

CHAPTER - I

INTRODUCTION

HISTORICAL, GEOGRAPHICAL AND DEMOGRAPHICAL PERSPECTIVES :

India has some common historical, geographical and demographical links with Srilanka. India had historical, cultural and religious links with Srilanka since the 3rd Century B.C. when Great Ashoka sent the message of Lord Buddha to his friend, King Devanampiyatissa of Ceylon, through his own son, Thera Mahinda. Since then, Buddhism became a major religion in Srilanka. Srilanka's Buddhist Sinhalese and Hindu Tamils have lived together in the island over 2,000 years. There are language and the cultural relations of Tamil people living in Tamil Nadu(India) as well as the same of the inhabitants of Northern and Eastern provinces of Srilanka. Furthermore, the common experience of colonial rule over India and Srilanka have helped both the governments to understand their respective problems. The cooperation between India and Srilanka has a long history. It was recorded that the Indo-Srilanka trade relations as well as the economic relations commence sometimes prior to the 4th Century B.C.¹ India always tried to strengthen the economic co-operation between India and Srilanka and this has taken the form of technical assistance, deputation of experts, training facilities, economic collaborations, joint ventures, development of trade and tourism².

The first Sinhalese migrants arrived in Ceylon, some 2500 years ago and they mixed with the aboriginal inhabitants of the island and the later migrants from the Malabar and coromandal coast of South India. Since then, they developed a distinct identity not only by language but also by religion.³

However, coming to more recent period it can be stated that the United National Party(UNP) was formed by Mr.D.S.Senanayake in 1946. Ceylon starts her existence as a newly independent state in 1948 with her first Prime Minister D.S.Senanayake. He was not only the leader of majority Sinhalese community but he was also accepted as the leader of the minority ethnic and religious groups with his concessional arrangements. However, shortly after independence Senanayake was able to persuade Ceylon Tamil leader G.G.Ponnambalam to join his Cabinet⁴.

The geographical location, natural resources and some other factors played an important role in the economy of Srilanka. it is a very small country in comparison to other Asian countries viz, China, India and Pakistan. Total area of Srilanka is spread over 25,332 sq.miles(65,610 sq.km.). Her length from South to North is 278 miles (447 km.) and its width from East to West is 140 miles(279 km.). It is pearl-shaped. The Up-country of Srilanka is a Central mountain, mostly over 1,200 feet in height with uneven peaks and ridges and it occupies about one fifth of the total area of the country. The

remaining low-country have various isolated rocks. The main exportable crop of Srilanka, Tea grows from up-country, which is the basic economic base of Srilankan economy. This is a wet-zone and the Jaffna Peninsula is dry land. About two-thirds of Srilanka's agricultural land is dry and its maximum area is in Jaffna. The remaining one-third land is irrigated⁵.

According to the Census Report 1981 total population of Srilanka is about 1,48,50,000. More than 70 percent of the total population of Srilanka are Sinhalese. Their mother language is 'Sinhala'. Large number of Sinhalese are Buddhist by religion and they concentrated in the wet-zone of the island. Traditionally, their economy depends on rice production. About 62 percent of the Srilankan people are from the coastal areas and remaining 38 percent are from the Kandyan areas. A large number of Sinhalese have migrated to the towns from the low country to the up-country. However, they still remain to be a 'low country man'. The low-country Sinhalese have benefitted both by their skills and foreign investments. Wriggins writes: "In the rural areas of Kandyan or hill-country districts, the traditional social structure, based on quasi-feudal stratification of reciprocal obligations and duties, has remained relatively in-tact. In the coastal strip, subject for many centuries to western rule the traditional social system has undergone profound alterations".⁶

Economic Problems

In the 1970's, the concept of New Economic World Order (NEWO) gained some reasonable momentum particularly among the poor developing countries. They found the United Nations as their appropriate forum to formulaste the demand. At the initial stasge of the Formation of the UN in 1945, it was dominated by the major victorious powers of world war II. They used to manage the UN to maintain world peace only. But over the years, the UN activities has been shifted from peace to the social and economic programmes to a large extent in the member countries. A large number of the LDCs attaining freedom after world war II, constitute the majority in the UN General Asembly. In 1974 and 1975 they first formulate the demands for the New Economic World Order at extra-ordinary session in the General Assembly. The idea of the UN General Assembly envisaged through the following resolutions:

1. Industrialisatioin in the developing countries specially in the field of their export oriented industries with co-operation from the developed countries;
- ii. Diversification and expansion in the trade structure of developing countries and to make a guarantee of stable prices of their exports of primary products;
- iii. Uniform, United and guaranteed flow of financial aids from the priviledge to the less privileged countries;
- iv. Co-operation in the field of science and technology between the developed and the developing Countries to strengthen

the technical and scientific infrastructure in the latter ;
and

- v. Increase in food production in the developing countries through steady flow of aids including fertilizers and other agricultural inputs.

