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The United Nations University

WIDER

World Institute for Development Economics Research

Study Group Series No. 8

Indo-Sri Lanka Economic Cooperation:

An Operational Programme

UNU World Institute for
Development Economics Research
UNU/WIDER

Study Group Series
No. 8

Indo-Sri Lanka Economic Cooperation

An Operational Programme

UNU World Institute for Development Economics Research (UNU/WIDER)
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Indo-Sri Lanka Economic Cooperation: An Operational Programme

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PREFACE

The emerging trends in global trading patterns point to the increasing role and significance of regional economic cooperation in promoting the process of growth and development. The formation of the South-Asian Association for Regional Cooperation (SAARC) was a step in this direction. While the modalities of regional cooperation have been broadly agreed upon, a meaningful operational programme of cooperation among the nations of the SAARC region is yet to be put in place. It is in this context that the UNU World Institute for Development Economics Research took the initiative in consultation with the Governments of India and Sri Lanka, to support studies designed to come up with a clearly defined package of proposals for facilitating cooperation between India and Sri Lanka in the first instance. Following discussions with the concerned officials in India and Sri Lanka, it was decided to request the Research and Information System for the Non-Aligned and Other Developing Countries (RIS) to undertake the study.

This study prepared by the RIS identifies the potential areas of Indo-Sri Lanka cooperation in the field of trade, manufactures and services. The findings reported here constitute a useful starting point for further studies and elaboration of a specific programme of bilateral and regional cooperation. The policy recommendations in the report need to be discussed at inter-governmental levels with a view to facilitate their early implementation.

Given the somewhat limited ambit of the present study, further detailed work is essential to evolve a comprehensive operational programme of action to speed up the process of cooperation in the SAARC region. It is hoped that the findings reported here will provide the necessary stimulus to move forward towards the realisation of closer coordination of economic activities among the nations of the SAARC region.

Lal Jayawardena
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The Study Group would like to express its thanks to the Federation of Indian Chambers of Commerce and Industry (FICCI), and the Southern India Chamber of Commerce and Industry (Madras) for organising meetings of the Study Group with the respective members of the Chambers having economic interest in Sri Lanka. The Study Group also thanks all the government officials, public sector organisations, private sector companies, trade and industry associations in India for their comments and observations. Particular thanks are due to H.E. Mr Neville Kanakaratne, High Commissioner and Mr K. Godage, Deputy High Commissioner, High Commission of Sri Lanka in New Delhi for their interest and cooperation in the study.

The Study Group had very fruitful discussions with government officials, state corporations, chambers of commerce, and businessmen in Sri Lanka. Thanks are due to all of them. The assistance given by Mr L.A. Mahendran, Director, Industrialisation Commission; and Mr M.C. Atton, Information Officer/Asst. Secretary and Mrs I.P. Domingopillai, Asst. Secretary/Documentation Officer, of the Ceylon Chamber of Commerce for supply of useful information and feedback received from business community in Sri Lanka is acknowledged with thanks.

Discussions in Colombo with Honourable Minister Mr S. Thondaman, Honourable Minister Mr P. Devraj, Mr D.N. Thurairajah, Mr P.G. Ratnayake, Mr T. Kumara Dasan, and Dr P. Asthana were particularly helpful in the course of the study.

Finally, the Study Group would like to thank their colleagues in the RIS for statistical, computer and other assistance.

I INTRODUCTION

1. Scope and Objectives

The present study covers the areas of potential cooperation in trade, manufacture, and services. The RIS study, *Economic Cooperation in the SAARC Region* (1990) identified a large number of sectors for economic cooperation between India and Sri Lanka. The important areas of cooperation viz. tea and other agricultural products, rubber, gems, mineral products, different branches of manufacturing sectors, development of small-scale industries, etc are covered in the present study.

The objectives of the present study are:

- analysing the perspectives of capacity and hence supplies in the two countries;
- examine the scope for inter-industry trade and intra-sectoral cooperation with possible vertical integration of industries across the two countries;
- analyse the domestic policies pertaining to production and export and also the tariff and non-tariff trade policies;
- mapping the policies in the two countries at the various stages of production and trade activities;
- explore the possibilities of strengthening the infrastructure of services and information;
- examine the possibility of special arrangements for economic cooperation between the two countries;
- identifying areas of joint ventures between India and Sri Lanka to be set up with buy-back arrangement into India or marketing within the SAARC region or to countries outside the region.

The product categories cover: (a) those for which capacity utilisation should be improved to increase the supply-capabilities, (b) those for which new capacities need to be created in traditional areas to meet the growing intra-SAARC demands and extra-regional demands, and (c) those new products and high-tech items for which new capacities will have to be created for third country exports.

Analysis on the above lines will result in (a) action programme for immediate follow-up; and (b) the stream of benefits and costs over the next five to ten years have to be estimated and detailed techno-economic project profiles for select areas of joint ventures are to be prepared. This part of the work would require association of industrial consultants, technical experts and experts in financing and project appraisal methods. A few select proposals in sectors such as rubber products, tea blending, coconut processing, gems and jewellery, textile fabric etc. for detailed analysis could be picked up. The sharing of the stream of benefits and costs between the two countries and the modalities of financing select specific projects of cooperation also need to be worked out.

2. Methodology

The present study is based on: (a) an indepth analysis of all the available documents on the economies of India and Sri Lanka and on Indo-Sri Lankan economic relations: and on the production and trade situation in the two countries and in the world with regard to the sectors included in the analysis, and (b) discussions with chambers of commerce, industry associations government departments, and public and private sector corporations and academic community in India and Sri Lanka. A questionnaire listing the scope, objectives and parameters of analysis has been sent to various public and private sector organisations in India as well as in Sri Lanka. The response to this questionnaire was very encouraging.

3. Plan of the Report

Chapter 2 gives a broad summary of the various aspects of Indo-Sri Lanka economic cooperation. Chapter 3 discusses, for each of the identified sectors, scope, the constraints, and action points for cooperation between the two countries. Chapter 4 outlines a blue-print of cooperation for development of small-scale and cottage industries which is of particular interest to Sri Lanka. Chapter 5 discusses the policy and institutional aspects of cooperation. Chapter 6 summarises the conclusions and recommendations of the study.

II INDO-SRI LANKA ECONOMIC RELATIONS

This Chapter discusses the institutional mechanism evolved over the years to promote Indo-Sri Lanka economic cooperation. It also reviews the composition and trends in Indo-Sri Lanka trade, joint ventures, technology transfers and other modes of cooperation.

1. Trade Agreement between Sri Lanka and India

A trade agreement was signed between the two countries in 1961, and is still in force. It is noteworthy that the agreement provides for making endeavour to maintain the volume of trade between the respective countries at the highest possible level, taking cognizance of the changing pattern of production/consumption of various commodities (see Annex 2.1 for the full text of the agreement).

2. Indo-Sri Lanka Joint Economic Commission

An Indo-Sri Lanka Joint Committee on Economic Cooperation was set up in June 1968 with the objectives of increased cooperation in trade, industry, agriculture and tourism. This Committee was later upgraded to Indo-Sri Lanka Joint Commission for Economic, Trade and Technical Cooperation. A Sub-Committee on Economic-Cooperation met regularly in the early seventies.

However, after 1987, Indo-Sri Lanka Joint Commission was more or less dormant. It was revived with the Fourth Ministerial Meeting of the Indo-Sri Lanka Joint Commission which was held in New Delhi on 7-8 September 1987. The question of increasing the trade flow between the two countries was discussed. The Sri Lankan side suggested that India could look into the possibility of importing nylon, textile yarn, cloves, coconut oil, natural rubber, and rutile sand. Of these items, natural rubber and a limited amount of rutile sand offer possibilities. Import of cloves is dependent upon the availability of India from time to time.

A meeting of senior officials was held in New Delhi 8-10 April 1991 to prepare for the first meeting of the Indo-Sri Lanka Joint Commission. This meeting was led by the Foreign Secretaries of India and Sri Lanka. During this meeting, *inter alia*, it was emphasized that in the are of trade there was need for stimulating balanced growth through identification of new products for exports, trade promotion measures, exchange of delegations from trade and industry and the liberalisation of trade barriers.

During this meeting, the possibilities of bilateral cooperation in marketing, promotion and export of tea on the basis of mutual benefit for the maximisation of

foreign exchange earnings of both countries was discussed. The two sides also discussed the potential areas for new joint ventures and bilateral arrangements. The Sri Lankan side explained the new industrialisation strategy of their government and the incentives package offered to foreign investors.

In this context, it was agreed to support studies to prepare operational programmes covering areas of potential of trade, manufacturers, and services. The present study is an outcome of this agreement.

During the meeting it was also noted that a delegation from FICCI would visit Colombo with a view to intensifying the contacts between trade and industry in the two countries. The FICCI delegation visited Colombo in July 1991 and identified several areas of economic cooperations between the two countries.

The present study has taken into account the list of areas identified by the FICCI delegation and by others in the field of Indo-Sri Lanka economic cooperation.

3. Indo-Sri Lanka Trade

Sri Lanka has been having persistent adverse balance of trade with India. This by itself should not have been a worrisome feature for Sri Lanka if she had overall credit balance in the Asian Clearing Union (ACU), as Sri Lanka and India are both members of the ACU. However, Sri Lanka was having persistent overall debit balance in the ACU though with some ACU members Sri Lanka has credit balance (see Table 2.1). It is noteworthy that Sri Lanka's overall net debit balance in ACU declined substantially from 1988 to 1989.

Sri Lanka has been having overall adverse trade balance rising from SLR 20 bn in 1987 to SLR 28 bn in 1990.[1] The countries with which Sri Lanka had adverse trade balance during all these years were: Japan, Iran, China-Taiwan, South Korea, People's Republic of China, Malaysia, Hong Kong and India (ranked in that order by 1990 data). The countries with which Sri Lanka had favourable trade balance were: the USA, United Arab Republic, Federal Republic of Germany, Belgium-Luxembourg, the USSR, Iraq, Arab Republic of Syria and the Netherlands (ranked in that order by 1990 data, see Table 2.2).

There are two significant features of Indo-Sri Lanka trade: (a) the low volume of bilateral trade and (b) the adverse trade balance of Sri Lanka (see Table 2.3). The present study envisages to analyse, *inter alia*, these two aspects and suggest measures to increase the volume of trade and reduce Sri Lanka's adverse trade balance through enhancing of exports of the present list of items, export of new items and through trade-creating joint ventures.

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[1] Throughout this study SLR refers to Sri Lankan rupees and INR to Indian rupees.

