

## **ROLE OF THE EXPORT SECTOR IN SRI LANKA'S DEVELOPMENT**

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### **Abstract**

*Sri Lanka is a country conflicted over its resources by great powers in the past. Today the interest on Sri Lanka still remains the same and it is clear, how countries with powerful economies are eyeing to be authoritative over Sri Lanka. With independence and the establishment of embassies, Sri Lanka was given state recognition worldwide. Today embassies are increasingly positioning themselves as proxies in developing the export sector. However, it is not the case in Sri Lanka. As the export sector is systematically interconnected with diplomatic representation abroad, it is without doubt that the Sri Lankan government is on the lookout to uplift its export performance while coping with financial pressures of the country. But the responsible authorities do not seem to show the same interest. While potential Sri Lankan products like tea, rubber, apparel and other cash-crop exports dominate Sri Lanka's export economy, technology service exports have shown rapid increase as of recent times. This paper studies on the development of exports from 1949 till the present. It further analyses how exports are systematically related to international diplomatic representation and how embassies and high commissions of Sri Lanka can work to drive the export sector towards its improvement.*

**Keywords:** *Export, economy, embassy, high commission, influence*

### **INTRODUCTION**

Sri Lanka's economy must evolve and change in order for the country's objectives to achieve a higher middle-income status is reached and realized. This can be done by adopting bold and innovative changes to Sri Lanka's existing mixed-market economic development model (Nationsencyclopedia.com, 2003). In this case, the export sector plays an important role to contribute for that purpose. When it comes to Sri Lanka's export markets, there are a few notable trends. Tea, rubber and rubber-based products, coconut and coconut-based products, apparels and textiles, spices, essential oils and oleoresins and food, feed, beverage and light are now Sri Lanka's most distinct industries. The United States, the United Kingdom, Germany, Belgium, and Italy are the main export partners, however, with the outbreak of the coronavirus pandemic Sri Lanka's export sector seems to have found new export destinations such as UAE,

Singapore, Malaysia (Mahadiya, 2020). According to the Central Bank of Sri Lanka's annual report, the country's export output over the subsequent four decades has been disappointing. However, in September 2016, Sri Lankan exports has increased by 5.7% year on year to USD Million (Herath and Chathurika, 2016).

## **HISTORY OF EXPORTS**

Since 1977, Sri Lanka's embraced open economy, allowing it to engage in foreign trade. Sri Lanka has indeed made a name for itself in the international market for high-quality spices, gems and jewellery, handicrafts, aquariums, coir products, leather products, and household goods. Because of the special and high quality finishing, Sri Lanka's name stands out from the rest for such products. However, this was in the past. In the ancient times Sri Lanka had exported many categories of goods than in the recent times (Fig. 1) The economic history of Sri Lanka in the export sector can be categorized into different periods as the period of early history until independence, from independence to 1977, post 1977 period, post-civil war period till the post pandemic period.

## **EARLY HISTORY OF EXPORTS**

The strategic location of Sri Lanka at the crossroads of east-west trade and irrigated agriculture in the hinterland, has given her a long history as a trading centre, as evidenced by historical texts and accounts from foreign travellers. For example, Fa-Hien, a pilgrim traveller and the chronicler who wrote many accounts of the ancient world travelled to India and Sri Lanka around 400 BC has noted that traders from other countries were trading with native tribes on the island prior to Indo-Aryan settlement. Cosmas Indicopleustes, the Greek voyager had visited the Indian subcontinent in the sixth century and had written extensively about Sri Lanka as a commercial hub, referring to the island as Taprobane and Sialadiba. The published work in his Christian Topography says "...and it receives silk, aloes, cloves, sandalwood, and other items from the farthest countries, namely Tzinista (present day China) and other trading places, and these are then passed on to marts on this side, such as Male (present day Malabar or Southwest Indian coast) ... and Calliana (Kalyana/ Kelaniya) ....".

