exports of India would be sufficient to meet the entire import demand of Srilanka for five selected Categories of goods having higher commodity intensity of trade, if the present trend prevails. But conversely, Srilanka will also be in a position to meet 32 percent of India's imports requirements of those five selected categories of goods having higher commodity intensities at the end of the century. The five selected commodities are (1) "Food and live animals(SITC-0)", (2) "Miscellaneous transactions and commodities n.e.s.(SITC-9)", (3) "Crude materials, inedible, except fuel(SITC-2)", (4) "Animal and vegetable oils and fats(SITC-4)" and (5) "Miscellaneous manufactured articles(SITC-8)".

So, in reality, the projection of actual values of the reciprocal exports show that both the countries will fail to achieve the level of their exports in 1985/1984 even at the end of this century, if the present trend continues.

Notes and References:

1. Adhikary Prakash Chandra, Indo-Bangladesh Trade - A Study of its problems and prospects - an unpublished Ph.D. thesis - North Bengal University 1990.
2. a) K.Kojima, "Trade Arrangements among industrial countries Effects on Japan", in B.Balassa et al, eds. Studies in Trade Liberalisation Problems and Prospects for Industrial Countries, Baltimore, 1967.  
b) K.Kojima, "The Pattern of International Trade among Advanced Countries, "Hitosubasi Journal of Economics, - Vol.5 (1), June-1964.
3. To draw some definite inferences of the category: "Machinery and transport equipment", in addition to Comparative values (prices), the following need to be considered :
  - a) Specification and size of the machineries, and equipments,
  - b) Their qualitative descriptions, and
  - c) Technological innovations (sophistications) attached to them.  
potential
4. India's /exports and Srilanka's potential imports shown in Table-7.3 are the totals of five selected categories for each country in different years - as presented in Table-7.1 and Table 7.2 respectively.
5. See, Chapter-Vi of this thesis.
6. Srilanka's potential exports and India's potential imports shown in Table-7.8 are the total of five selected categories for each country in different years as presented in Table-7.6 and Table-7.7 respectively.