TABLE 2.1

SRI LANKA'S NET POSITION IN ACU

('000 AMUs)

	1987	1988	1989
Bangladesh	+6,683	+6,773	+18,178
India	-46,648	-43,130	-36,045
Iran	+20,530	-29,877	-25,656
Myanmar	-	+3	-
Nepal	-693	+343	+409
Pakistan	+5,446	-11,159	+33,362
Total	-14,682	-77,047	-9,752

Source: ACU, *Annual Reports*, various issues
Notes: + credit position, - debit position
AMU = Asian Monetary Unit the ACU common unit of account, equivalent to one SDR

TABLE 2.2
SRI LANKA'S BALANCE OF TRADE

(SLR million)

	1987	1988	1989	1990
Adverse balance				
1. Japan	-6,977.7	-7,003.4	-6,142.3	-8,932.8
2. Iran	-2,222.7	-2,239.4	-2,263.6	-6,311.3
3. China-Taiwan	-3,009.6	-3,241.0	-4,080.1	-5,902.3
4. South Korea	-2,169.2	-2,753.3	-3,330.3	-4,919.4
5. China, People's Rep. of	-1,398.0	-2,573.7	-3,567.5	-4,682.2
6. Malaysia	-1,695.5	-1,902.0	-2,144.5	-4,479.1
7. Hong Kong	-3,246.7	-3,180.7	-3,312.3	-4,137.5
8. India	-2,272.8	-2,278.4	-1,957.1	-3,905.0
Favourable balance				
1. USA	7,100.4	6,826.4	9,478.6	11,409.7
2. United Arab Rep.	1,167.5	995.8	1,759.0	2,311.0
3. Germany Fed. Rep. of	327.6	51.3	876.4	1,713.4
4. Belgium-Luxembourg	300.6	795.7	1,466.9	1,617.1
5. USSR	160.7	334.9	851.9	1,522.4
6. Iraq	1,290.7	1,550.8	1,050.3	1,422.5
7. Syrian Arab Rep.	396.1	503.8	486.2	1,245.2
8. Netherlands	421.3	345.2	548.1	1,151.4
Global balance	-20,005.0	-24,268.0	-24,050.0	-28,124.0

Source: Central Bank of Sri Lanka, *Annual Report* 1990

TABLE 2.3
SRI LANKA'S TRADE WITH INDIA

(SLR million)

Year	Sri Lanka's exports to India	Sri Lanka's imports from India	Sri Lanka's balance of trade with India
1987	187.0	2,459.8	-2,272.8
1988	615.1	2,893.5	-2,278.4
1989	355.5	2,312.6	-1,957.1
1990	825.7	4,730.7	-3,905.0

Source: Central Bank of Sri Lanka, *Annual Report* 1990

India's exports to Sri Lanka are highly diversified (see Table 2.4). The main items of imports by Sri Lanka from India in 1990 were: buses, beedi leaves, onions, cotton, auto-trishaws, chassis fitted with engines, other non-wired glass, oil cakes, diesel engines, medicaments, machine-glazed poster paper, capsicum/pimenta (dried/crushed/ground), parts and accessories of vehicles (other), etc.

On the other hand, Sri Lanka's exports to India are concentrated in a limited number of items (see Table 2.5), viz. waste/scrap of iron or steel (other), black gram, pepper, copper waste and scrap, diamonds, tea in bulk, electrical apparatus (other), natural rubber (RSS1), iron/steel containers, resinoids, cloves and glycerine.

This pattern of trade is more or less the same in an earlier year, viz. 1988-89 (see Tables 2.6 and 2.7).

TABLE 2.4
SRI LANKA'S MAJOR IMPORTS FROM INDIA (1990)

(SLR million)

Product	Unit of quantity	Quantity	Value
Buses	No.	749	495.9
Beedi leaves	MT.	1,981	306.9
Bombay onions	MT.	24,126	254.4
Cotton not carded or combed	MT.	3,368	249.1
Auto trishaws	No.	4,447	221.6
Chassis fitted with engines	No.	924	176.9
Other non-wired glass: coloured (body tinted) opacified flashed or merely surface ground other	MT.	28	163.4
Oil cakes etc. whether or not ground or as pellets, resulting from extraction of Soya bean oil	MT.	9,827	106.8

Diesel engines of four cylinders and over with a cubic capacity of 3250 cc and over	No.	598	75.9
Medicament consisting of two or more constituents mixed together, not for retail sale - other	MT.	317	64.6
Machines glazed poster paper	MT.	1,656	56.6
Synthetic staple fibres, not carded, combed or otherwise processed for spinning of polyester	MT.	1,075	55.6
Capsicum/pimenta -dried/crushed/ground	MT.	1,325	53.8
Parts and accessories of vehicles - other	No.	4,281,112	52.6
Other medicaments	No.	136	51.2
Cotton fabrics - other	Sq.Met.	888,963	49.3
Sodium hydroxide (caustic soda) - solid	MT.	2,146	47.9
Chassis not fitted with engines but with/without fitting for vehicles with a G.V.W of 1,750 kg & over	No.	181	45.8
Sprats dried not salted	MT.	1,698	43.4
Other vehicles where CIF exceeds Rs. 150,000/ - but does not exceed Rs. 250,000/ -	No.	201	40.6
Medicaments consisting of mixed or unmixed products for retail sale - other	MT.	241	39.7
Woven fabrics of artificial staple fibres printed - other	Sq.Met.	491,887	36.0
Other printing or writing paper	MT.	870	34.9
Fish dried, salted or in brine - other	MT.	779	34.5
Other portland cement imported in packings of 50 kg and below	MT.	12,740	33.0
Aluminium plates, sheets & strips of a thickness exceeding 0.2 mm: rectangular & square of aluminium alloys	MT.	351	32.8
Chassis not fitted with engines - other	No.	473,963	31.3
Containers of glass used for the conveyance or packing of goods - other	No.	6,987,629	30.5
Cotton fabrics, bleached - other	Sq.Met.	580,113	30.4
Parts and accessories of vehicles - wheels rims and spokes	No.	3,494,814	29.7
Malted milk	MT.	394	29.5
Leather tanned/re-tanned but not further prepared, whether or not split - other	MT.	-	28.5
Cotton fabrics, unbleached - other	Sq.Met.	503,612	28.3
Cotton fabrics, dyed - other	Sq.Met.	554,392	28.0
Others			1,671.2
Total			4,730.6

Source: Compilation by the Ceylon Chamber of Commerce

TABLE 2.5
SRI LANKA'S MAJOR EXPORTS TO INDIA (1990)

(SLR million)

Product	Unit of quantity	Quantity	Value
Waste/scrap of iron or steel - other	MT.	59,632	390.8
Black gram	MT.	4,376	55.6
Pepper neither crushed nor ground	MT.	510	43.5
Copper waste & scrap	MT.	243	37.3
Diamonds - unworked or simply sawn, cleaved or bruted	Carat	4,778	35.5
Tea in bulk	MT.	350	32.8
Electrical apparatus - other	No.	33	28.8
Natural rubber - RSS 1	MT.	705	25.3
Iron/steel containers for compressed or liquified gas	MT.	82	12.4
Natural rubber - pale crepe	MT.	282	10.4
Resinoids	MT.	557	10.3
Diamonds - other	Carat	2,826	9.7
Cloves	MT.	86	9.3
Glycerol (Glycerine)	MT.	388	9.3
Camel back strip for retreading rubber tyres	MT.	180	7.4
Natural graphite - other than powder/flakes	MT.	188	5.7
Plants/parts of plants used in perfumery, medicines etc. - other	MT.	801	5.1
Other			80.4
Total			809.6

Source: Compilation by the Ceylon Chamber of Commerce.

TABLE 2.6
INDIA'S MAJOR IMPORTS FROM SRI LANKA (1988-89)

(INR million)

S. No.	Description	Value
1.	Pulses	23.1
2.	Metalliferous ores & metal scrap	17.4
3.	Manufactures of metals	14.5
4.	Pearls precious semi-precious stones	13.4
5.	Crude rubber, including synthetic reclaimed	7.1
6.	Organic chemicals	6.6
7.	Iron & steel	4.0
8.	Textile yarn, fabrics, madeup articles	2.9
9.	Inorganic chemicals	2.5
10.	Artificial resins, plastics, material, etc.	2.2
11.	Machinery except electrical & machine tool	1.5
12.	Pulp and waste paper	1.4
13.	Vegetable oils fixed (edible)	1.4
14.	Other crude minerals	1.0
15.	Electrical machinery	0.4
16.	Paper board & manufactures	0.2
17.	Professional instruments, optical goods etc.	0.2
18.	Milk and cream	0.1
19.	Non-metallic mineral manufactures excluding pearls	0.1
20.	Transport equipment	0.1
21.	Others	148.7
	Total	275.4

Source: DGCIS, *Foreign Trade Statistics of India*, (Principal Commodities & Countries), March 1989.

TABLE 2.7
INDIA'S MAJOR EXPORTS TO SRI LANKA (1988-89)

(INR million)

S. No.	Description	Value
1.	Engineering goods	615.0
2.	Cotton yarn, fabrics, madeups etc.	220.1
3.	Basic chemicals	199.6
4.	Fruits & vegetables	115.0
5.	Marine products	47.2
6.	Miscellaneous processed items	31.1
7.	Spices	28.6
8.	Oil meals	24.3
9.	Man made yarn, fabrics, madeups	15.0
10.	Plastics & linoleum products	9.2
11.	Leather & manufactures	8.6
12.	Other ores & minerals	2.5
13.	Gems & jewellery	2.2
14.	Tea	1.8
15.	Sports goods	1.8
16.	Jute manufactures excluding floor covering	1.6
17.	Cashew including cnsl.	1.4
18.	Rmg cotton including accessories	1.3
19.	Rice	1.3
20.	Natural silk yarn, fabrics, madeup	1.2
21.	Project goods	0.9
22.	Handicrafts excluding handmade carpets	0.6
23.	Processed fruits & juices	0.5
24.	Tobacco unmanufactured	0.4
25.	Rmg wool	0.3
26.	Rmg manmade fibres	0.3
27.	Carpet handmade	0.1
28.	Rmg others	0.1
29.	Rmg silk	0.1
30.	Shellac	0.1
31.	Others	137.3
	Total	1,469.2

Source: DGCIS, *Foreign Trade Statistics of India*, (Principal Commodities & Countries), March 1989.

4. Indo-Sri Lanka Joint Ventures and Technology Transfers

Joint ventures and technological transfers have become important vehicles of economic cooperation among developing countries. It has been empirically demonstrated that the transfer of resources and technology through developing country joint ventures is more appropriate and cost effective for the host country than similar transfers affected by MNCs based in the industrialised countries. For instance the technologies transferred to joint ventures have been appropriately scaled down to smaller size, made more appropriate to factor endowments of developing countries, and adapted to local raw materials and conditions. They have been found to depend less on the imported capital goods and raw materials and result in significantly lower foreign exchange outgo on account of servicing. Furthermore joint ventures can help in expediting the process of import substituting industrialisation in the host countries or can help in correcting the perennial balance of trade imbalances which may emerge due to limited export capabilities of the host countries.

Indian companies have set up nearly 200 joint ventures in about 40 countries which are in different stages of the operation and implementation. Sri Lanka has been a country with one of the largest concentrations of Indian joint ventures. As in March 1991, as many as 14 Indian joint ventures and one wholly owned subsidiary of Indian company were operating in Sri Lanka. In addition to these, approval for two more joint ventures had been granted in 1989 (see Table 2.8 for details). The areas of Indian joint ventures in Sri Lanka include manufacture of sewing machines and electric fans, PVC leather cloth, pigment emulsions, cotton yarn hosiery, industrial rubber products, rubber gloves, starch based chemicals, assembly of commercial vehicles, wax matches, hume pipes, baker's yeast, and in bored pilling, hotels and restaurants, travel agency etc. It has been understood that a joint venture for production of drugs and pharmaceuticals between Ranbaxy Laboratories of India and Hemas (Drugs) of Sri Lanka also has been proposed recently. Two more companies have been working on setting up of joint ventures in Sri Lanka, namely CWS of India with Maharaja Organisation of Sri Lanka for production of CTC teas and NICCO of India for production of ancillaries for lead acid batteries.

