

CHAPTER-IXCONCLUSION

It was recorded that the bilateral trade and commercial relations between India and Srilanka commenced prior to the 4th century B.C. India had some geographical, historical, cultural and religious links with Srilanka since the 3rd Century B.C. from the time of Great Ashoka. Srilanka is situated in the Indian Ocean. its geographical contiguity to south India and the deepness of waters to its' north are some of the reasons attributed by the historians to strong and continuous - trade relations between the two countries. India and Srilanka both were the colonies of the Britishers and attained freedom almost at the same time. The Srilankan had not struggled for freedom as Indian, but the geo-political compulsions compelled Britishers to leave Srilanka because it was not possible to rule over Srilanka by sitting in Britain. After Independence, the United National Party in power on 1948 was found closer to the western countries and was always worried about India's interference in the internal affairs of Srilanka which India never did.

The Democratic Socialist Republic of Srilanka (formerly Ceylon) is in fact a 65,610 sq.km. Island in the Indian Ocean. The climate is tropical, average temperature is 80°F. About 60 percent of the people of Srilanka is spoken in Sinhala and some people use Tamil and English, but the official language of Srilanka is Sinhalese. More than 60 percent of the population is Buddhist, about 18 percent are Tamil

(Hindus) and other important minorities are Christians and Muslims. One third of the National Income and 80 percent of foreign exchange come from the cultivation of Tea, Rubber and Coconuts. The important minerals is graphite, although there are also deposit of Iron ore, monazite, ilmenite sand, limestone and Kaolin. Cement, textile, petroleum and fertilizers are under the Public Sector industries.

In the foregoing chapters different issues of Indo-Srilanka trade have been studied within the framework of Srilanka's economic as well as foreign trade - Structure in the milieu of world economic situation for the LDCs. Indo-Srilanka future trade prospects within the context of SAARC has also been studied. There are various problems of the trade co-operation between - Srilanka and India arising mainly from the structure of both the countries.

Srilanka is still now predominantly an agricultural country. One third of her national income and three-fourth of foreign exchange derived from cultivation. Srilanka has attained the freedom from the British rule on 1948. The standard of living of the people of Srilanka has been improved but the economic structure is not in good shape because of some internal and external affairs. The population of Srilanka is rising at an unprecedented rate and the solution of the external problem is not easy to find on Srilanka's economic structure, is not much different from the ones prevailing in India, Pakistan, Nepal, Bangladesh and so many other developing countries.

Srilanka has gone through three major trade policy phases. Srilankan economy was export-biased and remain open for the first phase after independence from 1948 to 1960. During this period, Srilanka's exports have specialised in three main crops, viz., Tea, Rubber and Coconut. In this time, the per capita of Srilanka was double than that of India while she specialised on agricultural exports and concentrates her imports on food items and industrial products and her neutral trade regime was continued until 1960.

During the second phase, Srilanka was in an interventionist period from 1960 to 1977, when she has completely revised her neutral trade regime. As a result, her exports have declined from 0.36 percent to only 0.07 percent and her average propensity to export declined from 28 percent to 19 percent during the period of 1960 to 1977. The average GDP growth rate stood at only 2.9 percent and the percentage of unemployed labour force became 24 percent. The economy of Srilanka has characterised by stagnant manufacturing Sector, excess capacity of production, food shortages and inflation raste were in 15 percent to 20 percent range. Srilanka has been listed as Most Seriously Affected Countries(MSA) by the UNO from 1974.

And in the third phase, in 1977 the UNP Government again returned to power in Srilanka and pledged to adopt again a Neutral Trade Regime to return to the previous open economy. Srilanka got her special encouragement from the impressive performance of the NICs and implemented a trade liberalisation

policies. The liberalisation of trade and exchange policies, removal of price controls, encourage foreign private investment, technology and managerial skills and slightly increase in the domestic bank interest rates were the main characteristics of this period.

In the Sectoral distribution of GDP, the share of primary and secondary sectors have almost the same percentage as 26.9 percent and 26.7 percent on average respectively. It indicates that the economy has the same equal level of importance on industrial sector as well a agricultural sector. This peculiar position of primary and secondary sectors placed Srilanka in an Unique position. On the other hand, the service (Tertiary) Sector has been flourished as the dominant sector of the economy and its overall share on average was 46.3 percent with an increasing trend. The elasticity of primary and secondary sectors output in respect of tertiary sector output are 1 and 1.6. So, it also indicates that 1 percent increase in primary and secondary sectors at the same time would followed by a 1.6 percent increase in tertiary sector.

