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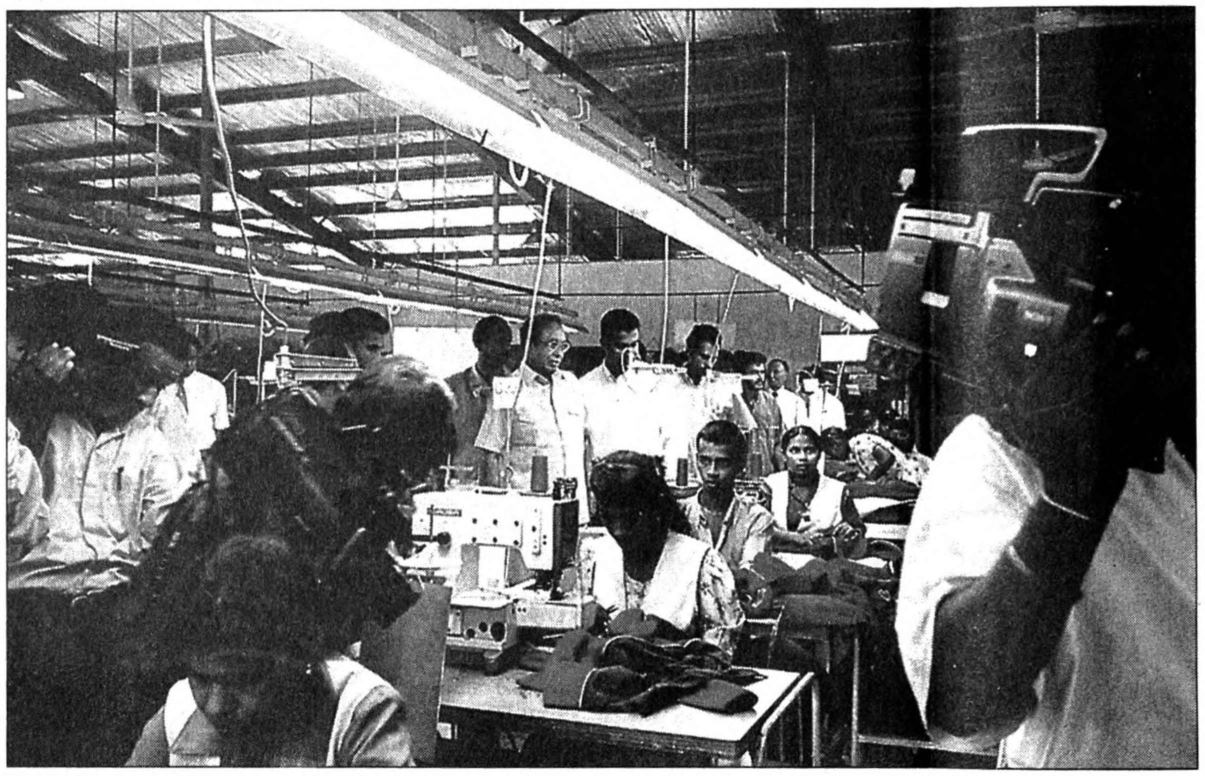
Trade deficit in 2002 one of the highest ever