The new concept of the NEWO, however, did not get favour from the USA and other developed countries.⁷

In 1973 the GATT has made a formula to the attainment of "stable, equitable and remunerative prices for primary products" specially for the LDCs. But in respect of non-tariff barriers, the developed countries found increasingly reluctant for further liberalisation of trade; and the LDCs continued to have a weak bargaining position. As a result, LDCs tend to use the UNCTAD as their main forum to help solve the problem⁸.

The Asian Clearing Union (ACU) came into operation from 1976 with a view to solving the problems of the LDCs in Asia relating to the payments and credit arrangements. All the South Asian countries except Bhutan and Maldives have got membership of the ACU.⁹

The discussion of SAARC proposal was first started from 1977 when the then president Ziaur Rahman of Bangladesh made his extensive Tours to India, Pakistan, Nepal and Srilanka.¹⁰ His idea however, came into being, after his assassination, with the declaration of the SAARC Summit charter on December 8, 1985 in Dhaka by the Head of the States of Seven Asian Countries.¹¹

Indo-Srilanka trade relations have been studied within the framework of Srilanka's economic and foreign trade structure in the milieu of world economic situation for the LDCs. There are various problems of the trade co-operation between Srilanka and India and its future prospects have also been studied within the context of SAARC. Srilanka attained her independence from the British rule on 1948 and had gone through the phase of open economy policies. During this period of 1948 to 1960, the main exportable of Srilanka were Tea, Rubber and Coconuts. More than 80 percent of foreign exchange earnings were from cultivation. During this period the per-capita income of Srilanka was double than that of India and she specialised her exports on agricultural products. Srilanka concentrated her imports on food items and industrial products and her 'liberalisation trade regime' had continued during her first trade policy phases upto 1960.

During the Second phase, Srilanka had an "Interventionist" period from 1960 to 1977, and liberalisation trade regime was completely revised by the government. As a result, Srilanka's exports have declined by 9 percent over the years. The growth rate of average GDP decreased ast only 2.9 percent and asbout 24 percent of labour force became unemployed. The economy of Srilanka had been characterised by stagnant manufacturing sector, excess capacity, food shortages and inflation rates were between 15 percent to 20 percent.

And in the third phase, in 1977 the United National

Party again had returned to power in Srilanka and adopted a Trade Liberalisation Regime to return to the previous open economy. The liberalisation of trade and exchange policies, removal of price controls, encouragement of private foreign investors, technologist, skilled management and slightly increased the rates of domestic bank interest were the main characteristics of this period.

In the light of the above economic backgrounds and problems of Srilankan economy, the IndoSrilanka trade relations will be studied empirically in this thesis from 1977 to 1987. The available data as presented in the tables of the following chapters show that Srilanka has a consistent trade deficits with Indian throughout the period (except in 1977 with a positive trade balance) under study, the causes as well as the remedies of which are to be enquired into the proposed research study.

Short Review of the Literature on Indo-Srilanka Co-operation

In respect of Indo-Srilanka relations, it is found that most of the published books and articles have dealt with the political relations, specially with the ethnic conflicts and the role of both the governments in dealing with the problem. Only a few books and articles are available dealing with the trade and economic co-operations of India and

Srilanka. Some them have been discussed below:

- 1) K.L.Sharma, Society and Polity in Modern Srilanka, South Asian Publishers Pvt. Ltd., New Delhi, 1987.

Dr.K.L.Sharma, Professor in centre for the study of Social System, Jawaharlal Nehru University, New Delhi. He has successfully analysed the traditional social structures of Srilanka, viz, caste, class, ethnicity, village community, religion and language. Professor Sharma has discussed the new structures particularly political parties, politics, ideology, ethnic conflict, education and the change of Srilanka after independence. There is a relationship between Buddhims, Sinhala language and politics in Srilanka. The author raises some important questions regarding present ethnic conflict. This book provides detailed the back-ground of Srilankan ethnic conflict.