Srilanka has a developing nature of economy takes more importance on the primary sector as the basic source of development. The lion's share of total land area under agriculture as at 49.2 percent on average during the reference period of 1977 to 1987. 'Arable land and land under permanent crops' have a total acreage of 24.6 percent on average of the agricultural land area. The agriculture of Srilanka is

earmarked for its plantation and rice cultivation. 17 percent, 5.7 percent and 4.9 percent land were covered by Rice cultivation, Tea and Rubber Plantations of the total agricultural land.

The foreign trade sector in Srilankan economy has the share of total turn over in GDP for the reference period as at 28 percent on average. So, more than 25 percent of the GDP is represented by her foreign trade indicating the positive impact of her trade liberalisation policy during the reference period of 1977 to 1987. The debt service ratio stood at 18.4 percent on average indicating a moderate degree of debt service burden for Srilanka as per World-Bank standard. But the future danger lies in the high compound growth rates in respect of interest payments, amortisations and total debt service burdens. Srilanka is likely to fall in more than moderately debt straits in the future.

Being an Island developing country Srilanka suffers from some acute problems like low resources endowment, natural disaster, low level of foreign exchange reserves, adverse impact of higher transportation and transit costs and a higher dependence on foreign imports. All these problems coupled with the ethnic conflict has made the economy quite weak in competing in the external markets. Her exports as the percentage of world exports for the reference period of 1977 to 1987 was only 0.06 percent on average and her trade-turnover as the percentage to world trade turn-over was only 0.08 percent on average. This has made her a mere price-taker in the

international trade like most of other LDCs - who suffers from severe price fluctuations for their exports earnings and deterioration in their terms of trade during the reference period.

Srilanka had negative trade balances from 1978 to 1987 except 1977 with a positive trade balance of 655 million rupees and in dollar terms it was 60 million US dollars. The average adverse balance of trade of Srilanka for the 11 years from 1977 to 1987 stood as 12,117 million rupees and in dollar terms it was 570 million US dollars due to increase in imports. Her export to GDP during the period was 23.25 percent, share of such imports stood as high as 34.44 percent and the trade turn-over to GDP was 57.69 percent on average during the same reference period. The growth rates of the economy of Srilanka were 17.7 percent, 23.2 percent and 20.6 percent for her exports, imports and trade turn-over respectively, on the other hand, the growth rate of GDP was at 16 percent. The persistent deficits in Srilanka's trade balances were due to the fact that her merchandise and invisible exports were always less than their corresponding imports.

The composition of primary and manufactured goods exports of Srilanka were 73.4 percent and 24.7 percent respectively on average. Amongst them "Food and live animals" constitute the highest percentage all over the years with annual average of 46.6 percent. "Crude materials, inedible, except fuel", "Miscellaneous manufactured articles", "Mineral fuels, Lubricants, related - materials" and "Manufactured goods

classified by materials", were the next important items of Srilanka's exports with annual average of 16.8 percent, 16.5 percent, 9.3 percent and 5.6 percent respectively.

The composition of Srilanka's imports were 52.2 percent of manufactured goods and 46.7 percent of primary goods on average. Highest imports were in "Machinery and transequipment", at 24.5 percent, Second highest import were in "Mineral, fuel, lubricants, related materials," at 23.1 percent and the other three important items of imports were "Food and live animals" (20.8 percent), "Manufactured goods classified by materials" (19.4 percent), and "Chemicals" (8.1 percent) respectively.

So far direction of trade is concerned, the first five important regions are the ESCAP, Western Europe, North and Central America, SAARC and Eastern Europe & USSR from which Srilanka receiving the largest volumes of imports and also the exports of Srilanka. Both imports and exports were in the highest values with the ESCAP region as 50.2 percent and 23.7 percent on average respectively. The most remarkable feature was that the share of imports from and exports to SAARC region have shown a very low percentage.

