

A Review of the International Trading Environment in Sri Lanka in the Context of Shipping Hub

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Abstract – Shipping is a derived demand of international trade in economic terms. Therefore, while there are many emphases on developing Sri Lanka as a shipping hub it is imperative to examine the real situation that prevails in the country with respect to the international trading. It is also the important to analyse other contributory factors due to the country's strategic geographic location. The study employed both primary data and secondary sources. Depth interviews have been conducted with fifteen senior officers of Trade Associations such as Sri Lanka Shippers Council, Ceylon Chamber of Commerce, , Department of Inland Revenue, Customs and Board of Investment of Sri Lanka. Quantitative analysis was done using the Doing Business Reports of The World Trade Organization, The World Bank and the International Finance Corporation, The Global Competitiveness Report of World Economic Forum, and Connecting to Compete Report. The study has cross examined these data using many other secondary sources such as Central Bank of Sri Lanka, United Nations, World Customs Organization, and many industry publications. The analyses were done using SPSS and appropriate illustrations. This paper questions if the international trading environment, its framework, policies, systems and procedures that directly concern doing business across borders are favourable to shipping in the context of Sri Lanka. This study evaluates nine factors that may potentially influence the effectiveness of the international trading system in Sri Lanka. The major share of current performance of shipping consists of transshipment cargo and not domestic imports and exports. Therefore the study emphasizes the fact that the concept of a shipping hub may have only a partial value if the international trading environment in Sri Lanka is ineffective.

Keywords: Shipping, Hub, International trade, WTO, Globalization

I. INTRODUCTION

Sri Lanka was the ideal and most preferred centre of the transit trade that arose out of its geographical location which is an intersection of the sea-lanes and maritime trade routes that went across the Indian Ocean. The main

sea route that connects the world from East to West running very close SL and places the nation in a very strategic position from a logistical context. Connecting to Compete Reports of 2007 through 2014 of the International Bank for Reconstruction and Development of the World Bank shows some improvements for Sri Lanka (SL) with respect to certain pillars of the Logistics Performance Indicator (LPI). However, the overall LPI in Sri Lanka reflects a downward trend from its 81 position in 2012 to 89 in 2014. Improving logistics performance is an important development policy objective in any country because logistics have a major impact on economic activity.

The globalization has increased the need for interconnectedness for the respective countries to cross their borders (Edirisinghe, 2013). In a global economy, no nation is self-sufficient. Each is involved at different levels in trade to sell what it produces, to acquire what it lacks and also to produce more efficiently in some economic sectors than its trade partners. International Trade is an exchange of goods or services across national jurisdictions. Inbound trade is defined as imports and outbound trade is defined as exports. Subject to the regulatory oversight and taxation of the involved nations, namely through customs (Rodrigue, 2015). The domestic exports and imports in Sri Lanka only accounts for a minor share and only twenty five percent in the year 2014 to be precise. In contrast the container throughput of port of Colombo that that reflects the major part of performance of shipping in Sri Lanka shows that transshipment accounts for seventy four percent and seventy five percent in the years 2013 and 2014 respectively. (CASA Per. Review, 2015). Sri Lanka has no land based links through road or rail or pipe to move goods in an out of the island, and being an island, the possibilities of sea transportation to any point around the coast is very much a given.

II. LITERATURE REVIEW

Colombo Port is generally considered to be the Number one port of South Asia (Edirisinghe, 2013). In the past India was heavily dependent on SL for their transshipment

cargo but gradually they improved the port infrastructure resulting some shipping lines diverted their ships to ports in India such as Nhavashiva and Pipav. The international trading environment usually consists of factors such as demography, technology, investments, institutions, energy and transportation costs. Demographic changes affects a country's trade by its impact on comparative advantage and import demand. Investing on physical capital affects international trade and investing on public infrastructure will support a country to engage in new trade markets. Technology is the knowledge required for production. Countries vary in their levels of technology and this level affects the income levels and trade. Natural resources are also a factor that affects production apart from land and labour. Institutions are the framework that consists of laws, political regimes, international treaties and trade policies which decides the ability of trade in a country.

According to previous Connecting to Compete reports of World Bank, other nearby hubs such as Singapore, United Arab Emirates, and India has been maintaining a consistent LPI rank. LPI rank of these countries in 2014 was 05, 27, and 54 respectively while SL records only the 89th position. It is also to be noted that all these countries show a declining trend in their LPI ranking including Sri Lanka. For example, Singapore, United Arab Emirates, and India were ranked at 01, 17, and 46 respectively in 2012 while Sri Lanka was in the 81st place. And it was also noted that Sri Lanka has not been able to maintain a consistency in the ranking (i.e. 92 and 137 in 2007, and 2010 respectively). In addition to its positioning in the main EAST –WEST Sea lanes, SL's location in the Indian Ocean is strategic considering that any port located in Sri Lanka can feed more than 17 ports quite economically (Edirisinghe, 2013).

The business dictionary defines international trade as The exchange of goods or services along international borders. This type of trade allows for a greater competition and more competitive pricing in the market. The competition results in more affordable products for the consumer. The exchange of goods also affects the economy of the world as dictated by supply and demand making goods and services obtainable which may not otherwise be available to consumers globally". So this is about location advantages and the specialization in production, thus exploiting country differences in productivity, factor endowment, and production scale.