During the colonial times, in the 1830s, the British started experimenting with commercial farming. Coffee cultivation was introduced to the countryside and was an immediate success, revolutionizing the Sri Lankan economy, which had previously relied on subsistence farming. Land reform was also altered. Prior to this, permission was given for royal lands to be farmed, but private ownership was not permitted. However, under the British crown plots of land were sold to private buyers. A leaf disease that spread across the plantations from the mid-1850s to 1870 decimated Sri Lanka's flourishing coffee market. Falling coffee prices as a result of Europe's economic downturn have hurt the coffee industry in Sri Lanka. Cultivation farmers, on the other hand, did not abandon their holdings. Instead, they searched for other crops that could be grown in plantations. Rubber plantations were established towards the end of the nineteenth century as a secondary source of export revenue. Rice and coconuts, Sri Lanka's other two main crops, were primarily grown for the domestic market. In reality, domestic rice production was insufficient to meet demand, and rice had to be imported.

#### **PERIOD OF INDEPENDENCE TO 1977**

The history of Sri Lanka's post-independence period is essentially that of a wasted opportunity. Sri Lanka gained independence from the British in 1948, and by this time Sri Lanka was ahead of many Asian countries and had economic and social indicators comparable to better countries like Japan. With independence Sri Lanka inherited a prosperous macroeconomic climate. Sri Lanka founded a central bank and joined the IMF in 1950, joining the Bretton Woods scheme of currency pegs. As monetary and fiscal policies weakened, the economy was gradually regulated and relaxed in response to foreign exchange crises. By 1953, a new law had tightened exchange controls. The Sri Lankan government's decision to take private property and place it under the rule of bureaucrats resulted in an economic catastrophe. Sri Lankan politics added a twist, with Trotskyite communists infiltrating the government in an attempt to establish so-called welfare socialism. By this time Sri Lanka was in a political turmoil so much that the government had to use more and more of its limited foreign exchange credits from export crops like tea to buy rice, as domestic production fell. Sri Lanka's economy was in disarray by the mid-1970s. It was a

real defenceless situation in the country. In the years following the Bretton Woods system's demise, controls were further tightened. According to Saman Kelegama in his book 'Development in Independent Sri Lanka: What Went Wrong' he states this period as a period of ".... tightening, partial relaxation, and tightening again the trade regime and related areas to deal with a perceived foreign exchange crisis."

### **POST 1977 PERIOD**

Colombo switched to market-oriented policies and export-oriented trade in 1977, abandoning capitalist economic policies and its import substitution industrialisation strategy. From 1977 till about 1994, the country was ruled by the United National Party (UNP), which started to move away from a socialist orientation in 1977 under the rule of President J.R. Jayawardana. The government has been deregulating, privatizing, and opening up since then. Thereby the era after 1977 takes notable importance. During this period (post 1977 at around mid-80's and 90's) the main export products were tea, rubber, coconut, textiles, cotton and minerals (Fig. 2). However, with the suppression of the JVP insurgency, increased privatization, economic reform, and a focus on export-oriented growth helped the economy improve with a notable GDP growth. For example, GDP reached 7% in 1993. Plantation crops reported for just 20% of exports in 1996 (compared to 93 percent in 1970), while textiles and garments reported for 63%. Throughout the 1990s, GDP expanded at a 5.5% annual average rate until a drought and worsening security conditions slowed development to 3.8 percent in 1996. However, this growth only lasted for a while till 1999. Though the economy grew by 6.4% and 4.7% in 1997–1998, respectively, it slowed down to 3.7% in 1999 (Fig 3). By this time, it was opined that Colombo should expand market structures in non-plantation agriculture, eliminate the government's monopoly on wheat imports, and encourage more competition in the financial sector as part of the next round of reforms, according to Sri Lanka's central bank. In brief, we can explain that the immediate post 1997 period was an export-oriented liberalisation period.

