

Indo-Sri Lanka Trade Relations: Trend and Way Forward

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India and Sri Lanka have extensive links as religious, cultural, and economic historically. The economic ties between India and Sri Lanka have a long history with recorded commercial links for many centuries. During the early years of the post-independence period, both countries implemented inward-looking economic policies, but at present, India and Sri Lanka exchange tariff concessions under the South Asian Preferential Trading Arrangement (SAPTA). Despite numerous literary works on Indo-Lanka trade focused on the evolvement of trade relations between these two nations over the years, less work has dealt with its macroeconomic perspective. This paper initially examines the trend in the bilateral trade between the two countries including the major products traded descriptively. Further, it investigates the export competitiveness of Sri Lanka's leading export in Indian market by using Revealed Comparative Advantage index (RCA). Export products are analysed based on Standard International Trade Classification (SITC) revision 4, and the index is calculated at two-digit and three-digit levels of classification from 2000 to 2015. The UN COMTRADE database and the World Development Indicators (WDI) database provided the necessary data, and the empirical results reveal the trade sector has changed dramatically over the last 15 years. The Sri Lankan exports to India consists of five major product categories at the aggregate level as Food and live animals (SITC 0), Crude materials (SITC 2), Manufactured goods classified chiefly by materials (SITC 6), Machinery and transport equipment (SITC 7), and Miscellaneous manufactured articles (SITC 8). Sri Lanka enjoys the comparative advantage of 13 product categories at SITC 3-digit level, while dominated by traditional industries. The results further denote that Sri Lanka has a comparative advantage in exports of goods which use natural resources for the productions such as agricultural output and industrial inputs. Besides, Sri Lanka enjoys a comparative advantage of export of products manufactured using standard technology and characterised by lower cost of research and development. After the period of slow growth rate in the eighties, Sri Lankan imports from India doubled in 1991, while the total imports from India to Sri Lanka has increased from 9.53 per cent to 22.5 per cent in 2015. Among the category, the bulk of Sri Lankan imports consist of three dominant product categories, i.e., Cotton yarn fabric made up, Transport equipment, and Machinery and instruments. These account for an average of over 35 per cent of Indo-Sri Lanka trade. Prospects of any trading relation depend on the ability to bring complementarity in the production process. The narrow range of products seems to plague Sri Lankan exports to India. Under this circumstance, it is essential to venture into the unexplored portion of the market through mutual cooperation and strong bilateral network, both at the micro and macro levels.

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