5. Technology Transfers

Besides joint ventures Indian companies have transferred technology to Sri Lanka through licensing and technological collaborations, export of turnkey projects, capital goods and machinery, consultancy services and management contracts. For instance, an Indian company namely KCP Ltd. constructed Sevenagala Sugar factory in Sri Lanka on turnkey basis under an ADB project. Three Indian companies have been operating public sector textile mills in Sri Lanka under management contract, one of which viz. Pugoda Textile Mill has been finally converted into a joint venture after the transfer of ownership. Similarly Oberoi Hotels of India have a management contract of Hotel Lanka Oberoi in Colombo. Indian consultancy organisations have rendered consultancy services to Sri Lanka for improvement of railway system and have constructed oil-storage tanks on turnkey basis.

6. Economic and Technical Cooperation

Sri Lanka has also been a major recipient of Indian technology and economic assistance under the ITEC programme. The technological assistance under this programme is provided through deputation of Indian experts, provision of training facilities in India to the Sri Lankan nationals and supply of necessary equipment. Under the ITEC programme, India has provided agricultural equipment and seeds, a micro-wave link project, and animal husbandry project to Sri Lanka. Besides a number of Sri Lankan officials received training in various fields in India every year. India has also signed bilateral agreements in the fields of science and technology with Sri Lanka. Sri Lanka has sought Indian technical assistance for improvement of handlooms quality, for dairy development and for development of rural industries.

Sri Lanka has also received concessional bilateral lines of credit from India with total authorisation amounting to INR 944 million upto March 1990. Of these authorisations, credits to the tune of INR 703 million had been utilised by March 1990.

7. Cooperation in the Framework of Multilateral Agencies

India and Sri Lanka have been cooperating under the aegis of various international fora. This includes technical cooperation between the two countries under the Colombo Plan and Commonwealth Fund for Technical Cooperation in the framework of the Commonwealth. They have been cooperating with each other in different negotiations under various United Nations bodies especially on commodity issues in the UNCTAD. Both the countries also cooperate as members of the NAM, Group of 77, and SAARC in different areas and sectors.

TABLE 2.8
INDIAN JOINT VENTURES IN SRI LANKA
(as in March 1991)

(Rs. in lakhs)

Sl. No	Name and address of the applicant	Name and address of the joint venture	Field of collaboration	Indian equity	Status
1.	M/s Jay Engg. Works Ltd, Calcutta	Usha Inds. Ltd., Ratmalana	Sewing machines and elect. fans	4.90 (49%)	6.11.1961 in production from Feb. 1962
2.	M/s Colour Chem. Ltd., Bombay	Hay Colour Ltd., Colombo	Pigment emulsions	11.73 (40%)	2.8.1979 in production from March 1981
3.	M/s Sita World Travel (India) Pvt. Ltd., New Delhi	SITA World Travels (Ceylon) Ltd., Colombo	Promoting Travel and Tourism	0.567 (30.83%)	24.12.1981 in production
4.	M/s Shanti Vihar Hotels Pvt. Ltd., New Delhi	Shanti Vihar P. Ltd., Colombo	Vegetarian Restaurant	1.225 (49%)	7.9. 1981 in operation from Feb. 1983
5.	M/s M.S. Consultants India Ltd., Bangalore	Kadirkaang Kumaran Textiles (P) Ltd., Colombo	Cotton yarn hosiery project	30.62 (80.43%)	15.10.1979 in production from Feb. 1983
6.	M/s The Indian Hotels Co. Ltd., Bombay	Taj Lanka Hotels Ltd., Colombo	Hotel	55.66	12.8.1980 in operation
7.	M/s Voltas International Ltd., Bombay	Walkers Piling Ltd., Colombo	Boared polling tube well drilling	5.80	6.3.1982 in operation
8.	M/s Indian Hume Pipes Co. Ltd., Bombay	Hume Pipe Colombo Ltd., Colombo	Manufacture of wire wound prestressed concrete pipes	6.60	in operation
9.	M/s Bengal Water Proof Ltd., Calcutta	Bensie Rubber Products (P) Ltd., Colombo	Rubber gloves & water bottles	65.85	24.7.1987 under implementation
10.	M/s Adhesives and Chemicals P. Ltd., Madras	Chemicals and Adhesive Products (P) Ltd., Colombo	Starch based and chemicals	1.65	9.12.1982 in operation
11.	M/s Ashok Leyland Ltd., Madras	Lanka-Ashok Ltd., Colombo	Assembly and mfg. of comml. vehicles	32.59	2.2.1983 in operation
12.	M/s Asia Match Co. Ltd., Sivakasi	Sun-match Co. Ltd., Kandy	Wax-matches and books batches	2.87	2.2.1983 in operation
13.	M/s Macklai & Macklai Financial Consultants (P) Ltd., Bombay	Bartleet Mecklai & Roy Ltd., Colombo	International money & foreign exchange brokers	0.345	2.11.1981 in operation
14.	M/s Laxmi Textile Exporters Ltd., Coimbatore	Pugoda Textile Lanka Ltd.	Mfg. of cotton blended yarn & fabric	2.57 (60%)	27.7.1960 participation in existing concern

...Table 2.8 continues

INDIAN JOINT VENTURE IN RESPECT OF WHICH APPROVAL HAS BEEN GRANTED

Sl. No.	Name and address of the applicant	Name and address of the joint venture	Field of collaboration	Indian equity	Status
1.	M/s Ambadi Enterprises Pvt. Ltd., Madras		Mfg. of baker's yeast	14.28 (10%)	10.1.1989
2.	M/s Dynamic Steel (P) Ltd.		Selling up steel mill	27.73 (40%)	11.12.1989

WHOLLY OWNED SUBSIDIARY (W.O.S.)

Sl. No.	Name and address of the applicant	Equity	Dividend	D.O.C.	Product
1.	M/s Shaw Wallace Co. Ltd., Calcutta	Total - 341.37 lks Indian - 73.65 lks	321.20	6.2.1919 31.3.1989	Manufacturing of garments

Annex 2.1
Text of Indo-Sri Lanka Treaty, 1961

The Government of India and the Government of Ceylon, being desirous of maintaining on an enduring basis and of further developing the trade between the two countries, have resolved to conclude a Trade Agreement and have agreed as follows:

Article I The two contracting parties, recognising the needs and requirements of their respective countries in the context of their developing economies, undertake on the basis of mutual advantage to maintain as far as is practicable the traditional pattern of trade hitherto existing, and to explore all possibilities of expanding trade.

Article II Each contracting party shall, within the framework of its laws and regulations, afford all facilities for the importation of goods produced in the country of the other contracting party.

Each contracting party shall give full consideration to the suggestions made by the other party facilitating the export and import of specific commodities.

Article III In recognition of the changing patterns of production and consumption resulting from the friction of the economic development plans of India and Ceylon, the two contracting parties undertake to explore, through consultation from time to time, the possibility of trading in new goods.

Article IV The two contracting parties shall endeavour their utmost to maintain the volume of the trade between their respective countries at the highest possible level with due regard to the changing patterns of production and consumption.

Article V The two contracting parties will use their best endeavours to promote the development of shipping of both countries and, in particular, shall accord to the ships sailing under the flag of each country while entering, staying in or leaving the ports of the other country, all facilities consistent with their respective laws and regulations.

The above arrangements shall not apply to any concessions made to ships engaged in the coastal trade of either country.

Article VI This arrangement shall come into force provisionally on the date of its signature by the accredited representatives of the two contracting parties and finally on its ratification according to the countries. It shall remain in force until it is modified or terminated by either contracting party on giving three months notice.

Done at New Delhi on Saturday, 28th Day of October 1961

For Government of India	For Government of Ceylon
K.C. Reddy	P.B. Ilangarante
Minister of Commerce	Minister of Commerce, Trade,
and Industry	Food and Shipping

III AREAS OF ECONOMIC COOPERATION

In this chapter we analyse the present aspects of cooperation, constraints in the same, and scope for future cooperation between India and Sri Lanka in trade, manufactures and services. Recommendations are made for suitable policy and other areas of action in India and Sri Lanka as applicable. The selected areas covered in this chapter include the following.

- Tea
- Rubber and rubber products
- Coir and coir products
- Cloves
- Fresh fruits
- Sugar
- Textiles and garments
- Metal products
- Transport equipment
- Consumers durables
- Machinery and equipments (n.e.s.)
- Industrial chemicals and dyes
- Medicines, pharmaceuticals and personal care products
- Salt
- Rock phosphate
- Gem and jewellery
- Consultancy services
- Tourism and tourism infrastructure
- Other areas of joint ventures and technology transfers

1. Tea

Sri Lanka and India are major exporters in world tea market. The other major suppliers are People's Republic of China and Kenya. Until 1989 India was the world's largest exporter followed by Sri Lanka, People's Republic of China and Kenya. In 1990, Sri Lanka's exports surpassed that of India (see Table 3.1).

In India packet tea accounts for a low percentage (13.2 per cent in 1990) of total tea exports, compared with the share of 35.9 per cent in Sri Lanka (in 1989). Also, more than 50 per cent of India's exports of tea are directed to a single market - viz. the USSR.

Another significant feature in India is that while domestic production of tea has been increasing at 2.5 per cent per annum, consumption has been increasing at 4 per cent per annum.

The export unit values of India and other major suppliers of tea are shown in Table 3.2. The higher quality of tea exported by India is reflected in the higher export unit value in the case of India vis-a-vis her competitors.

The major points of cooperation in tea between India and Sri Lanka are:

a) A suggestion has been made that India could import certain qualities of tea from Sri Lanka for domestic consumption thereby releasing the superior varieties of tea for exports. This suggestion has been criticised at least on three grounds: (i) import of tea would adversely affect the move to increase tea production in both the traditional and non-traditional areas; (ii) though 70 per cent of internal consumption of tea in India comprises loose teas, it is contended that inferior quality of teas is more and more unsalable in India; and (iii) Indian tea has attained certain image in world markets and this could be tarnished if importers suspect the mixing of imported tea with Indian tea.

The tea industry in India is divided on the issue of importing tea. One suggestion made is to convert imported tea into, say, instant tea. Another way out is the proposal for a joint venture between India and Sri Lanka which is being considered. The proposal is for setting up a 100 per cent export-oriented unit in Sri Lanka which would blend at least a quarter of quality Indian tea with three quarters of Sri Lankan cheap tea for export to a third country. The proposal also envisages promoting a joint brand. This joint venture proposal is expected to legitimise the smuggling of tea from India to Sri Lanka and selling it in the European and American markets after blending and repacking as Darjeeling tea.

