Deterioration in trade and external accounts

by Kanes

1999 has proved to be a bad year for Sri Lanka's trade. For the first time in the last ten years, exports fell in dollar value terms and imports grew at the slowest rate. Exports which had grown in dollar value by 13.3 per cent in 1997 grew by only 3.4 per cent in 1998 and declined in 1999 by 4.1 per cent. Imports on the other hand, which had increased by 7.8 per cent in 1997 nearly stagnated in 1998 and 1999; they grew by a mere 0.4 per cent in 1998 and 0.2 per cent in 1999. The country's trade deficit in dollar terms, however, was higher in 1999 than in 1998; in 1998 it was the smallest in the last five years but in 1999 it was 19 per cent bigger than in 1998. Exports as a proportion of GDP rose from 29.2 per cent in 1995 to 30.8 per cent in 1997 but dropped to 29.2 per cent again in 1999. Imports as a proportion of GDP on the other hand declined from 40.8 per cent in 1995 to 37.5 per cent in 1999.

The curious thing is that Sri Lanka's exports declined in 1999 when exports of most Asian countries were rising. Almost all the Asian countries which had negative export growth in 1998 achieved positive growth or less negative growth in 1999: Hong Kong, South Korea, Singapore, Taiwan, Indonesia, Malaysia, Thailand and India. It is significant that India which experienced negative growth of 3.9 per cent in 1998 had a positive growth of 10.0 per cent in 1999. Only three countries in Asia - Sri Lanka, Maldives and Pakistan - which had positive export growth in 1998 experienced negative growth in 1999. As regards imports, Sri Lanka was the only Asian country whose import growth rate dropped between 1998 and 1999: countries who had negative growth in 1998 either lowered their negative growth rate or realized positive growth in 1919 (almost all East Asian countries) while those with positive growth bettered their performance.

The value of exports in terms of depreciated rupees however show a small rise of 4.5 per cent in 1999 as compared to 13.2 per cent in 1998, while that of imports rose by 9.5 per cent - very close to the growth rate of 9.9 per cent in 1998. The trade deficit rose by 32 per cent to Rs. 91.8 billion - the highest in the last five years. As a proportion of GDP it rose from 6.9 per cent in 1998 to 8.2 per cent in 1999.

Drop in Exports

The drop of 4.2 per cent in exports in 1999 was caused by a fall in both agricultural and industrial exports. Agricultural exports declined in dollar terms by 13.0 per cent: tea exports dropped by 20.4 per cent, rubber by 25.0 per cent and minor agricultural exports by 3.0 per cent.

(in $ million)

Year	Exports	% Change	Imports	% Change	Trade Deficit	% Change
1995	3,807	18.6	5,311	11.4	-1,504	-3.5
1996	4,095	7.6	5,439	2.4	-1,344	-10.6
1997	4,639	13.3	5,864	7.8	-1,225	-8.9
1998	4,798	3.4	5,890	0.4	-1,092	-10.9
1999	4,600	-4.1	5,899	0.2	-1,299	19.0
(in Rs. Million)						
1995	195,092	23.0	272,200	15.5	-77,108	0.1
1996	226,801	16.3	301,071	10.6	-74,275	-3.7
1997	274,193	20.9	346,026	14,9	-71,833	-3.3
1998	310,398	13.2	380,138	9.9	-69,740	-3.0
1999	324,453	4.5	416,223	9.5	-91,770	31.6

The fall in agricultural exports appear to have been caused by a decline in export prices in 1999: tea price in dollar terms dropped by 20.0 per cent from $ 2.87 per kg in 1998 to $ 2.30 per kg in 1999 and rubber prices fell by 27 per cent. Tea export volume declined by 1.0 per cent while rubber export volume rose by 4.0 per cent. Tea production was actually 1.3 per cent higher in 1999 but the volume of exports was less, perhaps on account of lower demand from Middle Eastern countries, Turkey and Japan. Exports to Russia, despite the currency crisis increased. The price decline reflects a world tea market phenomenon and a lower demand for tea. Export earnings of minor agricultural exports such as cinnamon, pepper and tobacco too declined because of poor demand. The only agricultural export which did well was coconuts which rose by 37 per cent; it had dropped by 20.3 per cent in 1998. This resulted from an increase in production and higher prices of desiccated coconut and copra; coconut oil prices fell.