ETHNIC PROBLEMS

India and Srilanka as the independent countries have good faith in the peaceful solution of the bilateral problems successfully. Both the countries did not encourage the interference of outside powers in their bilateral problems and this approach has helped not only in the strengthening of the relations of two countries but also prevented the problems from further complications. The present ethnic problems which have affected the bilateral relations of ~~Indo~~ and Srilanka.

The ethnic conflicts have a strong economic dimension, share of power and privileges between the Sinhalese and Tamils. The Sinhalese face has become brightened since 1956, religion and language have strengthened Sinhalisation in Srilanka and they claim that they were the original settlers and ruling race in the pre-colonial period. The percentage of Tamils and other minority communities have been decreasing over the years. 90 percent of the jobs could get the 10 percent of English knowing people. the Sinhalese community constitute about 70 percent and Tamils both Indian and Srilankan are 22 percent of the total population of Srilanka. the distrust is the main origin of the present ethnic conflict between majority Sinhalese and minority Tamils, between Buddhist and Hindus.

The Buddhist and sinhalese had pressurised the Mrs. bandaranaike's Government for declaration of internal Emergency and reduce the facilities to Tamils. the admission of Tamil students to the attractive medical and engineering courses fell

from 48.3 percent in 1969 to 14.2 percent in 1975 of the total. This led to a considerable frustration and disappointment among the Tamil Youth. But the Tamils were strongly opposed the violence and communal unrest in Srilanka since 1960. The Sinhalese being accepted as their official language the other languages were deprived and it made a wide gap between the elite and the masses. As a result, the present ethnic conflict in Srilanka is entangled in Sinhalese Tamil conflict.

The Tamil United Front Action Committee(TUFAC) was formed in May 1973 under the Chairmanship of S.J.V.Chelvanayakam with a Rising Sun Flage. The committee have boycotted the celebration of Republic day and decided to draft a constitution for a separate State. Most of the Tamil politicians have joined the United Liberation Front in 1975 and the leadership has gone into the hands of Unemployed Educated Tamil Youth. The TULF fought the General Election on the issue of Eelam(a separate State). As a result, the election followed a communal riot in 1977, looting, burning and killing of Tamils have done at a large scale by the educated youth of Sinhalese with the help of the policemen.

The Republic of Srilanka was devastated by her four years bloody civil war started in May, 1983. As a result, more than 6,000 were killed and made 8,000 political prisoners and lost about 500 million US dollars annually. The India's role in the present ethnic problem of Srilanka needs to be understood. When the Srilankan Government had failed to control the ethnic

violence and sought military help from the USA, Britain, Pakistan and Bangladesh to meet the crisis. Mrs. Indira Gandhi strongly expressed her objection to seeking any foreign help and took an initiative to solve the problem but Mr. Jayewardene rejected the Indian formula and said that India has no role in settling the Tamil Problem. Mr. Rajiv Gandhi succeeded his mother as Prime Minister, the Indo-Srilanka relations showed improvement by arranging a Summit meeting in June, 1985 and produced some positive results.

On January, 1987, the LTTE started to take over the Civil administration in the North and plan to register motor vehicles, organise traffic police and open a Secretariate was seen by Colombo as an unilateral declaration of independence. The Srilankan government drastically took the military action against the Tamils and economic blockade at Jaffna and the ethnic conflicts were going to be deteriorated into a serious situation. The India condemned for heavy casualties of civilians and once again warned Srilanka and took a drastic action on June 4. The five Indian air force planes entered into Srilanka's airspace escorted by Mirage 2000 Fighters Jets and dropped relief supplies over Jaffna and Colombo bound to cease military operation and lifted the embargo.

On July 29, 1987 the two governments of Srilanka and India signed the historic "Indo-Srilanka Agreement to establish peace and normalcy in Srilanka", which was endangered from the last few years due to severe ethnic conflict in the island

nation of Srilanka. On the request of Srilankan government more than 60,000 Indian Peace Keeping Forces entered in Srilanka to collect arms from the LTTE and to maintain law and order by early 1988. But after only three months the operation of IPKF against the Tigers, which killed some 2,000 civilians, damaged 50,000 buildings and sent 2,00,000 refugees searching for shelters. The Jaffna Tamils reinterpretation of the IPKF as innocent people killing force and even today hanging black flags in protest at the agreement and its implementation remain quite poor. Independent Tamil Politics in Srilanka is a fact of the history. The events of the next few years will be decided the future political solution of the Tamil Problems in Srilanka itself.