TABLE 3.1
EXPORTS OF TEA: MAJOR EXPORTING COUNTRIES

(Million kg)

Country	1987	1988	1989	1990
China, People's Republic of	174	198	205	205
India	201	221	221	205
Kenya	135	138	163	
Sri Lanka	201	220	204	216

Source: 1987-1989: The Ceylon Chamber of Commerce, *Annual Review of Business and Trade*, 1989
1990: *Financial Express*, 20 May 1991 and *Economic Times*, 15 September 1991

TABLE 3.2
EXPORT UNIT VALUES (MAJOR SUPPLYING COUNTRIES)

($/kg)

Country	1987	1988	1989
China, People's Republic of	2.161	2.069	2.013
India	2.443	2.113	2.224
Kenya	1.465	1.454	1.609
Sri Lanka	1.794	1.731	1.863

Source: FAO, *Trade Yearbook 1989*

b) The Sri Lankan Government is seized with the problem of general productivity decline in the major plantation crops - viz. tea, rubber and coconut. Though the performance of state-owned plantation sector is beset with most severe problems, it is realized that there is scope for productivity improvement in the private sector also.

In the seminar on "Plantation in the year 2000" organised by the National Institute of Plantation Management in Colombo in August 1991, it was pointed out that the productivity of most tea small holdings and larger holdings in the mid-country are very low and improvements are essential if the industry is to survive in these areas. The yields in tea production in Sri Lanka compared with other major tea producing/exporting countries is shown in Table 3.3. Productivity of tea is lower in Sri Lanka compared with that in India and Kenya but higher compared with that in People's Republic of China.

The reasons for low yield in Sri Lanka are given as: poor soils, bad soil management, wrong agricultural practices, inadequate extension support, limitations on research and poor communication between the researchers and practitioners.

TABLE 3.3
PRODUCTIVITY IN TEA IN SELECTED COUNTRIES

Yield (kg/hectare)

Country	1987	1988	1989
China, People's Republic of	420	427	441
India	1,498	1,762	1,681
Kenya	1,877	1,953	2,129
Sri Lanka	963	1,024	932

Source: FAO, *Production Yearbook 1989*

To improve on these, it is envisaged to introduce private sector system of management in the state-owned estates while the ownership of land remains with the state. While some managerial culture has emerged in the manufacturing and service sector, the government is looking forward to steadily bring management culture to the plantation sector through the establishment of Institute of Business Management/Business Schools in Sri Lanka and if possible within the plantation sector itself.

In India also, efforts are being made to increase tea production. The Government of India recently approved a scheme to bring in additional 2,500 hectares of land under tea in the Nilgiri district of South India over a five year period at the cost of Rs 45 million. Similar schemes are being worked out for West Bengal and Himachal Pradesh to increase are under tea cultivation.

Under the new tea unit financing scheme for non-traditional areas, about 415 hectares in Arunachal Pradesh, Orissa, Manipur, Nagaland, and the Wynad district in Kerala have been brought under tea plantation so far.

Tea Research Association of India recently developed a high yielding clone of tea (TV-29) which is expected to yield 65 quintals (i.e. 6,500 kg) per hectare (after six years of plantation) against the present average yield of 16 quintals per hectare.

Therefore India and Sri Lanka could collaborate in:

i) tea research for improving yields;
ii) management of the plantation sector in Sri Lanka; and
iii) joint marketing of tea.

2. Rubber and Rubber Products

2.1 Natural Rubber

Both India and Sri Lanka are major natural rubber producers occupying respectively fourth and seventh places in terms of rubber production in the world (see Table 3.4). India, despite rapidly increasing domestic production of natural rubber which was nearly 324 thousand tonnes in 1990, still has to meet 10-15 per cent of its local consumption from imports. Generally, India imports between 40 to 60 thousand tonnes of natural rubber a year. In 1990, 60 thousand tonnes of natural rubber was imported (see Table 3.5 for trends in production, consumption and imports of rubber in India). Sri Lanka, on the other hand, exports much of her production of natural rubber. Sri Lanka's rubber production and exports show declining trend 1979-89. In 1989, production of natural rubber in Sri Lanka was 111 thousand tonnes, out of which 86 thousand tonnes was exported. Out of 86 thousand tonnes of exports only 509 tonnes found its way to India. In 1990 India imported nearly 1,000 tonnes of natural rubber from Sri Lanka. The bulk of Sri Lankan rubber 1989 has been exported to countries such as Iran (8,802 tonnes), United Kingdom (8,392 tonnes), West Germany (7,810 tonnes), the USA (7,163 tonnes) and Pakistan (6,804 tonnes). India, on the other hand, imported most of her rubber from Indonesia and Malaysia. It appears somewhat

intriguing that India has not found it beneficial to import rubber from her immediate neighbour. An understanding of the factors responsible for this is important for initiating suitable corrective steps. The following facts were noted in this context.

i) According to the Indian trade policy, natural rubber is either to be imported through the STC as a canalised item or under REP licences by the tyre manufacturers. Generally 9 to 10 thousand tonnes in a year are imported directly by the tyre manufacturers under REP licences and about 30 to 40 thousand tonnes is imported by STC. In 1991 STC is not importing any natural rubber as adequate stocks are available in the country.

ii) Imports of STC are made on C & F basis under the global tenders which are awarded to the cheapest source of supply for the same specifications. Due to geographical proximity Sri Lanka enjoys freight advantage in respect of quotations to India.

iii) Sri Lankan rubber enjoys a preferential rate of tariff in India at 25 per cent of basic import duty under the Bangkok Agreement compared to 40 per cent for others.

iv) Despite the preferential tariff applicable to Sri Lanka compared to her competitors and the freight advantage, Sri Lanka could not successfully bid for tenders floated by STC because of higher prices of Sri Lankan rubber. A comparison of unit values realised by major rubber exporting countries from the FAO statistics in Table 3.6 shows that unit values realised by Sri Lanka US$ 939.54 per MT in 1987 was higher than that by Indonesia and Thailand. In 1989, unit values for the Sri Lankan rubber at $ 1,012.4 per MT was higher than that in case of any of her competitors.

v) It has been observed that even the direct importers of rubber under REP Licences have also imported bulk of their supplies from Malaysia, Thailand and Indonesia because of cheaper prices.

vi) It may be noted in this context that People's Republic of China used to be the largest buyer of rubber from Sri Lanka until 1988, having imported 11 thousand tonnes in 1988, but did not purchase any rubber from Sri Lanka in 1989 preferring to buy from cheaper sources.

Therefore, the trade between India and Sri Lanka in respect of natural rubber can take place if prices of Sri Lankan rubber go down. The Sri Lankan Government imposes export duties and cesses on rubber which contribute to increase in prices. The export duty scheme was introduced in April 1981. It operates on a sliding scale based on the Singapore average weekly CIF Quotation. In 1989, the export duty varied between Rs. 7.46 per kg to Rs. 10.58 per kg. In addition four types of cesses are levied on rubber exports which together amounted to Rs. 145.65 per 100 kg during January and October and Rs. 170.65 between November and December. The cumulative incidence of these export duties and cesses could be anywhere between Rs. 8.92 per kg to Rs. 12.29 per kg. Considering the fact that FOB price of rubber was Rs. 36.17 per kg in 1989, the export duty and cesses account for upto 34 per cent of FOB price. Further, the absolute volume of production of natural rubber in Sri Lanka has been declining

compared to sharp increases in production registered in countries like Indonesia, Thailand, India and China. The declining availability of exportable natural rubber also keeps prices high. Hence, the appropriate action on both the fronts, namely possible reduction of export duties and increased production of natural rubber in Sri Lanka, can make Sri Lankan rubber more competitive.

2.2 *Technical Cooperation in the Field of Rubber Plantation and Production*

There is a large productivity gap between India and Sri Lanka in natural rubber production. The productivity of rubber in Sri Lanka was just 0.55 tonnes per ha. compared to 0.76 in Malaysia and 0.99 in India. This implies that there is considerable scope of cooperation in the area of rubber plantations and production between the two countries.

It is understood that India and Sri Lanka are already cooperating with each other to some extent in the area of rubber plantation and production. Both are members in the Association of Natural Rubber Producing Countries, International Research and Development Board, International Rubber Study Group. A number of officials belonging to the office of Rubber Controller in Sri Lanka have visited rubber growing areas in India and have been helped by the Rubber Board in studying India's rubber plantation development activities. There could be continued cooperation on more intensive and extensive scale in research and development in rubber plantation and production, especially in view of declining production of rubber in Sri Lanka.

TABLE 3.4
PRODUCTION OF NATURAL RUBBER (1988-89)

Country	Area ('000 ha. 1989)	Production 1988	('000 tonnes) 1989	Yield per ha. (tonnes)
Malaysia	1,856.8	1,661.6	1,419.1	0.76
Indonesia	3,110.8	1,235.0	1,260.0	0.40
Thailand	1,747.0	974.9	1,195.0	0.68
India	291.0	258.8	288.6	0.99
People's Rep. of China	587.0	240.0	240.0	0.40
Liberia	119.8	108.4	118.0	0.98
Sri Lanka	199.6	122.4	110.7	0.55
Other	1,018.5	442.9	508.6	0.50
	8,930.5	5,040.0	5,140.0	0.575

Source: Rubber Statistical Bulletin (International Rubber Study Group)

TABLE 3.5
PRODUCTION, CONSUMPTION AND IMPORTS OF RUBBER IN INDIA (1980-90)

(tonnes)

Year	Production			Consumption			Imports	
	Natural rubber	Synthetic rubber	Reclaim rubber (acquired/ imported)	Natural rubber	Synthetic rubber	Reclaim rubber	Natural rubber	Synthetic rubber
1980	1,55,380	22,482	23,151	1,70,800	46,150	22,241	1,000	16,206
1981	1,50,655	28,664	24,926	1,81,915	43,650	25,388	36,850	21,438
1982	1,65,920	28,664	28,290	1,97,035	49,705	29,282	25,725	20,427
1983	1,68,025	31,064	30,486	2,05,395	53,025	29,815	25,394	16,242
1984	1,83,925	37,606	35,410	2,12,540	59,643	33,480	38,014	21,188
1985	1,98,375	36,704	39,165	2,32,540	70,426	38,550	37,392	30,664
1986	2,18,985	34,855	37,415	2,53,695	69,425	37,575	60,071	29,539
1987	2,27,397	43,628	40,805	2,77,635	75,770	40,835	44,969	25,379
1988	2,54,805	49,412	39,875	3,11,105	82,875	40,175	58,445	32,133
1989	2,88,592	51,478	44,885	3,33,185	89,960	44,125	41,098	37,553
1990	3,23,515	52,401	44,950	3,58,435	91,965	45,180	60,030	34,305

Source: *Rubber India* Vol. XLIII No. 7, July 1991, All India Rubber Industries Association

TABLE 3.6
UNIT VALUE REALISATION BY MAJOR RUBBER EXPORTERS

Country	1987			1989		
	Quantity (000 MT)	Value (000$) ($ per tonne)	Unit value	Quantity (000 MT)	Value (000$)	Unit Value ($ per tonne)
Indonesia	1095.4	960453	876.80	1154.0	1117000	967.94
Malaysia	1620.2	1553974	959.12	1487.1	1458019	980.44
Thailand	879.3	798152	907.71	1094.9	1028458	939.32
Sri Lanka	106.1	99685	939.54	87.1	88182	1012.4

Source: *FAO Yearbook: Trade* 1989

2.3 Trade in Rubber Scrap

Sri Lanka generates a large quantity of rubber scrap such as used tyres, etc. Such scrap having no alternative use is a constant source of pollution and is presently burnt or thrown away as waste. India has developed a rubber reclamation industry which can reclaim rubber from scrap. In fact India produced nearly 45 thousand tonnes of reclaimed rubber in 1990, which is roughly 10 per cent of India's total consumption of rubber. There appears to be scope of import of rubber scrap such as waste used tyres by India from Sri Lanka. The Study Group in their discussions found an enthusiastic response from Sri Lanka businessmen in exporting rubber scrap to India. The Study Group has already taken steps to introduce potential exporters of used tyres to the Indian Rubber Reclaimers Association whose members could possibly import scrap rubber from Sri Lanka.