Industrial exports which had increased by 5 per cent in 1998, dropped in dollar value terms by 1.8 per cent. Most industrial exports declined in value; the major export - textile and garments fell by 1.4 per cent on account of declining prices. Their volume actuality rose by 8 per cent but their unit price fell by 9 per cent. The US is the largest market for Sri Lanka's textile and garments exports accounting for 61 per cent of the total exports; the volume of exports to the US actually rose by 6.1 per cent, but the export prices dropped by 7.3 per cent. The fact that prices of textile and clothing exports from other countries dropped by 4.9 per cent seems to indicate that Sri Lanka's export prices fell even more than those of other countries in the US market. This needs careful study as it is not clear whether the price drop was caused by oversupply in the US market, competition for lower cost producers and those with depreciated currencies or some shortcomings in Sri Lanka's products and export procedures.

Among other industrial exports, diamond and jewellery, which dropped in both 1997 and 1998, appear to have recovered in 1999; their exports rose by 24 per cent. Machinery and equipment - printed circuits, parts and accessories of sewing machines, data processing machines, electric machines - too increased in exports by 10 per cent in contrast to a fall of 11 per cent in 1998. Gems exports rose marginally but the level of exports, as in the case of diamond and jewellery, was much lower than in 1995-1996.

The Achilles heel of the Sri Lankan economy is the over dependence on textile and apparel exports (accounting for 53 per cent of the total) and the undue dependence on the US export market (accounting for 40 per cent of total exports). As the largest buyer of garments is the US (accounting for 80 per cent), it is Sri Lanka's excessive dependence on the US export market, which can cause problems in the future. Of the Asian countries, the Philippines, Sri Lanka and Bangladesh are the most dependent on the American market. Sri Lankan exports to Asia are relatively small - only 8 per cent - whereas East Asian countries - Korea, Taiwan, Indonesia, Malaysia, Thailand, China, Hong Kong and Vietnam - sell over half their exports in Asia. Already in 1999, Sri Lanka's apparel exports to the US have declined by 6.0 per cent, due to a drop in prices by about 7 per cent. Concentration of exports to the US will help Sri Lanka to expand its exports when the American economy is booming but will hurt Sri Lanka much if and when there is a downturn. Further, as most developing countries tend to concentrate on the US garments market, Sri Lanka needs to be competitive to keep pace with the others. The US is also Sri Lanka's largest export market for rubber. In our eagerness to build an export market in India, which buys only 1 per cent of Sri Lanka's exports, we seem to forget to take appropriate measures to retain and expand our biggest market, which buys 53 per cent of our exports.

Stagnant Imports

Imports, in dollar value terms, virtually stagnated in 1997, 1998 and 1999: they rose by only 0.4 per cent in 1998 and by 0.2 per cent in 1999. Investment goods which constituted 26 per cent of total imports actually increased in 1997, 1998 and 1999: they increased by 11.5 per cent in 1998 and 6.0 per cent in 1999, but consumer goods which comprised 21 per cent of imports dropped by 1.5 per cent in 1999 although they had risen by 2.6 per cent in 1998; intermediate goods, the largest category, consisting of 51 per cent of total imports, remained stagnant in 1998 and 1999 having fallen by 3.7 per cent in 1998. The increase in the import of investment goods does not reflect on increase in industrial production. On the contrary, as shown earlier, industrial exports dropped in 1999. The rise in imports of investment goods was caused by the near doubling of imports of transport equipment - a rise of 98 per cent - while other investment goods imports such as machinery and equipment and building materials, dropped in 1999. The transport equipment in question was aircraft and if this is excluded, investment goods imports actually declined by 14 per cent. The slower tempo of industrial activity also led to a fall into the imports of some intermediate goods like textiles and chemicals. If we exclude the three aircraft, expenditure on all imports in 1999 fell by 5 per cent in value; in 1998 they had risen by 8 per cent. Perhaps the principal reason why imports failed to increase much in value in 1998 and 1999.

See page

External Account

($ million)

Item	Inflows (net)	Outflows (net)
1. Trade in Goods	-	1,299
2. Trade in Services	147	-
3. Income	-	253
4. Current Transfers (remittances)	911	-
5. Capital Transfers	75	-
6. Private Direct Investment	177	-
7. Loans – long	221	-
8. Loans – short	-	143
	1,531	1,695