2. B.B.Maheshwari, India & Srilanka : Economic Relations , Agam Prakashan, Delhi, 1987.

Dr.B.B.Maheshwari has discussed the bilateral economic relations between India and Srilanka which are socially, culturally and politically linked. The historical, cultural and religious links date back to the 3rd century B.C. when Ashoka the great sent the message of Buddha to Srilanka. The Sinhalese and Tamils have lived together in the island over 2000 years. Indo-Srilanka trade relations commenced sometimes prior to the 4th century B.C. This book emphasises to highlight

the productive activities of the Indian-Tamils in Srilanka's economy. The minority problems in Srilanka had an adverse bearing on the two countries and it soured the Indo-Srilanka economic relations. Dr. Maheshwari analysed the favourable and unfavourable links between India and Srilanka. He has identified the areas within which two countries can co-operate each other in trade and joint venture.

3. Bhabani Sengupta (edited) Centre for Policy Research, New Delhi, SAARC-ASEAN : Prospects and Problems of Inter-regional Co-operation, South Asian Publications, New Delhi, 1988.

In 1980's the Seven South Asian Countries have started to come closer the gap of understanding has a tendency to narrow down. The creation of SAARC has taken the opportunity of inter-regional linkage between the two Asian regions. The SAARC and the ASEAN Countries have built academic institutions, chamber of commerce and industry.

4. S. Sureshvaran and Yvonna-Schokman - Srilanka: Trade Relations. Regional Economic Co-operation in Asia : Bangladesh, India, Pakistan & Srilanka, (Charan D. Wadhwa ed. Allied Publishers Pvt. Ltd. New Delhi, 1987.

The paper discussed Srilanka's trade relations with foreign countries in a broad perspective with special reference to South Asian Countries. He used several sophisticated statistical tools in analysing trade data and discussed about the composition of trade in some broad disaggregative levels in details. This book highlights some

potential areas of trade and economic co-operations among the SAARC countries.

5. Promod Kumar Mishra - South-South Co-operation: SAARC Perspective. Netaji Institute for Asian Studies, Calcutta, 1990.

The genesis of South-South Co-operation in South Asia region with special reference to the Dhaka SAARC Summits has been discussed in this book. The author emphasises on creation of a common pool of all available formation within the region including Srilanka and India for the sake of collective self-reliance in the economic spheres.

6. Malcom S. Adiseshiah (ed.) - Regional Economic Arrangements. Lancer International, New Delhi, 1989.

This is a unique compilation of the articles of some renowned academicians of India and abroad. Mr. Abul Hassan, Mr. Tarlok Singh and Mrs. Leela Ponnappa have discussed scholarly in their articles relating to the SAARC.

7. A Jayaratham Wilson & Dennis Dalton (ed.) - The States of South Asia : Problems and National Integration. Vikas Publishing House Pvt. Ltd., New Delhi, 1982.

The Sinhalese - Tamil Rift in Srilanka - C.R. de Silva.

Mr. C.R. de Silva has discussed the ethnic problems from the perspectives of socio-political angle. After independence in 1948 how the first Srilanka Prime Minister

Mr.D.S.Senanayake accepted as the leader by both the Sinhalese and the Tamils. He traces how the ethnic conflict arises among both Sinhalese and Tamils from the colonial period. He also discussed the problems of citizenship of Indian Tamils in Srilanka before 1948. The present ethnic tensions among the different groups in Srilanka has worsened the economic growth of the country.

8. Asian Survey, University of California Press, Berkley, USA:
(Asian Survey, Vol.XX, No.9, Sept. 1980).

a) "Continuity and Change in Srilanka's Foreign Policy:1974-1979". S.U.Kodikara.

The article analyse the policies and alignments of the SLFP and UNP governments. Non-alignment was the basic focus of the foreign policy of both governments with a minor changes by present UNP administration. The UNP build up a closed relation to western bilateral and multilateral interdependence and tendency go grow a South-South Co-operation. There are some differences in foreign policy orientation between the two administrations. Mr.Bandarnaike government was basically anticapitalist and antiwestern and based on the forms of State Control and monopolies, import substitution, foreign exchange restrictions and emphasis on decentralisation of incomes. On the other hand, Jayawardene's administration took a liberal policies on State controls and monopolies, import and exchange control restrictions, and generally brought about greater

competition between the private and public sectors. Therefore, the economic structure of Srilanka is closer to the industrialised Western Countries, such as - Hongkong, Taiwan, South Korea and Singapore.