Another way of cooperation in this area could be that Sri Lanka may import her requirements of reclaimed rubber from India, which may be in a position to supply it at competitive prices.

2.4 Rubber Products

Sri Lanka produces tyres and tubes along with other rubber products. However, the local production i s not adequate to fulfil the demand of rubber tyres and tubes. For instance, in 1990 tyres worth SLR 443 million were imported. India on the other hand has emerged as a significant exporter of tyres. India exported tyres worth INR 1800 million in the last year. However, Sri Lanka's share in Indian tyres exports is negligible. There appears to be a lack of interest from the Indian side. The Study Group came across an instance where a Sri Lankan importer had to go personally to India to get even the quotation. Indian tyre manufacturers should establish trading relationship with Sri Lanka, which can offer them markets not only for automobile tyres but possibly for their other products. A large proportion of vehicles operating in Sri Lanka are of Indian origin. As OEM suppliers of tyres to these vehicles, Indian tyre manufacturers naturally enjoy an edge over others in this respect.

India already imports camel back strip for retreading rubber tyres. In 1990, 180 tonnes of camel back was imported. Besides camel back Sri Lanka has shown interest in exporting surgical rubber gloves manufactured by foreign companies in Sri Lankan export processing zones to India.

2.5 Joint Ventures in Rubber Products

Domestic price of rubber in Sri Lanka is nearly half the international price. That makes a joint venture in rubber products an attractive proposition. There are several rubber products which Indian enterprises can consider for production in joint ventures in Sri Lanka such as dipped rubber products, rubber automotive components, gaskets, fan belts and hoses etc. rubber thread and natural rubber composites. The Sri Lankan entrepreneurs have shown interest in setting up joint ventures with the Indian assistance in the following areas:

- tyres and tubes etc;
- tyre retreading (pre cured process);
- moulded and extruded rubber products and solid tyres
- rubber V belts

The Study Group found that though an Australian venture in the export processing zone presently manufactures rubber condoms for exports, almost all the requirements of rubber condoms for domestic market are met through imports. Two leading Indian companies including one in public sector have developed considerable expertise for manufacture of rubber condoms. They may find it to be an attractive proposition to set up a joint venture in Sri Lanka for production of rubber condoms to meet the local demand as well as for exports.

2.6 Furniture from Rubber Trees

It was pointed out to the Study Group that the Rubber Institute in Sri Lanka has developed a technique for utilising wood of waste trees for making cheap furniture. India does not yet possess this technology. Hence, there is scope for transfer of this technology from Sri Lanka to India.

3. Coir and Coir Products

The Philippines, Indonesia, India, Sri Lanka, Malaysia and Thailand are the six major coconut producing countries in the world accounting for over 80 per cent of the global production of coconuts estimated at 4337.4 crores in 1987. World production of coir is estimated at 3,00,000 tonnes in terms of fibre. Although there are more than 30 countries spread over the regions of Asia, Africa and America, coir is produced on a commercial scale only in India and Sri Lanka. The Philippines, Indonesia, Malaysia and Thailand have only relatively small coir output, say 18000 tonnes annually.

Coir production is characterised by two distinct kinds of fibre, namely the brown and white fibre. The former is produced mainly in Sri Lanka and the latter in India. At present the uses of the two varieties of fibre are quite different. White fibre, which is

extracted through the bacteriological process called retting - a prolonged soaking of husks in water - yields mat or yarn fibre suitable for spinning, which is then woven into mats or mattings. Brown fibre is largely used as bristle fibre in brooms and brushes, as mattress fibre, in a variety of uses including mattress manufacture and rubberised coir in furniture and construction and civil engineering.

India and Sri Lanka account for over 90 per cent of world production and exports of coir products (see Table 3.7).

TABLE 3.7
WORLD EXPORTS OF COIR AND COIR PRODUCTS

(Quantity in tonnes)

Country	1985	1986	1987	1988	1989
Sri Lanka	76852	85656	76726	67576	76290
Mattress Fibre	36734	45150	40587	30634	35562
Bristle Fibre	7822	9180	8722	7491	7435
Coir Yarn	2594	3271	1597	1665	1436
Twisted Fibre	27721	25874	23255	25312	28362
Coir Twine	1981	2181	2565	2474	3495
India	23867	24040	24834	23083	27265
Coir Yarn	13612	11706	14537	11709	13853
Coir Mattings	3394	2924	3432	2799	3428
Coir Mats	6582	8830	6725	7119	8197
Coir Ropes	32	54	45	31	145
Rugs and Carpets	227	494	66	1396	1575
Rubberised Coir	4	10	1	2	22
Others	16	22	28	27	45
Others	5697	6921	6745	9215	9300
Thailand	4397	5621	5445	7915	8000
African Countries	300	300	300	300	300
Others	1000	1000	1000	1000	1000
Total	106414	116617	108905	99874	112855

Source: APCC Year Book

3.1 Areas of Cooperation between India and Sri Lanka

3.1.1 Pricing

Arriving at a ceiling price for export marketing India and Sri Lanka may explore the possibility of arriving at minimum price ceiling for coir and coir goods for export market.

The specific price objectives should be:

i) to maintain coir prices at levels competitive with prices of other natural and man made substitutes;

ii) to ensure remunerative prices to the producers of husks and adequate living wages to the workers engaged in the coir industry;

iii) to ensure short term stability of prices and supplies.

The combined objectives of competitive and remunerative prices for coir is however, not an easy task to achieve. Unlike sisal, henequen and abacca, where production is mainly for fibre, coconut cultivation is undertaken mainly for copra and coir is thus a by-product. Coconut production in India and Sri Lanka is scattered among a large number of small holdings. Unless farmers have sufficient incentives to part with the coconut husks they are not likely to make it available for coir production. In India and Sri Lanka, the coir industry is as important from the point of view of rural employment and income as it is in terms of export earnings. It may be pointed out that the implementation of the floor price system by the Coir Board in India and the Coconut Marketing Board in Sri Lanka has prevented wide fluctuations in prices and unhealthy competition among shippers and has ensured a certain reasonable level of remuneration to the producers of husks and wages to the workers.

3.1.2 Technical Improvement, Marketing and Trade Objectives

In order to sustain the competitiveness of coir and retain its market a comprehensive action programme would have to be drawn up jointly by India and Sri Lanka which would include research and development programmes directed towards reducing the unit cost of products, improving the technical qualities of products, finding new uses of coir, planned programme of promotion, transfer of technology and marketing techniques from the developed countries and trade liberalisation measures. Adoption of modern methods of processing and production facilitating higher per capita output is essential for enhancing the competitiveness on coir because its competiting substitute has the advantage of good organisation of production, benefits of economies of scale and as production units are relatively new, the latest technology and management techniques.

3.1.3 Adoption of Uniform Standards for Coir Products

Coir industry produces a wide range of products. Adoption of common standardised grading of number of varieties of products on the basis of raw material input, texture, production pattern, strength, colour, etc. is not an easy task. Adoption of international standards applicable uniformly to export products from Sri Lanka and India is essential to arrive at a ceiling price acceptable to both the countries for export marketing.

3.1.4 Exchange of Know-How in Production and Processing

Sri Lanka has a monopoly in the production, processing and exports of brown fibre to the world market. Processing of coir pith for export is another area where Sri Lanka has expertise. In India over three lakhs tonnes of coir pith is produced every year as a by-product of coir production. This is being wasted without being put to any use for industrial purposes.

Similarly Sri Lanka would be interested in getting Indian know-how in manufacture of coir products from coir yarn and products. the know-how in brown fibre production and coir pith processing and coir product manufacturing could be therefore exchanged to the mutual benefits of India and Sri Lanka.

4. Cloves

Cloves is one of the major items of export interest from Sri Lanka to India. Import of cloves and selected other spices are under import licensing in India. (See Annexes 3.1 and 3.2 for details.)

Sri Lanka is the largest supplier of cloves (both extracted and not extracted) to India. Other major suppliers are Madagascar, Singapore, Tanzania, Comoros and Zambia. Comoros was a major supplier in 1987-88 but its exports to India became insignificant in 1988-89. The details of India's imports of cloves from different suppliers along with import unit values are shown in Table 3.8. From the unit value calculations it can be seen that in 1988-89 the unit value of imports from Sri Lanka is highest among the major suppliers to India. Discussions with the concerned persons in India also confirm this. In addition the discussions also revealed that the oil content in cloves supplied by Sri Lanka is much lower than that of other suppliers.

Though estimates are not available, discussions in India and Sri Lanka revealed that a large volume of Sri Lankan cloves are smuggled into India. Both India and Sri Lanka would gain by making this illegal trade legal. Towards this end, we suggest that imports of cloves into India be placed under Open General Licence (OGL) list importing under Exim Scrip.

On the Sri Lankan side the following points need to be attended to:

a) Improvement in the oil content in cloves supplied from Sri Lanka.

b) Improving price competitiveness especially in the light of the tariff concession under the Bangkok Agreement. The concessional rate of duty under the Bangkok agreement and the standard rate of duty for import of cloves into India are as below:

Year	Sub-heading No.	Standard rate	Concessional rate under Bangkok Agreement
1988	0907.00	Rs. 60 per kg	Rs. 20 per kg less 7.5 per cent
1991	0907.00	Rs. 75 per kg	Rs. 18 per kg less 7.5 per cent

Source: Indian Customs Tariff

It can be seen from the above table that while the standard rate has been raised from 1988 to 1991, the concessional rate of duty for import from Sri Lanka under the Bangkok agreement has been reduced from Rs. 20 per kg to Rs. 18 per kg.

TABLE 3.8
INDIA'S IMPORTS OF CLOVES

(quantity: 000 kg, value: 000 INR)

Code	Description & Country	1987 - 1988 Q	1987 - 1988 V	1988 - 1989 Q	1988 - 1989 V	Unit Value (INR / kg) 1987-88	Unit Value (INR / kg) 1988-89
09070001	Cloves extracted						
	Sri Lanka	119.2	6,124.9	699.7	45,325.6	51.38	64.78
	Malagasy Rep.	19.7	1,000.2	1,017.6	40,287.4	50.77	39.59
	Singapore	82.0	4,190.8	440.2	17,340.8	51.11	39.39
	Tanzania Rep.	10.8	593.9	143.6	7,171.5	54.99	49.94
	Comoros	120.0	5,650.6	4.9	189.8	47.18	38.74
	Total	353.6	17.626.7	2,529.9	119,945.6	49.85	47.41
09070002	Cloves not extracted						
	Sri Lanka	40	2,390.9	759.9	42,196.7	59.77	55.53
	Singapore	6	283.4	626.2	22,709.2	47.23	36.27
	Malagasy Rep.	12	713.5	521.7	15,979.7	59.46	30.63
	Tanzania Rep.			237.8	11,461.3		48.20
	Comoros	48	2,204.2	65,0	2,583,6	45.92	39.75
	Zambia	4.6	318.4	129.3	6,265.0	69.22	48.45
	Total	114.6	6,100.3	2,751.3	118,205.3	53.23	42.96

Source: DGCIS, *Monthly Statistics of Foreign Trade of India, Volume II (Imports)*, March 1988 and March 1989.