File Photo: Garments; a main export earner for the country

Current Economics

Last year's trade deficit of US $ 1.4 billion was one of the highest trade deficits the country has recorded. It is the 25th successive trade deficit. The highest trade deficit was in 2000 when it reached US$ 1.7 billion. Trade deficits of over US$ 1.5 billion was recorded in both 1994 and 1995. The last trade surplus was way back in 1977, when there was a very small trade surplus of US$ 40.9 million. This we must remind ourselves was with stringent tariff and non-tariff barriers and exchange controls. Neither the controlled regime nor the liberalised one has succeeded in the country achieving a healthy trade balance. The continuous devaluation and depreciation of the currency too has failed to increase exports adequately to offset our imports. Apparently the country has a structural or fundamental problem that must be addressed. Last year's trade deficit is largely owing to the inability of exports to grow. In 2002 export earnings fell by 2.4 per cent. Imports that had displayed a decline during much of the year too increased by 2.2 per cent. Since imports are a larger amount than exports, the increase in imports has a larger impact on the trade balance. Our export earnings last year were US$ 4.7 billion, while imports were US$ 6.1 billion. Hence the huge deficit of US$1.4 billion. On the export side the main disappointment was in industrial exports that were unable to recover adequately to even reach the depressed level of 2001. In 2002 industrial exports were 2.2 per cent less than in the previous year. Sri Lanka's main export, garments declined by 4.2 per cent to US$ 2423.7 million compared to US$ 2542.8 million in 2001. In 2000 garment exports were much higher. There were signs of recovery in garment exports in the second half of the year. In fact garment exports increased in the second half gaining some momentum particularly in the fourth quarter. Yet these gains in garment exports could not compensate for the early decline. Tea exports however recorded an increase both owing to an increase in the volume of exports and somewhat better prices. Agricultural exports increased marginally by 0.6 per cent.

When one recognises that last year's export performance was itself a sharp decrease from that of the previous year, the decrease in exports is particularly disconcerting. In 2000 total export earnings were US$ 5522 million. In 2001 export earnings dipped to US$ 4817 million. When we compare the export earnings of last year of US $4699 million with that of 2000, it is a very significant decrease of US$ 823 million The decline in industrial exports was in fact worse in the first half of last year. In the first half of last year all our industrial exports declined. Garments exports declined by 22 per cent, leather and rubber goods exports decreased by 26.5 per cent and the export of food and beverages items, including tobacco, decreased by 27 per cent and other exports decreased by nearly 7 per cent. Though there were decreases in all these exports, it was the decline in garment exports that was mostly responsible for industrial export earnings falling by as much as 20 per cent in the first half of 2002. Although there was some catching up in export earnings in the second half of 2002, it has been inadequate to offset the decrease in the first half. The first hopes of a recovery were seen in July this year. Then in August total exports rose sharply to US$ 568 million. This was an increase of US$ 138 million over that of July. The most significant up-turn was the growth in industrial exports. Textile and garments exports jumped to US$ 339 million: the highest earnings since December 2001. Other industrial exports too registered significant gains. Rubber goods exports increased by 74 per cent; wall tiles by over 50 per cent and tableware over ten-folds. Other industrial exports of lesser significance to export earnings also increased significantly in August. However, that momentum could not be kept up in September. Industrial exports did not increase as expected. By the end of October 2002 industrial export earnings were 6.6 per cent lower and total export earnings were 6.2 per cent less than that of the first ten months of 2001. The end year exports were an improvement from this position. The end year trade deficit was a sharp rise owing to a sudden increase in imports. In December imports rose by as much as 22 per cent. One of the explanations offered for this increase is that the industrial export prospects have resulted in a need for raw material and intermediate imports. If this explanation is correct we should see an increase in exports shortly and an improvement in the trade balance in the first quarter of this year. It is also possible that much of the increase in import expenditure was owing to the rise in prices of imports particularly of crude oil. The available statistics are not detailed enough to analyse the situation more thoroughly. We suspect that both these factors have been responsible for the rise in imports. This poor trade performance is of serious consequence for an economy that has a trade dependency of about 70 per cent. A continuing downturn in industrial exports means a serious dent in our export earnings and a severe strain on our trade balance. Unlike in the past industrial exports account for the majority of our export earnings. A dip in our industrial exports means a significant dip in our total export earnings. The prevailing economic stagnation and uncertainty in developed economies make it very difficult for the country to expand its exports this year. Consequently, in 2003 too we may suffer a huge trade deficit.

TOTAL INDUSTRIAL EXPORTS

Year	Value in US$ millions
2000	4,283
2001	3,710
2002	3,631

EXPORTS IMPORTS AND TRADE DEFICIT

Year	Exports/Imports	Trade Deficit
1984	5522	7320
1990	2686	703
2000	1798	4817
2001	5974	1157
2002	4699	6105