- b. "Economic Policies and trends in Srilanka". N.Bala Krishnan.

Mr.N.Bala Krishnan discussed the economic policies of UNP government came into power after the victory of July 1977 general election. This book discusses how the government has taken a liberalisation policies and has enlarged the free market sector of the economy by reforming the exchange rate, import liberalisation, to encourage the export oriented industries, higher price of petroleum products and imported capital goods boosted the prices and costs in the current year which have the serious implication on domestic prices.

- c. "Recent Developments in Sinhala - Tamil Relations", W.I.Siriweera.

Mr.W.I.Siriweera has discussed the ethnic problems from 1976, when the demand for 'Tamil Eelam' (a separate state) increased by the Tamil United Liberation Front(TULF). he analysed the problems from different angles, such as, whether the Tamil wanted their freedom or is it a problem of unemployment, education of Tamil, Sinhalese and Muslims of

Srilanka. This book discusses how the government has faced the violent problems and how the struggle of Tamils was carried out not only within the country but also outside. He also discussed the development of Tamil politics and acts of terrorism, robberies, cold blooded murders which took place in the northern peninsula. The President Jayawardene tackled the situation with a concessional announcement for Tamils. His intention was to appoint a 'Presidential Commission' to work out the solution of Tamil problems in 1979.

c. "Srilanka's New Constitution". W.A.Wiswa Warnapala.

Mr.W.A.Wisa Warnapala discussed how the UNP government has changed the Srilankan Constitution after assuming the power in 1977. The UNP government to introduce a Unique Constitution but the author of the constitution were not so interested. The constitution had changed on the basis of the political tradition established in last four decades and on the features of three main political systems - Britain, U.S.A. and France.

9. "World Development, Vol.16, No.10, pp.1143-57" , Printed in Great Britain, October, 1988 - Pergamon Press, Oxford, U.K.

"Foreign Trade and Economic Development: Srilanka's Experience"
Sarathrajapatirana, World Bank, Washington, D.C.

In the last four decades, Srilanka had gone through three major policies of trade. In the first, it has an open economy that specialised in the export of Tea, Rubber and

coconut since independence. In the second, which commenced in 1960. Trade were restricted by imposing low export duties and import tariffs. This continued until 1977, when a Trade liberalisation policies were taken by the UNP government. Srilanka provides a trade regime that emphasises competition between private and public sectors for the allocation of resources and growth. An important lessons can be taught from this liberalisation policies.

10. Asian Survey - Vol.XXI, No.11, November, 1981.
"The cultural Dimension of Tamil Separatism in Srilanka".
Bryan Pfaffenberger.

The Ceylong Tamils lived in Srilanka since severn hundred years. They fought for their culture, nation and identity. Tamils were suffering in the Sinhala - dominated regime. the bitterness between the Sinhalese and the Tamils are increasingly taking a shape of communal riots like 1977 and 1981 and it may encourage the campaign for the partition of Srilanka.

11. Modern Asian Studies, Vol.12, part 3, July-1978, Camdbridge University Press, Betly House, 200 Euston Road, Longon - NW1 - ZDB. "Ethnic Conflict in Srilanka and Sinhalese Perspectives : Barriers to Accommodation" - Michael Roberts. University of Adelaide.

This is the story analysing the different Socio-political causes of ethnic conflict in Srilanka. The

geopolitical factors of population distribution in Srilanka are different from India and it compares with Northern Ireland, Cyprus and Lebanon. Neither the Tamil nor the Sinhalese have the foreign military technology for their civil war. The conflict has retarded of industrial progress of the country.

12. Asian Survey, Vol.XXVIII, No.4, April 1988.

"Ethnic Conflict in Srilanka". India's Role and Perception ;
P.Venkateshwar Rao.

Mr.P.V.Rao has discussed the ethnic problems after 1980's. Historically and culturally the Tamils of Srilanka and the Tamils of India are close to each other. The Indian Tamils migrated from Indian state Tamil Nadu. India has taken initiative to solve the ethnic problems by Srilanka's acceptance of 'good offices'. The Indian government led by Mr.Rajiv Gandhi no doubt made an important effort by restraining Tamil Militant activity in India. The Indo-Srilanka agreement on 1987 was successful neither in bringing about political settlement, nor in bringing down the ethnic tension.