5. Fresh Fruits

Sri Lanka imports a variety of fresh fruits. A major importer of apples in Sri Lanka, which whom the Study Group held discussions, mentioned that he once imported apples from India but he discontinued because of two reasons: (a) the apples imported from India did not have as much shelf-life as those imported from other countries; and (b) the apples imported from India were not packaged in trays (as in egg-trays) so that the apples do not touch each other. When the apples touch each other, fruits get damaged.

Discussions in India brought out the fact that packaging in appropriate trays is now being used. Also, great interest was shown to export apples to Sri Lanka as India could be quite competitive in price. The retail price of apples in Sri Lanka is quite high, a single apple selling for SLR 25-30. Sri Lanka's global imports and India's global exports are shown in Table 3.9.

TABLE 3.9
SRI LANKA'S IMPORTS AND INDIA'S EXPORTS OF APPLES
(SITC-Rev. 3. 057.4)

(Quantity: MT
Value: 000$)

	Sri Lanka's Imports		India's Exports*	
Year	Q	V	Q	V
1987	398	481	5000	2000
1988	458	608	6000	2500
1989	197	573	6000	2500

Source: FAO *Trade Yearbook* 1989
Note: * FAO estimate

6. Sugar

Sri Lanka's imports of sugar are about 0.3 million tonnes per annum (see Table 3.10). There is very little domestic production of sugar in Sri Lanka. However, discussions of the Study Group in Sri Lanka and India revealed that India is outpriced in the global tenders through which Sri Lanka imports sugar. With the recent devaluation of the Indian rupee, it is expected that India will become price competitive.

This is in addition to the bumper sugar production in India in the current and the previous seasons. A ceiling of 525,000 tonnes has been fixed for the current sugar season ending on 30 September 1991 but actual exports have been only 180,000 tonnes so far. Therefore it was decided to extend the deadline for sugar exports from 30 September 1991 to 31 March 1992. The exports are routed through Indian Sugar and General Industry Export-Import Corporation. Sugar exports have been hampered because Bombay and Goa ports were out of operation due to monsoons (Maharashtra and Karnataka account for 65 per cent of total exports of India).

Also, India entered the export market after over a decade. As there is excess supply of sugar, exports should be feasible. Since 1989-90, India emerged the largest producer of sugar in the world. If production in India is kept at the present pace, exports on a sustained basis should be possible (see Table 3.11 for details on production, consumption and export of sugar).

TABLE 3.10
SRI LANKA'S IMPORTS OF SUGAR

(Quantity 10 MT
Value 10,000$)

	Raw Centrifugal		Refined	
	Quantity	Value	Quantity	Value
1987	21,168	4,672	12,841	2,688
1988	21,828	6,190	10,068	2,884
1989	10,142	4,336	21,898	7,778

Source: FAO, *Trade Yearbook*, 1989.

TABLE 3.11
SUGAR: PRODUCTION, CONSUMPTION AND EXPORTS

(million tonnes)

	1989-90	1990-91	1991-92 (P)
India			
Production	10.9	12.0	12.5
Consumption	10.2	10.7	11.5
Carryover stocks as on 1.10.1990-91	2.2	3.3	4.3
Exports		0.18	
Soviet Union			
Production		9.5	
World			
Exports	25		

Source: *Financial Express*, 16 September 1991, p. 1
Note: (P) Preliminary estimates

Sri Lanka is keen on expanding sugarcane cultivation and setting up of sugar mills. Sevenagala Sugar Project, an ongoing programme estimated to cost Rs. 1,985 million is funded by the ADB in an amount of Rs. 1,356 million. It envisages the establishment of a 1200 tcd factory with 2,700 ha. of nucleus estate and 1,900 ha. of outgrowers. Construction of the factory has been completed and the processing of cane

has commenced. However, delay in the construction of irrigation facilities has resulted in the short supply of cane for crushing. The delay in the selection of farmers has been another reason for the shortfall. The K.C.P. Ltd., Madras, established the Sevenagala Sugar Factory and Distillary in 1986 on a turnkey basis.

Interest in furthering activity in this sector was mentioned to the Study Group during discussions with the GCEC in Colombo. Area harvested for sugarcane is just 20,000 hectares in Sri Lanka. Sugarcane yield is also much lower in Sri Lanka compared with India (see Table 3.12). India could consider cooperation with Sri Lanka in this sector:

i) export of sugar to Sri Lanka;
ii) development of sugar plantations in the Mahaweli area in Sri Lanka;
iii) setting up of sugar mills.

TABLE 3.12
SUGARCANE: AREA HARVESTED, YIELD AND PRODUCTION

	Area harvested (1000 ha.)		Yield (kg/ha.)		Production (1000 MT)	
	Sri Lanka	India	Sri Lanka	India	Sri Lanka	India
1987	20	3055	33358	59732	660	182480
1988	22	3287	38363	59850	839	196723
1989	20	3500	36000	56571	720	198000

Source: FAO, *Production Yearbook*, 1989

7. Textiles and Garment Industries

For a population of over 17 million Sri Lanka requires about 200 million square meters of fabric. However, the current local production from the mills, powerlooms and handlooms is about 175 million square meters. Besides this Sri Lanka now has a vibrant garment industry which is exporting garments to the western markets. In 1990 Sri Lanka exported garments worth US$ 607 million registering a growth of 33 per cent over the previous year (Table 3.13 gives the growth of Sri Lanka's apparel exports over the past ten years). The garment sector has become the largest foreign exchange earner for the country. However, the value addition in the garment sector is low. Because of inadequate local production of fabrics nearly 270 million square meters fabric worth US$ 341 million had to be imported in 1990 (see Table 3.14 for figures of imports of fabrics). Therefore, a genuine concern in Sri Lanka is to increase the domestic value added in the garment sector by increasing the production of fabrics in the country.

India and Sri Lanka have already been cooperating in the textile sector. India has been exporting cotton, cotton fabrics, synthetic staple fibre and woven fabrics to Sri

TABLE 3.13
GROWTH OF SRI LANKA'S APPAREL EXPORTS (1980-90)

Year	Quantity million pcs	Value million Rs.	Value million US$
1980	51.51	1,808.43	100.47
1981	58.64	2,956.78	143.88
1982	65.98	3,444.86	161.53
1983	84.09	4,635.57	185.42
1984	150.66	7,358.20	279.99
1985	156.16	7,700.76	283.00
1986	171.00	9,254.11	330.32
1987	187.89	12,383.36	419.49
1988	185.02	13,581.03	426.94
1989	185.17	16,893.07	468.60
1990	212.43	24,932.83	623.32

Source: Adapted from D.N. Thurairajah, "Foreign Investment Opportunities in Manufacture of Textile Fabrics under Sri Lanka's Programme for Backwards Integration of the Garment Export Industry" for the Sri Lankan-Japan Business Cooperation Committee, 1991.

TABLE 3.14
IMPORTS OF TEXTILE FABRICS

(quantity in million square metres
value in million rupees)

Year	Woven textile fabrics Quantity	Value	Knitted textile fabrics Quantity	Value	Total quantity	Total value	(Million US$)
1986	202.3	5,081.6	38.9	1,168.9	236.2	6,250.5	223.1
1987	232.5	6,231.4	36.8	1,622.4	269.3	7,853.8	266.7
1988	205.6	6,943.1	32.9	1,600.4	238.5	8,543.5	268.6
1989	194.8	7,619.2	36.8	1,902.9	231.6	9,522.1	264.1
1990	222.1	10,813.8	46.9	2,860.7	269.0	13,674.5	341.3

Source: Same as for Table 3.13

Lanka. Besides that, the textile machinery including powerlooms have been exported from India to Sri Lanka. Three Indian companies, namely the Lakshmi Machine Works Ltd., Bombay Dyeing and Star Textile Machinery Co. have been operating three textile mills in Sri Lanka belonging to erstwhile National Textile Corporation on management contract basis. Recently, Lakshmi Machine Works has taken over majority ownership of Pugoda Textile Mills which it was running under the privatization programme of the Sri Lanka. Another Indian joint venture has been manufacturing cotton yarn hosiery since 1983. It is understood that the operations of mills under Indian management have been satisfactory. Further, Indian companies have exported textile machinery, spares, dyes, dyestuffs and pigments to Sri Lanka to meet the requirements of Sri Lankan textile industry. A joint venture has also been set up by Colour Chem of India Ltd. in Sri Lanka for transfer of technology for manufacture of pigments.

There are four areas of intensive or economic cooperation between India and Sri Lanka as follows:

7.1 Export of Fabric and Yarn to Sri Lanka

Sri Lanka's import of yarn and fabrics from India in 1990 amounted to about SLR 227.8 million, which is less than 2 per cent of total imports of yarn and fabric in the country in the same year. There is therefore, definite scope of increasing India's share in Sri Lanka's fabric imports. Currently most of the fabrics in Sri Lanka are imported from South Korea, China and Hong Kong. Sri Lankan businessmen reckon that the quality of Indian fabrics is very good. However, the major Indian fabric producers have not attempted to establish trading relations in the country. With the recent devaluation of rupee, it was emphasised that Indian fabrics have become quite competitive even in terms of prices. It is imperative therefore, that the leading Indian textile manufacturers should venture into the growing Sri Lankan market for fabrics to feed its own domestic demand as well as that for garment exports. One major trading house in Sri Lanka with whom the Study Group had an opportunity to interact showed keen interest in becoming indenting agents for some of Indian fabric producers. Table 3.15 provides the specifications of fabrics required by the Sri Lankan garments export industry.

Further, due to restrictions on imports, a large volume of Indian silks (especially sarees) are smuggled into Sri Lanka. Removal of these restrictions can make this trade legal and would be mutually beneficial.