INDO-SRILANKA TRADE

Since their independence India and Srilanka have tried to develop their economic structure and foreign trade and rise the competitiveness inspite of complementarities. India has to face competition with Srilanka in the foreign trade Sectors of her exports in tea, coffee, rubber, and marine products, the main exports of Srilanka in her global trade relations. But Srilanka is a least developed country with geographic proximity, historic and cultural affinity with India. She has to depend to a large extent for the manufacture imports from the comparatively diversified economy of India.

Share of India's exports in total imports of Srilanka were 10.35 percent placing India as the second largest exporter to Srilanka in 1979, but the position became declined in the next years. Share of Srilanka's imports in total exports of India during the reference period of 1977 to 1987 the picture is more gloomy and it showed the highest share at only 1.95 percent in 1979. The ethnic conflict has an adverse impact on India's export trade with Srilanka and it declined from 6.36 percent to 4.99 percent on average during the pre-ethnic and ethnic conflict periods.

India's exports to Srilanka are of diverse in nature. When the manufactures exports attained the highest percentage, the primary exports were lowest percentage in 1977, but in 1984 the trend was opposite. Her primary exports to Srilanka was 35.30 percent on average with the compound growth rate of 11.25 percent. Whereas manufactures exports have shown annual average as high as 64.65 percent with the compound growth rate of 6.10 percent.

The most important export items of India to Srilanka under RITC Sections are identified and listed as follows :

1. RITC Section : 0

Live animals chiefly for food, meat and meat preparations, Dairy products and birds eggs, fish, crustaceans & molasses and preparation thereof; Cereal and Cereal preparations; vegetables and fruits; Sugar, Sugar preparations and honey; coffee, tea, cocos, spices and manufactures thereof; Feeding

Staff for animals(not including unmilled cereal) ;
Miscellaneous edible products and preparations.

2. RITC Section:1

Beverages; Tobacco and tobacco manufactures.

RITC Section:2

Oilseeds and oleaginous fruits; Crude-rubber(including synthetic and reclaimed); Cork and wood; Textile, fibres (other than wool tops) and their wastes; crude fertilizers and crude minerals (excluding coals, petroleum and precious stones); Metalliferous ores and metal scrap; crude animal and vegetable materials n.e.s.

4. RITC Section:3

Coal, coke and briquettes, petroleum, petroleum products and related materials.

5. RITC Section:4

Animal oils and fats; Fixed vegetable oils and fats, Animal and vegetable oils and fat, processed and waxes and animal or vegetable origin.

6. RITC Section:5

Organic Chemicals; Inorganic-chemicals, Dying tanning and colouring materials; Medicinal and Pharmaceutical products; Essential oils and perfume materials; Toilet polishing, Cleansing preparation; Fertilizers manufactured; Explosive and pyrotechnique products; Artificial resins; Plastic materials and Cellulose esters & ethers; Chemical materials and products n.e.s.

7. RITC Section:6

Leather, leather manufactures n.e.s. and dressed furskins; Rubber manufactures n.e.s.; Cork and wood manufactures (excluding furniture); paper, paper board and articles

of paper, pulp of paper or of paper board; Textile Yarn fabrics made up articles n.e.s. and related products; Non Metallic minerals manufactures n.e.s. ; Iron and steel; Non ferrous metals; Manufactures of metals n.e.s.

8. RITC Section :7

Power generating machinery and equipments; Machinery specialised for particular industries; Metal working machinery; General industrial Machinery and equipment n.e.s. and machine parts n.e.s.; office machine and automatic data processing equipments; telecommunication and sound recording apparatus and equipment; Electrical machinery, apparatus and appliances n.e.s. and electric parts thereof(including non-electric counter parts n.e.s. of electric household type equipments); Road Vehicles(including air cushion vehicles); other transport equipment.

9. RITC Section:8

Sanitary, plumbing, heating and lighting fixtures and fittings n.e.s., Furniture and parts thereof; Travel goods, hand bags and similar containers; outer garments mens' and boys' of textile febrics(other then knitted or crochted goods); Foot ware; professional Scientific and controlling instruments and apparatus n.e.s.; Photographic apparatus, equipments and supplies and optical goods n.e.s. watches and clocks; Miscellaneous manufactured articles n.e.s.