13. Asian Survey, Vol.XXVIII, No.7, July 1988, "The Indian Subcontinent". The contemporary structure of power and the development of power relations - Ashok Kapur.

Dr.A.Kapur has pointed out an evolution of power relations in the subcontinent from the day of East India company to the present.

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14. Asian Survey, Vol.XXVIII, No.6, June 1988".

"Srilanka's Ethnic - Conflict". The Indo-Srilankan Peace Accord. Ralph, R.Premadas and S.W.R.De. A.Samara Singhe.

Mr.Premdas and Samara Singhe have discussed in this article the 1987 Indo-Srilanka accord is a first step to establish a durable peace. But it is not containing a long-term solution of the future problems.

15. Asian Survey, Vol.XXIX, No.7, July 1989. "The Continuing Crisis in Srilanka". The JPV, the Indian troops and Tamil Politics. Shelton, U.Kodika.

Mr.S.U.Kodika has discussed that the Indo-Srilanka aAgreement, 1987 was intended to bring peace in the island. Unfortunately, the Indian army have killed many civilians in Jaffna. The North-East Provincial Council passed a resolution condemning the IPKF and the President's request that the Indian troops be withdrwan.

16. Asian Survey, Vol.XXIX, No.4, April 1989. "The Peace Accord and the Tamils in Srilanka". Shantha K.Hennayake.

After the 1987 Accord, the Tamil have come to realise that the India did not meet their expectation. Both Tamil and Sinhalese opposed the accord. If they solve their problems without external support is the best interests both the Tamils and of Srilanka itself.

Objective of the Study:

The main objective of this thesis is made to find out the answers to some specific questions, such as :

(i) Under what economic and foreign trade structures of Srilanka, the Indo-Srilanka trade was in operations during 1977-1987 period ?

(ii) Why is Srilanka facing a consistent trade deficits with India during the period and what are the possible remedies?

(iii) Is there any potential gains in Indo-Srilanka trade with some Selected Commodities ?

(iv) What are the future potentialities ?

(v) Is there any future prospects for a better performance of Indo-Srilanka trade within the context of SAARC in the face of self-defeating ethnic conflicts in Srilanka ?

Data Source : Some standard National and International data-base publications will be the main data source of the thesis.

Data relating to the economy of Srilanka and the economic relations of the SAARC countries will be drawn from various statistical publications of the UN, IMF, World Bank and the like other International agencies. In Indo-Srilanka bilateral - trade, statistical data supplied by the DGCI & S - Calcutta, will be used. Different books and journals of outstanding standards may also be used as data source - wherever necessary.

Notes and References.

1. South India and Srilanka(Madras-1975); K.K.Pillay, pp.29-36
2. Maheshwari B.B., India and Srilanka Economic Relations, Agam Prakashan, Delhi 1987, Preface iii & iv.
3. C.R.de Silva - The Sinhalese - Tamil rift in Srilanka, A.Jeyaratnam Wilson & Dennis Dalton edited - The States of South Asia : Problems of National Integrastion. Vikas Publishing House Pvt. Ltd., New Delhi, 1982.
4. For details and backgrounds, see K.M.de Silva(ed.), University of Ceylon, History of Ceylon(Colombo : University of Ceylon Press Board, 1972), pp.489-533.
5. K.L.Sharma - Society and Polity in Modern Srilanka, South Asian Publishers Pvt.Ltd., New Delhi, 1987, pp.1-2.
6. Wriggins, W.Howard, Ceylon: Dilemmas of New Nation, Princeton University Press, 1960, p.22.
7. Bo.Sodersten, "International Economics", pp.441-484. Macmillan Publishers Ltd., London, 1984.
8. Ibid.
9. Indra Nath Mukherjee, "Economic Constraints and Potentialities", p.121. Regional co-operation in South Asia :Problems & Prospects(ed.) Bimal Prasad, Vikash Publishing House Pvt. Ltd., New Delhi, 1989.
9. Imtiaz H.Bokhari, "South Asian Regional Co-operation Progress, Problems, Potential and Prospects" - Asian Survey vol.XXV, No.4, April 1985, pp.371-390. University of California Press; California.
11. V.K.Arora, "SAARC : Prospects and Co-operation", India Quarterly, vol.XLII, No.1, January-March 1986, Indian Council of World Affairs, New Delhi.