<b><i>Major exports of Sri Lanka - 1986</i></b>	<b><i>Value (Rs. Mn)</i></b>
<b><i>Agricultural</i></b>	
Tea	9253
Rubber	2622
Coconuts	2389
Other agricultural products	1500
<b><i>Total agricultural</i></b>	<b><i>15764</i></b>
<b><i>Industrial</i></b>	
Textiles	9629
Oil	2358
Other industrial products	3891
<b><i>Total industrial</i></b>	<b><i>15878</i></b>
<b><i>Minerals</i></b>	
Gems	755
Other minerals	427
<b><i>Total Minerals</i></b>	<b><i>1182</i></b>
<b><i>Miscellaneous</i></b>	<b><i>1249</i></b>

Figure 2: (Source: Sri Lanka: A country study, 1990)

### **POST-CIVIL WAR PERIOD**

The government's effort to preserve macroeconomic stability was hindered by the outbreak of the civil war. Following the end of the civil war in May 2009, the

economy began to develop at a faster pace, reaching 8.0% in 2010 and 9.1% in 2012, owing to a rise in non-tradable sectors. The rise, however, did not last, and GDP growth in 2013 dropped to 3.4%, recovering only marginally in 2014 to 4.5%. Some of the most notable changes of post-war were the lifting of an EU ban on Sri Lankan fish products in 2016, resulting in a 200% in fish exports to the EU and the European Commission proposed to restore the GSP plus facility to Sri Lanka in 2017. Sri Lanka's tax revenues as a percentage of GDP rose from 10% in 2014, the lowest level in nearly twenty years to 12.3 % in 2015.

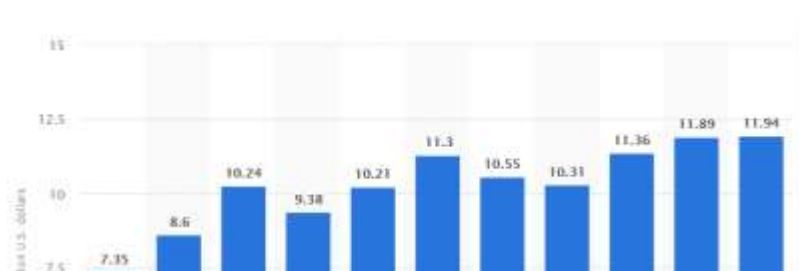


Figure 3: GDP Growth (annual %) from 1977-2009 - Sri Lanka (Source: World Bank national accounts data, and OECD National Accounts data files)

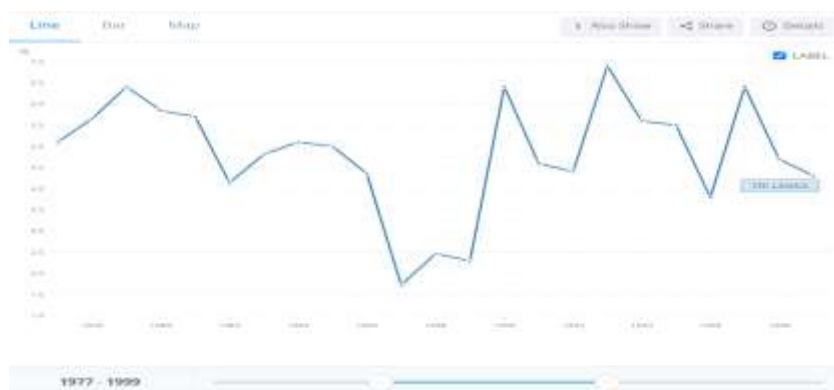
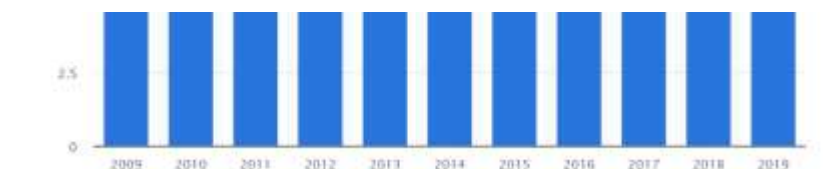


Figure 4 shows export

the statistics for the period of post-civil war till the pre- pandemic period.

### **Post Pandemic period**

Provisional data from the Sri Lanka Export Development Board (SLEDB) shows that product exports were \$11.9 billion, up 0.13% from 2018, and service exports were \$4.2 billion, up 5.3%. With the outbreak of the pandemic SLEDB has posted new gazettes regarding exports. After the lockdowns were lifted in May 2020, Sri Lanka was making a quick recovery, but a recent Coronavirus outbreak in March 2021 hampered exports and industry.