With the help of commodity intensity indices five categories of export commodities of India under SITC

Section have been identified which have higher export potentialities for Srilanka. These are the following:

- i) Crude materials, inedible, except fuel(SITC:2);
- ii) Food and live animals(SITC:0);
- iii)Machinery and transport equipment(SITC;7);
- iv) Manufactured goods classified by materials(SITC:6)
- v) Chemicals (SITC: 5)

On the converse, India's imports from Srilanka, i.e., Srilanka's exports to India are at the miserable lower ebb throughout the entire reference period. This is due to the very limited exportables of Srilanka with which she has to trade in her external markets including India. Primary imports of India from Srilanka were at the highest at 88.20 percent on average and dominating the manufacture imports during the entire reference period.

From the few importables of India from Srilanka, the most important items under RITC Sections are as follows:

1. RITC Section: 0

Dairy products and birds eggs; Fish, crustaceous and molasses and preparation thereof; vegetables and fruits; coffee, tea, cocos, spices and manufactures thereof;

2. RITC Section:2

Hides, skins and furskins raw; Oilseeds and Oleaginous fruits; Crude rubber(including synthetic & reclaimed)

pulp and waste papers; Textile fibres (other than wool tops) and their wastes (not manufactured into yarn or fabrics); Crude fertilisers and crude minerals (excluding coal, Petroleum and precious stones); Metalliferous ores and metal scrap; crude animals and vegetables - materials n.e.s.

3. RITC Section:4

Fixed vegetable oils and fats; Animal and vegetable oils and fats.

4. RITC Section:5

Organic Chemicals; Inorganic chemicals; Dying, tanning and colouring materials; Medicinal and Pharmaceutical products; essential oils and perfume materials, toilet, polishing and cleansing preparations; Artificial resins and plastic materials and cellulose, esters and ethers; chemical materials and products n.e.s.

5. RITC Section:6

Leather and leather manufactures n.e.s. and dressed furskins, Rubber manufactures n.e.s.; Paper, paper board, and articles of paper, pulp of paper or of paper board; Textile yarn fabrics made up articles n.e.s. and related products; Non-metallic minerals manufactures n.e.s.; Iron and Steel; Non-Ferrous metal; manufactures of metals n.e.s.

6. RITC Section:7

Power generating machinery and equipments; Machinery specialised for particular industries; Metal working Machinery; General industrial machinery and equipments n.e.s. and machine parts n.e.s.; office machine and automatic data processing equipment; Telecommunication and sound recording apparatus and equipments; Electrical machinery and equipments and appliances n.e.s. and electric parts thereof(including non-electric counter parts n.e.s. of electric household type equipments; road Vehicles(including air cushion vehicles); Other transport equipments.

7. RITC Section :8

Outer garments mens' and boys' professional scientific and controlling instruments and apparatus n.e.s. photographic apparatus, equipment and supplies and optical goods n.e.s. watches and clocks; Miscellaneous manufactured articles n.e.s.

With the help of the commodity Intensity Indices five categories of imports of India from Srilanka having the higher import potentialities are the following :

- i) Food and live animals (SITC :0)
- ii) Miscellaneous transactions and commodities n.e.s.(SITC : 9) ;
- iii) Crude materials, inedible, except fuel (SITC : 2) ;
- iv) Animal and vegetable oils and fats (SITC : 4) ;
- v) Miscellaneous manufactures articles (SITC : 8).

India was able to meet all the requirements of Srilank's imports for the five selected categories having higher commodity intensity except for "Machinery and transport equipment". India could meet the demand for "Machinery and transport equipment" partially.

At the end of the century, 23.3 percent of India's projected exports of those five selected categories would satisfy the entire import demand of Srilanka if the present trend prevails.

Projections of the actual values of exports from India to Srilanka of five potential export categories show that at the end of this century the export value of these categories will not attain even the level of 1985 if the present trend prevails.

On the contrary, if the present trend prevails, Srilanka will be in a position to meet only 32 percent of import requirements of India for the five selected categories having higher export potentialities of Srilanka for India at the end of the century.

Projections of the actual values of Srilanka's export to India for those five selected categories show that it will not be possible to attain the level of 1984 even at the end of this century if the present trend prevails.