7.2 Joint Venture for Production of Fabrics

As mentioned earlier, Sri Lanka imports nearly 270 million square metres of fabric including 47 million square metres of knitted textile per year. As the government of Sri Lanka has been encouraging investment in the textile industry to fulfil the growing proportion of the fabric requirements locally, a special package of foreign investment and concessions has been designed to attract foreign investors to the textile industry in the country. At the current level of demand, there is scope for up to 15 new textile mills with a total weaving capacity of about 240 million square metres of cotton and blended fabrics. The package of investment and attractions include the following:

Enterprises supplying at least 90 per cent of their output to approved garment exporters against payment in foreign currency would be treated as deemed exporters and will have freedom to set up a mill in the export processing zones or anywhere in the country. The package of incentives and concessions available to such enterprises include a 15 years corporate income tax holiday and a concessional rate of income tax beyond the tax holiday period for another 15 years, the exemption from tax on royalties paid to the non-resident share holders and emoluments paid to foreign employees, duty free imports on plant, machinery, equipment, raw-materials and other project related goods, exemption from exchange control act and facility of borrowing off-shore. GCEC grants one stop clearance for any proposals for foreign investment. However, all fixed capital and fixed assets have to be procured from abroad and all working capital

TABLE 3.15
SPECIFICATIONS OF TEXTILES FABRICS REQUIRED BY THE GARMENT EXPORT INDUSTRY

(A) Woven Fabrics

Description	Warp	Weft	Density	Width inches
Nylon taffeta	Den 70	Den 70	104 x 86	60
Nylon taffeta	Den 70	Den 70	114 x 96	60
Shirting	P/C 1/45s	P/C 45s	110 x 76	45
Shirting	P/C	P/C 45s	96 x 72	45
Flannel	Cotton 20s	20s	40 x 42	45
Flannel	Cotton 20s	16s	40 x 42	45
Sheeting	Cotton 20s	20s	60 x 60	60
Sheeting	Cotton 20s	16s	64 x 58	60
Twill	Cotton 20s	20s	108 x 58	45
Denim	Cotton 20s	7s	72 x 42	48
Dress Material	Cotton 20s	34s	64 x 64	45
Suiting	Den 300	Den 300	68 x 60	60
Suiting	P/C 2/30	2/40	68 x 60	60
Poplin (100% cotton)	40s	40s	133 x 72	45

(B) Knitted Fabrics

Description	Composition
Interlock	Cotton; Polyester/Cotton
Jersey	Cotton; Polyester/Cotton/Acrylic/Woollen
Pique	- do -
French Terry	- do -
Fleece	- do -
1 x 1 & 2 x 2 Ribs	- do -
Flat knit collars & cuffs	- do -

Source: Same as in Table 3.13

requirements are to be met with the foreign sources. GCEC can permit joint ventures with Sri Lankan equity investment access to domestic credit to meet the cost of local fixed assets. The qualifying criteria for the textile mills as prescribed by the GCEC are listed in Annex 3.3.

The Sri Lankan Business Development Centre has prepared a pre-feasibility study on the Production of the Fabrics to Supply the Export Oriented Garment Manufacturing Factories for the Investment Promotion Forum under the auspices of UNIDO/GCEC. According to this pre-feasibility study a project for producing 20 million metres of 1.5 metre width of cotton and cotton blended fabrics per year is a technically feasible and financially viable proposition with an internal rate of return of 21 per cent. It will generate employment for 433 local personnel and one expatriate, 374 of which are skilled operatives and 60 in the supervisory and managerial and administrative grades. It may be possible to recruit all the required categories of skilled, technical as well as managerial categories of manpower locally. The project envisages a total investment of US$33.2 million of which US$28.4 million would be for fixed assets. The suggested financial structure is US$20 million of equity both foreign and local and a long term foreign loan of US$13.2 million giving a debt equity ratio of 40:60. A medium term loan of US$3,75,000 would be required to cover the working capital.

Besides integrated textile mills, there is scope for setting up units in other aspects of textile industry. For instance, one Sri Lankan entrepreneur has desired to form a joint venture to set up a facility for dyeing and finishing of textiles with Indian assistance.

Indian companies can take a serious look on investment opportunities in Sri Lanka textile industry. Their previous experience of successfully running three textile mills in Sri Lanka will prove to be an advantage. A number of Indian companies are in a position to set up textile mills on a turnkey basis. Further, most of the plant and machinery for the venture can also be sourced in India. However, given the Indian policy of restricting Indian equity holdings in joint ventures abroad generally to 40 per cent and Indian contribution to equity to be in the form of export of capital goods, machinery, technology, etc. would imply that potential Indian entrepreneurs would have to look up for local joint venture partners with the ability to contribute 60 per cent of the capital in the joint venture. Alternatively, the Indian enterprises could team up with a multilateral investment institution or any other third country investors including non-resident Indians with requisite investment capability as a joint venture partner. Government of India may also consider setting up a revolving fund on which Indian joint ventures could draw upon.

7.3 Joint Ventures for Production of Garments

India and Sri Lanka are both exporting garments to the Western countries. Yet there is scope for cooperation in this sector. The growth of Indian exports is currently constrained by the quotas imposed by the importing countries as Indian exporters have fulfilled most of their quota allocations. Sri Lanka as yet does not face this problem. Hence, Indian garment exporters can set up factories in Sri Lankan export processing

zones to export beyond their quota allocations. Such investments will also qualify for investment incentives and concessions as indicated above. The Sri Lankan subsidiary of Shaw Wallace & Co. of India has already set up an associate company for manufacture of garments in the export processing zone.

7.4 Handlooms

Sri Lanka has only 4 or 5 exporters of handlooms exporting about $400,000 per year. Sri Lanka considers handlooms having good export potential and is keen to improve the quality of handlooms. Sri Lankan Government has sought Indian assistance for training of weavers for improvement of the quality of handlooms in Sri Lanka. It is learnt that Sri Lanka is utilising some multilateral funding for getting master weavers from India for training of Sri Lankan weavers.

8. Metal Products

There is significant scope for expansion of trade in metal products between India and Sri Lanka. Presently trade in metal products is restricted to import of 59632 tonnes of waste/scrap of iron and steel and 243 tonnes of copper waste and scrap from Sri Lanka to India, which amounted to nearly SLR 430 million in 1990; and export of aluminium blades, sheets and strips and aluminium alloys from India to Sri Lanka, which amounted SLR 32.8 million in 1990. The following types of metal products appear to have potential of exports from India to Sri Lanka:

i) steel tubes, pipes, sanitary fittings etc.
ii) seamless tubes
iii) sheets of iron and steel, billetes, slabs, fabricated construction material; one Sri Lankan company has shown interest in importing GI pipes, MS angle and MS steel wires rods in coil form
iv) industrial fasteners
v) kitchenware such as stainless steel utensils
vi) tin plates and metal cans including aluminium cans
vii) railway track material
viii) aluminium ingots and extrusions

To promote and facilitate export of metal products such as those stated above, Indian manufacturers will have to appoint indenting agents in Sri Lanka and ensure regular supply of the materials to their agents.

In the case of stainless steel utensils it was pointed out that the quality of Indian products is better than those of the competing products from Hong Kong and China. However, the Hong Kong and Chinese utensils come with machine finish compared to hand finish in Indian case and find better consumer acceptance.

9. Transport Equipment

9.1 Motor vehicles

India has been supplying passenger buses and truck chassis to Sri Lanka for nearly three decades. Because of their sturdy nature Indian commercial vehicles including mini buses are quite popular in Sri Lanka. In the total fleet of 7,500 buses operated by the Sri Lanka Central Transport Board, as many as 3,000 buses are of Ashok Leyland of India make. Since 1977, the import of commercial vehicles was brought under OGL. The government also encouraged private sector to operate mini buses to reduce the traffic congestion. Now there are about 12,000 mini buses operating in the country. Despite the open policy for imports, the major imports of mini buses have been from Indian companies such as Tata, Ashok Leyland and other LCV manufacturers. Since railways are limited to coastal areas, the road transport is the mainstay for transportation of passengers as well as goods. Another market segment dominated by Indian products is that of three wheelers, where Bajaj three wheelers have over 90 per cent share of the market. In other market segment for instance passenger cars the share of Indian vehicles is insignificant. A number of Indian companies such as Premier Automobiles, Maruti Udyog have tried to export their cars to Sri Lanka in the past. However, because of cheaper availability of re-conditioned Japanese cars, they could not achieve much success. Further, Maruti Udyog sold some four wheel-drive (4-WD) Jeeps to Sri Lanka for the State Police Department. Their exports also were affected by competition from Japanese vehicles. In two wheelers India's share is less than 1 per cent because of heavy Japanese presence.

In 1990 Sri Lanka imported transport equipment of the value of Rs. 7,909 million. Of this vehicles and parts worth Rs. 1,094.4 were imported from India (Table 3.16).

Indian exports included 749 buses, 4,447 three wheelers, and 924 chassis fitted with engines. The vehicle population in Sri Lanka is dominated by those of Japanese origin followed by British vehicles (Table 3.17).

It is understood that there is a demand for nearly 1,200 buses, which can be tapped by Indian vehicle manufacturers. Lack of finance is a major constraint in export of transport equipment to Sri Lanka. However, the Small and Medium Industry (SMI) loan schedule funded jointly by the World Bank and the Asian Development Bank was extended to the services industry last year. It enabled import of 1,350 buses during the last one year. In the coming months this fund scheme will be used to import 650 more buses. Indian manufacturers of commercial vehicles should exploit this opportunity to export buses to Sri Lanka under SMI loan scheme through intensive marketing efforts.

Another recent development of interest to the Indian vehicle manufacturers is the case of 4-WDs. Sri Lankan Government Gazette Notification of 11 August 1991, which removed the Pajeros (Mitsubishi), Land Cruiser (Toyota) and Nissan Petrol etc. from its traditional 35 per cent duty category and put them under the luxury cars

TABLE 3.16
IMPORTS OF TRANSPORT EQUIPMENT BY SRI LANKA (1990)

(Rs. million)

Origin and category	1989 Qty	1989 Value	1990 Quantity	1990 Value
From all countries				
i) Motor cars and cycles	-	2,886	-	4,330
ii) Transport equipment *	-	1,833	-	3,577
Total		4,719		7,909
From India				
i) Buses	-		749	495.9
ii) Auto rickshaws	-		4,447	221.6
iii) Other vehicles where CIF exceeds Rs. 150,000/-but does not exceed Rs. 250,000/-	-		201	40.6
iv) Chassis fitted with engines	-		924	176.9
v) Chassis not fitted with engines but with/without fittings for vehicles with a G.V.W. of 1,750 kg & over	-		181	45.8
vi) Chassis not fitted with engines	-		-	2.2
- other			473,963	29.1
vii) Parts & accessories of vehicles - wheel rims & spokes	-		3,494,814	29.7
viii) Parts & accessories of vehicles - other	-		4,281,112	52.6
Total				1,094.4

Source: Central Bank of Sri Lanka, Annual Report 1990 and the Ceylon Chamber of Commerce

* Includes value of ships and aircraft

category with the duty component of 299 per cent. This development could create a demand for Indian 4-WDs such as those manufactured by Maruti or Mahindra and Mahindra as Japanese competitors have become very expensive.

Understandably, the first lot of Maruti exported to Sri Lanka had not been adapted to the humid conditions prevailing there. Hence, they were affected by the rusting of the body. This created a poor image for their vehicles. According to the Maruti sources, however, this problem has been taken care of subsequently but this fact is yet to be popularized in Sri Lanka.

The Indian manufacturers of cars also should continue to explore the Sri Lankan market as the recent devaluation of Indian rupee may have made their cars more competitive since then. Indian manufacturers of two wheelers should promote their products more intensively to increase their market share.

