

## **The Changing Terms of Trade in the Small Farming Sector in Sri Lanka: Special Reference to Paddy and Vegetable Cultivation**

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Abstract

Decline farm output prices relative to the prices of farm inputs and consumer food items become a core factor of the dropping farm income of small farmers in Sri Lanka, particularly in paddy and vegetable cultivation. Though the dropping farm income is a common problem in many agricultural countries, its impact is very crucial for a small country like Sri Lanka where nearly 30 percent of the labour force is occupying directly or indirectly in agricultural activities. Hence, the main objective of the paper was to review factors influenced for dropping TOT in the small farming sector and assessing its implications on the economy. The methodology of the paper was based on deductive method and used both primary and secondary data. According to price data analysis, parity ratio between paddy and consumer items has declined continually in the recent past. Farmers have to pay nearly 2 kilo of paddy to purchase one pound of bread in 2012, while it was one kilo in 1984. Similarly, the required paddy amount for receiving one packet of milk powder (450gram) has increased from 7.03 in 1984 to 10.2 in 2012. As the farm inputs, the parity ratio between paddy and fertilizer has declined tremendously over the past. However, the effect on vegetable farmers is insignificant due to price fluctuations. Government intervention has made some policy measures, granting fixed output price and input subsidy programs. Under the rapid globalization scenario, the issue has become more complicated and thus dropping farm income is not simply a matter related to domestic production factors; it also linked with the global market. It indicates the need for comprehensive sustainable agricultural policy.

*Keywords: Terms of Trade, Paddy and Vegetables, Small Farming, Costs and Returns, Government Policies*

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