Within the context of South Asian Regional co-operation, it is found that the extra regional trade of SAARC countries (excluding Bhutan and maldives) is very high especially with the developed industrial countries during the period of 1980 to 1987. The intra-regional trade of the SAARC countries is

extremely low during the same reference period. However, India has a surplus trade balances with the SAARC countries except Pakistan for the period under study. She has consistent trade deficits with Pakistan throughout the period with a very minimum value.

In case of Srilanka, the four most important of her trading partners of SAARC countries are India, Pakistan, Bangladesh and Maldives. Srilanka faces a deficit balance of trade with India for the entire reference period of 1980 to 1987. She has a consistent trade surplus with Bangladesh and she has also maintained a favourable balances of trade with Pakistan from 1980 to 1984 and with Maldives from 1981 to 1987, while she has an overall continuous total trade deficit with the SAARC countries during the same reference period.

A preferential Trading Arrangement would be the most feasible device for a better economic co-operation within the SAARC region, Product by-product basis exchange of tariff and non-tariff preference are possible. In addition to this, a careful follow-up action are needed to exploit the full benefits from Bangkok Agreement and the like under ESCAP and UNCTAD; and also under ACU.

The reduction of unproductive expenditure and initiation of joint ventures with India with buy-back policies would help in particular to solve the problem of SAARC countries and to wipe out trade gaps with India.

PROSPECTS AND SUGGESTIONS

The main problems of Indo-Srilanka trade relations is the mounting trade deficits of Srilanka with India over years, and it has practically, found no way to reduce such deficits. India's exports to Srilanka are in a wide-range of commodities of diverse nature, these commodities are subject to potential gains to Srilanka due to their low import price than rest of the world. Whereas Srilanka's exports to India are limited a very low number of commodities are subject to potential loss to India due to their high price than India's imports from rest of the world. So, the problem was bristling in the light of the fact that Srilanka had nothing to offer the terms goods needed by India.

Counter trade in the form of "Import Compensation" became an important and popular device for a deficit country in the face of uncertainty and global industrial realignment to maintain growth, promoting exports and expedite economic diversification process of that country.

"Import Compensation" as an effective form of counter trade, in fact, represents and industrial counter-trade with the most common variant of buy-back arrangement.

Both the countries should try to exploit the full potentialities of Bangkok Agreement under ESCAP, Asian Clearing Union(ACU), UNCTAD, GATT and the SAARC for their mutual developments in trade, commerce and industry. Both the countries should also try to reduce the unproductive and wasteful arms race in the region by co-operating in the appropriate forums with a

view to achieving peace, the pre-requisit of their developments.

It was decided that by the exchange of deligations, Diplomates like the Prime Minister of India and the President of Srilanka to expand the mutual trade relations and economic collaborations between the old-aged related neighbour country. Some sphere were identified for Indian participation in the development of the economy of Srilanka. Rubber and forest based industries, manufactures of building materials, exploitation of marine products, housing components, electric bulbs, tubes, cutting tools and plastic products were found to be feasible. Indian consultancy services suited for these purposes.

Indian investors have been guaranteed under an investment guarantee agreement to help and encourage Indian joint ventures in the Free Trade Zone of Srilanka. Indian joint ventures with buy back policies would be the most effective resort to bring down the trade gap.

People-to-people contact, tourist-traffic between the two countries and Buddhist pilgrims now visit shrines in India in a large numbers have also been possible the free convertibility of Indian and Srilankan rupees for these tourists.

Srilanka is in a position to supply cloves, cocobeans, coconut oil, precious stones, graphite, cement as well as fertilizer and electricity for the reduction of her trade gap in coming future.

Therefore, it can be suggested that India should take aid policies for Srilanka that stimulate trade not only with India but also in other Asian countries, and it should also

provide for economic relations between the countries that would make the maximum utilisation of natural resources of both the countries.

If India and Srilanka should take an initiative to capture the world market in tea, rubber and marine products by avoiding mutual competition through common market pool. Cost benefit approach should be adopted in joint ventures and service contracts. Cheap and skilled labour forces of Srilanka should be utilised with the help of Indian technology and capital. India should also help Srilanka to promote her exports in other countries, so that the deficit trade balance with India can be solved. Some efforts should made with a good faith to avoid and solve all the problems that discourage the growth of sound bilateral relations between India and Srilanka.