### **IMPACT OF COVID – 19 ON THE EXPORT SECTOR**

With the outbreak of the pandemic many Sri Lankan factories were closed. While Sri Lankan factories were shut, factories in neighbouring countries such as Vietnam and Cambodia continued to work, hurting the industry by diverting new orders to them. Despite the fact that the health crisis has opened new markets in the manufacture of personal protection equipment (PPE), COVID-19 is expected to result in a sales loss of \$1.5 billion. The global market for personal protective equipment (PPE) has not been able to keep up with the increase in demand since the outbreak of COVID-19. Supply and logistics constraints, such as export bans on PPE and materials, have led to a global shortage of PPE, as well as supply disruptions in China, a major PPE producer. As overseas orders for standard garments dry up, the Sri Lankan apparel industry is shifting to the production and export of PPE in response to the increase in international demand for PPE (Wijayasiri, 2021).

Despite a 50% decline in tea exports in March due to closures (Daily News, 2020), the outbreak of COVID-19 has resulted in a positive turnaround in the tea industry with the digitalization of the 126-year-old tea auction, which was previously conducted manually over two days each week. Furthermore, research shows that black tea may help boost immunity, which is expected to increase the global demand for tea (Illanperuma, 2020). Turkey, Iraq, Russia, Iran, Azerbaijan and China are emerging as top buyers of black tea which are the main markets for Sri Lankan tea (Tea Exporters Association, 2020).

The most harmed sector from the pandemic was small and medium scale businesses. They were less prepared to deal with order cancellations and sustained demand declines. The Sri Lanka Export Development Board has

updated its 2020 export forecast in light of the unprecedented disruption to the global economy and trade caused by the COVID-19 pandemic.

The pandemic also had a major impact on the main export commodities such as tea, coconut, rubber, spices, food and beverages. In the first half of 2020, total exports were down by 26% than that of 2019. However, since the lockdown ended, some industries have begun to expand. For example, exports of tea, coconut-based products, spices and essential oils, as well as fish and fisheries products, increased in June (Mahadiya, 2020). Despite the global crisis and higher air freight costs, Sri Lanka's seafood exports have seen good demand and increased prices.

Thereby it can be opined that Sri Lankan exports have played a variety of roles, including strong, poor and moderate. The government began privatizing, deregulating, and opening the economy to foreign competition after 1977. To conclude, one could say that although there is no significant export or product diversification among Sri Lankan exports. Sri Lanka should not forget the hard lessons learned during the aftermath of the global financial crises. As country rich in resources, responsible officials can focus on certain industries that could bring immense wealth and prosperity into the country. Mineral sand can mention as an example for this. Sri Lanka exports raw material, but with further research we could find the technology and investments to export something more than just the raw material like a finished product for instance. If organizations like the SLEDB or foreign ministry took initiatives to push forward such deeds our exports would be of much higher value.

Moving along, Sri Lanka is a country rich in organic resources, but today we have come into a position where we have to import our own resources while we could be exporting them to bring more cash inflows to the country. For such activities to be fulfilled, SLEDB could be more connected with the producers and farmers of these products such as coconut oil. Unlike the attention given by rather developed countries to their exports; Sri Lankan ambassadors and high commissioners overseas do not seem to be setting up to the expectations in improving our export sector. It is as if the amount of contribution that can be done to develop Sri Lanka cannot be seen by the responsible officials. By what means the embassies and high commissions can do this is, by representing



themselves as agents of marketing, incorporation with media and increased collaboration with the Sri Lankan Export Development Board. Embassies and high commissions can use different means of soft power to influence its relations and through that Sri Lanka can manage itself to make tremendous growth in the export sector along with the socio-economic and human development directories and ranking itself among the best in South Asia as it was in the past. Thereby, from the above factors it is clear that Sri Lanka needs more responsible and unbiased officials to improve the export sector which could in return improve the economy of the country and raise the standard of living of its citizens.

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