

## Recent Changes in Balance of Trade in Sri Lanka

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### Abstract

Balance of Trade in Sri Lanka became a main issue in national development over the past. Balance of Trade is the main component of Balance of Payment. It is very important to study changes of Balance of Trade. Because it affected growth and distribution. The main objective of this paper is to identify the determinants of the recent changes of Balance of Trade in Sri Lanka. This article was depend on secondary data obtained from reports and statistics extracted from the publications of the Department of Census & statistics and the Central Bank of Sri Lanka. The analysis revealed that Balance of Trade has changed over the past causing great influence to the macroeconomic stability.

**Key Words:** Balance of Trade,

### Introduction

The balance of Trade is the difference between a country's imports and its exports for a given time period. Balance of trade is also referred to as the Trade Balance or the International Trade Balance. The formula for calculating the Balance of Trade can be simplified to imports minus exports. On the other hand if the country exchanges the goods and services among various countries by breaking down their national boundaries, it is called as foreign trade. We can identify two types of foreign trade.

- Bilateral trade
- Multilateral trade

The first one is bilateral trade. When one country exchanges its goods and services to the other country, it is called as bilateral trade. Only two countries participated in it & the second one or other trade type is multilateral trade &

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under this, more than two countries participated. . Under this multilateral trade participate more than two countries for the trade. So if the country exchanges the goods and services with more than two various countries called ‘Multilateral trade’. However as an open economy after 1977 Sri Lanka followed both two types of trade situations.

Table 1: Summary of foreign trade in Srilanka 2005-2014

Category	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
exports , millions of RS	638276	716579	845683	878499	813911	974387	1167588	1245531	1344054	1453176
Agricultural exports	116046	134481	182527	213132	210092	260632	279466	297715	333942	364762
Tea	8162	91667	113565	137606	136194	162793	164869	180429	199446	212583
Rubber	4724	9674	12066	13535	11327	19580	22811	15726	9194	5916
Coconut Production	10680	12568	14226	15728	18635	18728	29394	26594	26488	46517
Other	19160	20572	42670	46264	43937	59531	62392	74966	98814	99741
Industrial Export	497695	562450	657052	662220	600621	688759	883771	938762	1001808	1078725
Textiles & Garments	291090	319379	369173	376990	374645	379185	463509	508607	583046	643688
Petroleum Products	13170	19580	18791	27553	15447	29761	61170	58902	55128	44132
Other	193435	223491	269088	257678	210529	279813	359091	371254	363634	390905
Minerals	12088	10714	2631	2311	2280	2739	3631	7833	6727	7764
Other	12448	8934	3474	835	918	22528	720	1221	1577	1924
Imports , millions of RS	891359	1066689	1250386	1525705	1172618	1519737	2241488	2441879	2323128	2535163
Consumer Goods	151021	185461	184129	217295	179722	279762	404037	380968	410996	503021
Intermediate Goods	549004	640810	773126	976190	707655	910010	1357505	1474534	1361740	1488091
Investment Goods	188061	233637	287363	309092	240284	311496	473974	582921	584604	542169
Non- Category	3272	6781	5768	23128	44957	18470	5972	3455	1788	1882
Balance of Trade	- 253082	-350110	-404703	-647207	-358707	-545350	- 1073900	- 1196348	-979074	- 1081987

Source: Central Bank Report of Sri Lanka

According to Table 01 extracted from 2004-2014. It describes Sri Lankan Balance Of Trade. Central Bank report of 2015 Sri Lanka export income has increased from 2005 to 2014. As 638,276 (Millions of Rupees) in 2005 and 1,453,176 (Millions of Rupees) in 2014. Industrial exports are the main contribute for export income. It was 497,695 (Millions of Rupees) in 2005 and it was 1,078,725 (Millions of Rupees) in 2014. Industrial export product garments are most important obtaining high level foreign exchanges and it was 291,090 in 2005 and it was 643,688 in 2014 (Millions of RS) .

This textile and garments are the most significant and dynamic contributor for Sri Lanka's economy. This industry has grown over the last three decades. It has become the number one foreign exchange earner and the largest single employer in the manufacturing industry. A wide range of apparel for men, women, girls, boys, children and babies in the categories of fashion-wear, sport wear, work wear, rain wear, and swim wear is manufactured and exported with the flexibility of catering to the specific seasons to many countries around the world. USA and UK are the top markets for Sri Lankan apparel for many decades.

The contribution of petroleum has increased from 13,170 (Millions of Rs) in 2005 to 44,132 (Millions of Rs.) in 2014. As an agricultural country agricultural exports contribute in Sri Lankan exports. It was 116,046 (Millions of Rs) in 2005 and it was 212,588 (Millions of Rs.) in 2014. The main agricultural export product is tea. Tea export income increased from 814820 (Millions of Rs) to 2120588 (Millions of Rs.) within the period of 2004 to 2014. With the development of Sri Lankan tea export, Green Tea has acquired a commanding position in the global market. Currently Sri Lanka exports Green Tea to more than 40 countries. The major buyers are United Arab Emirates, Russian, Federation and Jordan with Sri Lanka's awe inspiring status of being the number one manufacturer cum exporter of orthodox black tea. As the contribution of coconut product for foreign trade increased as 10680 in 2005 to 46517 in 2014. As a result of reduce domestic consumer due to various barriers rubber cultivation in Sri Lanka. However reduce the foreign income with the rubber exports as 22,811 in 2011 to 5,916 in 2014. (Millions of RS)

Imports of Sri Lanka were 891,359 (Millions of Rs.) in 2005 and 2,535,163 (Millions of Rs) in 2014. According to that import cost increased up to 1,643,804. (Millions of RS). The highest import cost covered by international goods. It was 549,004 in 2005 to 1,488,091 in 2014. (Millions of RS). As a result of Sri Lankan development process, the cost of investment goods increased from 188,061 in 2005 to 542,169 in 2014. (Millions of RS)

Now we can obtain balance of trade by reducing import cost from export values. It was -253,082 in 2005 to -1,081,987 in 2014. Thus it is evident that the Balance Of Trade in Sri Lanka was reduced to -828,905 (Millions of RS). Import cost exceed more than export value. According to econometrics

model. In the long term the Sri Lankan Balance Of Trade is projected to trend around -650 US\$ million in 2020.

## **Conclusion**

Sri Lanka exports mostly Textiles & garments. Others include Tea, Rubber, Coconut Production, and Minerals. Main export partners are United States, United Kingdom, Germany, Belgium and Italy. Sri Lanka imports Consumer Goods, Intermediate Goods and Investment Goods. Main import partners are India, China, Iran and Singapore. Exports were increased by 8.4% for the first time since February and at the strongest pace since July 2014. Imports raised for the first time in three months by 8.3% which is the biggest growth since June 2015. The average Balance of trade in Sri Lanka from 2003 until 2016 was -468.39 US \$ million. Balance Of Trade is one of the components of Balance of Payment, which is very useful in the reduction of the deficit of Balance of trade in Sri Lanka. Therefore the deficit of Balance of Payment need to be reduced in Sri Lanka.

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