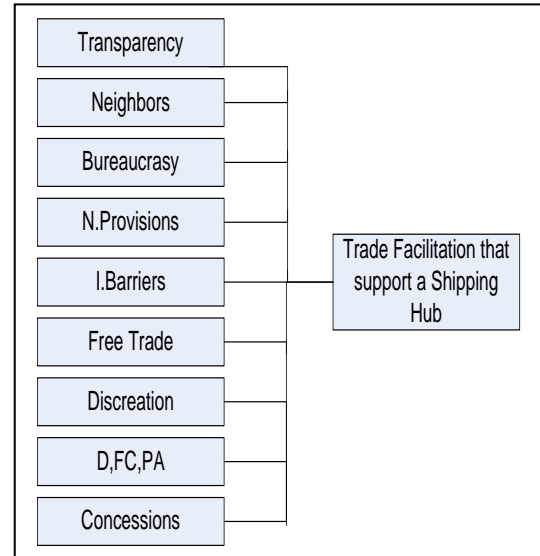


Figure 1: Factors that has potential impact on Trade facilitation that supports a Shipping Hub in Sri Lanka
Source: Authors

III.METHODOLOGY

This study approach is two folded. Secondary data were obtained from the Doing Business Reports of The World Trade Organization, Connecting to Compete Reports of The World Bank and The Global Competitiveness Report of World Economic Forum. Depth interviews with ten logistics industry professionals and a questionnaire was used to obtain structured data. The questionnaire was distributed among 50 respondents from the shipping, logistics, and transport related service organizations within Sri Lanka. The questionnaires were distributed both electronically through e mails & written mean consisting closed ended questions & one open ended question. The questionnaire that was compiled after a comprehensive study of related literature review consisted only ten questions to improve the rate of responses. It was indicated by many industry experts during the exploratory study that it would be very difficult to get timely responses from the industry practitioners for this type of surveys given the industry norms.

IV. ANALYSIS

The analysis of secondary data suggests that lower LPI has an impact on attracting foreign direct investment and global logistics activities such as 'Multi Country Consolidation' and transshipments to some extent (Edirisinghe, 2013). The key concern here is that Sri Lanka's logistics performance are below the main competing countries in the context of hub operation therefore the study attempts to ascertain what are the required

improvements in service delivery performance and Policy regulations. The international trading that essentially involved border crossing is rather complicated than the domestic trading (Edirisinghe, 2013). This causes delays, extra or incidental costs, disputes due to its international nature, uncertainty etc.

It was noted from the research that the majority of respondents (71%) neither accepted nor denied the fact that regulatory system facilitates the effective international trading system in Sri Lanka. There were twenty two percent did not agree that regulatory system supports the international trading system in Sri Lanka while two percent strongly disagreed. Only five percent of respondents believed that that regulatory system supports the international trading system in Sri Lanka.

It was hypothesised that there should be a transparency in the present regulatory system with respect to Logistics and Transport ; the neighbouring countries have a better regulatory system than Sri Lanka; Bureaucratic discretion by government officials in the stake holding organizations obstruct the free international trading ;Regulatory framework in Sri Lanka provides provisions for government officials to act as barriers; the government officers in Sri Lanka create more barriers than what is legitimately provided by the regulatory framework; International trading environment should be made totally free from the obsolete trading regulations; the bureaucratic discretion can be clearly observed in customs (i.e. “ At the discretion of the officer”); Sufficient decentralization, strong financial controls and public accountability is required for better performance in trade; and Effective enforcement mechanisms of the concessions offered to international trade is required. Table 01 summarises the values of Pearson Chi-Square and P value.

V. CONCLUSION

The nature has endowed Sri Lanka, and in order to benefit from nature's benevolence, developing Sri Lanka as a shipping hub and facilitating commercial ports around Sri Lanka is a must. Investments in development of a key port in the south and upgrading of facilities in the Port of Colombo, stands to reap the benefits from the shipping density which prevail in the shipping lanes south of Sri Lanka.

It is concluded that the transparency in the present regulatory system in Sri Lanka with respect to Logistics and Transport has a significant statistical relationship with international Trading Environment in Sri Lanka in the context of Shipping Hub. Also the regulatory framework in Sri Lanka provides provisions for government officials

to act as barriers while the government officers in Sri Lanka create even more barriers than what is legitimately provided by the regulatory framework. Both these factors have a significant statistical relationship with international Trading Environment in Sri Lanka in the context of Shipping Hub. It further concludes that effective enforcement mechanisms of the concessions offered to international trade in Sri Lanka is required in order to enhance the international Trading Environment in Sri Lanka in the context of Shipping Hub.

Table 1: The values of Pearson Chi-Square and P value

	Factors	Pearson Chi-Square	Point Probability
1	Transparency	.018	.028
2	Neighbours	.041	.097
3	Bureaucracy	.009	.057
4	Provisions	.000	.006
5	Barriers	.000	.041
6	Free	.006	.083
7	Discretion	.006	.083
8	D,FC,PA	.087	.171
9	Concession	.029	.007

According to the value of Pearson Chi-Square < 0.05 with p-value of < 0.05 there is a significant statistical relationship between Transparency, Provisions, Barriers, Concession and trade facilitation.

ACKNOWLEDGEMENT

Authors would like to thank all the industry experts and respondents who contributed their valuable input in this survey.

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