TABLE 3.17
CLASSIFICATION OF MOTOR VEHICLES IN SRI LANKA AS AT 31.12.1989
BY COUNTRY OF ORIGIN

Country of origin	Total	Private/ hiring cars	Private omnibus	Motor cycles	Others
Japan	470,521	62,435	27,176	282,661	98,249
United Kingdom	128,278	55,276	3,717	10,049	59,236
Sri Lanka	22,797	1,464	12	4,747	16,574
Germany	17,607	12,358	548	1,150	3,551
India	21,652	7,461	5,929	2,651	5,611
France	13,404	12,438	82	95	789
Italy	10,954	5,865	453	4,316	320
USA	7,362	2,633	415	37	4,277
Canada	5,740	292	180	-	5,268
USSR	1,078	257	9	251	561
All other countries	14,665	3,300	82	1,435	9,848
Total	714,058	163,779	38,603	307,392	204,284

Source: The Ceylon Chamber of Commerce, Annual Review of Business and Trade, 1989

There is one joint venture between the Sri Lankan Government and Ashok Leyland of India, which was set up in 1983 to assemble Ashok Leyland vehicles from SKD/CKD of packs in a phased manufacturing programme. Despite the disturbed conditions which affected the operations of the joint venture, it has been able to roll over 1,000 vehicles by now. The major indigenous items are tyres, batteries and few other fabricated items. Small size of market coupled with unrestricted imports do not allow setting up of joint ventures for producing automobile parts. If the government decides to standardize on two or three popular models of vehicles and restricts other imports, it will give an incentive for major OE suppliers try to invest in joint ventures, which could export the part of their output to India as local demand may still not be adequate. One Indian company viz. NICCO is currently working on a joint venture in the field of ancillaries for automotive batteries.

The prompt after sales service and easy availability of spares are important for building up a sustained market. The current Indian procedures for providing warrantee replacements are time consuming. They should be streamlined by permitting free replacement up to a certain percentage of price. It was pointed out to us that the spare parts of Indian vehicles are generally in short supply. This affects the demand for Indian vehicles adversely. Indian vehicle manufacturers should ensure a steady supply of spare parts and maintain the standard of after sales services in order to maintain their lead in the Sri Lankan market.

9.2 Railway Equipment

There is a lot of scope for cooperation between India and Sri Lanka in the area of railways. Presently Sri Lankan Government is modernising and electrifying its railway system. The Indian railway and associated agencies can provide consultancy services, rolling stock, sleepers, coaches, wagons and spare parts to Sri Lankan railway.

Understandably some deals in this area are already under negotiations under the Indian line of credit to Sri Lanka.

10. Consumer Durables

India produces a wide range of consumer durables and household electrical equipments, e.g. air conditioners, refrigerators, fans, coolers, washing machines, water heaters, mixers, consumer electronics such as radio receivers, audio equipment, TVs etc., and kitchen equipments such as pressure cookers. In Sri Lanka the market of consumer durables is dominated by Japanese and South Korean products. India can supply quality consumer durables at much cheaper prices. Some Indian brands such as Usha fans and sewing machines as well as Sumeet mixers are also highly popular. A few Indian companies have been exporting 14" B & W TV sets to Sri Lanka for which there seems to be good demand.

Further, Sri Lanka imports synthetic carpets from the UK. An Indian company in fact exports large volume of synthetic carpets to the UK. Thus there appears to be scope for exporting synthetic carpets to Sri Lanka. The Study Group has taken steps to introduce interested parties to each other in this area.

There is already an Indian joint venture for manufacture of Usha fans and sewing machines in Sri Lanka. A joint venture for assembling radio receivers and B & W TV receivers on the basis of CKD/SKD kits supplied from India makes a good proposition. It is understood that such a project can be set up with entirely Indian technical assistance, plant and machinery and training of manpower and is feasible. The Indian electronics industry should evaluate the prospects for such joint venture. A few business houses which are already selling Indian made TVs under their trade names would be certainly interested in such a venture. A Sri Lankan company has sought Indian technological know-how for manufacture of radios, radio cassette recorders and TV receivers.

For exporting consumer durables Indian companies need to establish a presence in Sri Lanka through agencies and have their products displayed in the show-rooms. A lot of market promotion such as brand names as well as promise of efficient after sales service would also be needed.

11. Machinery and Equipment (n.e.s.)

India produces a wide range of machinery, a significant proportion of which is exported world wide. In her endeavour to industrialise, Sri Lanka imports a variety of industrial machinery some of which is already imported from India. However, there is considerable scope for expansion of trade in machinery. Particularly the following branches of machinery appear to be having scope for trade between India and Sri Lanka:

i) Textile machinery
India has a very well developed textile machinery industry capable of manufacturing conventional as well as sophisticated items of textile machinery, components and accessories. Though some of the Indian companies have been exporting textile machinery and spare parts to Sri Lanka, there is considerable scope for expansion of such exports in view of the rapid development of the textile sector in the country. The Study Group's attention was drawn to the fact that the Indian powerlooms are preferred because of their sturdiness over the cheaper substitutes available from countries like China. Hence, there could be more demand for Indian powerlooms.

ii) Agricultural machinery: tractors tillers, harvestors and parts etc. and implements (shovels, spades, pick axe etc.)

iii) Tea machinery

iv) Rubber machinery

v) Plastic machinery, PVC extruders, pipes machinery, etc.

vi) Food processing machinery

vii) Internal Combustion engines, pistons and parts: some 4 cylinder diesel engines and already exported from India

viii) Leather machinery

ix) Civil engineering, construction and material handling equipment

x) Metal working machinery, machine tools, wire drawing machines, parts thereof

xi) Hand tools

xii) Pumps, centrifuges, valves and compressors etc.

xiii) Refridgeration and airconditioning machinery

xiv) Chemicals machinery

xv) Mini paper plants including M.G. kraft paper

xvi) Mini cement plants

xvii) Fishing equipment such as mechanised fishing boats, FRP beach landing crafts, fishing nets, freezing plants, trawlers, etc.

xviii) Electrical equipment: generators, transformers, motors, switchgears, of different ratings, parts and electrical cables

xix) Telecommunication equipment: C-DOT exchanges, EPABX, and telephones instruments

xx) Office automation equipment: computers, computer peripherals, photocopiers, etc.

xxi) Mini steel rolling mills

xxii) Glass machinery.

Main considerations in exports of capital goods as above are promotion, availability of spares and prompt after sales service and availability to lines of credit.

Indian engineering companies should consider to secure a representation in Sri Lanka which could be in the form of appointing agents, forming consortia, or setting up a representative office jointly with other machinery manufacturers possibly under the auspices of the Confederation of Engineering Industry (CEI) of India. Exports of capital goods like machinery are significantly dependent upon the availability of suppliers credits/open lines of credits and on ability of exporters to extend a deferred payment facility to the importers in Sri Lanka. Therefore, Indian export financing agencies such

as Export Import Bank of India should provide necessary facilities in this regard. Further, the machinery exporters have drawn the attention of the Study Group to the provision that the export incentives like Exim Scrip are not available to the exporters if the exports are made under the credit facility. These restrictions unduly withdraw the incentives to export from the capital goods manufacturers. Hence, Government of India may consider to have a fresh look at the restriction.

12. Industrial Chemicals and Dyes

There is large potential of trade cooperation in the area of industrial chemicals. India and Sri Lanka are already trading a number of chemicals. For instance India imported 388 tonnes of glycerine, 188 tonnes of natural graphite (other than powder/flakes) and 557 tonnes of resinoids from Sri Lanka in 1990. India exports caustic soda and other chemicals to Sri Lanka. There is scope of expanding the imports of glycerine, resinoids, graphite etc. from Sri Lanka. India can export a wide range of organic and inorganic chemicals and industrial and medical gases to Sri Lanka. Some Sri Lankan companies have shown interest in importing potable alcohol and yeast from India.

India has a very well established and internationally competitive dyes and dyestuff industry. In view of the expansion of textile industry in Sri Lanka, there is a growing market for textile dyes and pigments. Some Indian companies have exported dyes and pigments to Sri Lanka and one has even transferred technology to their joint venture for production of pigments for textile printing in Sri Lanka, set up in 1981.

There appears to be considerable scope for expanding Indian exports of dyes and pigments to Sri Lanka. Indian manufacturers of dyes and dyestuffs and pigments should develop the Sri Lankan market for their products. One leading trading house in Sri Lanka showed keen interest in establishing trading relations with Indian dyes manufacturers and becoming their indenting agent in Sri Lanka. The small size of Sri Lankan market does not allow for modern grass roots plant for manufacture of dyestuffs and pigments in Sri Lanka. Only formulations of these products from intermediate chemicals may be feasible.

13. Medicines, Pharmaceuticals and Personal Care Products

Sri Lanka imports a large quantity of pharmaceuticals. In 1990 medicines and pharmaceutical products of the value SLR 1,633 million were imported. Indian companies have also been exporting pharmaceuticals products to Sri Lanka. In 1990 pharmaceuticals of the value SLR 155.5 million were imported by Sri Lanka from India accounting for nearly 10 per cent of total Sri Lankan imports of pharmaceuticals. India has emerged to be a significant exporter of pharmaceuticals in the world market with expected exports of the order of Rs. 12 billion in 1991. Exports to Sri Lanka are a minor fraction of global exports of drugs from India. Sri Lankan importers find quality of Indian pharmaceuticals to be better than some of their other suppliers such as those in Thailand, Indonesia, etc. There is therefore, definite scope for expansion of exports

of medicines and pharmaceuticals from India to Sri Lanka. In this regard, certain steps need to be taken by the Indian companies and authorities as follows.

Pharmaceuticals are under price control in Sri Lanka. The government allows a 165 per cent mark up over the CIF prices in the case of pharmaceuticals. According to the importers of drugs this restriction constrains the recovery of promotional expenses from the market. Therefore, exporters have to reimburse the expenses incurred by importers in Sri Lanka on medical representative etc. for brand promotion. However, the Reserve Bank of India puts certain restrictions for reimbursement of promotional expenses which may not allow full reimbursement of claims of importers sometimes.

It will be appropriate, if the Indian exporters of pharmaceuticals organise certain promotional events such in Sri Lanka occasionally to expose the Sri Lankan medical profession to the brands and quality etc. of Indian medicines. To contribute further to the promotion of Indian medicines in Sri Lanka, it was suggested that Indian companies could sponsor participation of Sri Lankan medical professionals to seminars, conferences, etc. in India. Further, the copies of medical journals could be distributed among the medical professional in Sri Lanka through the Indian High Commission to promote awareness of the advancement in the medical field in India.

In the area of drugs and pharmaceuticals the maintenance of quality is very critical for exports. Hence, strict inspection of quality/packaging norms needs to be adhered too. Similarly, delivery schedules are also important in the case of these products. It is learnt that congestion at Bombay port leads to delayed deliveries and acts as a constraint for importing drugs from India.

An Indian company Ranbaxy Laboratories Ltd. has recently formed a joint venture with their dealers in Sri Lanka, namely Hemas (Drugs) Ltd. for manufacture of pharmaceutical preparations. This joint venture when it goes into production will produce various formulations and syrups etc. The small size of market and the absence of protective barriers doesn't allow for more production units. However, a few more joint ventures can be set up for production of surgical items such as cotton bandages, lint, etc.

13.1 Personal Care Products

There is good scope of export of personal care products such as cosmetics, toiletries etc. to Sri Lanka. Some Indian companies such as Lakme, Godrej, in the case of cosmetics and Malhotras in razor blades (Laser) have promoted their markets and have built up markets in Sri Lanka. More companies can follow suit.

Further, there appears to be scope of exporting tooth paste and setting up a joint venture for its production. Sri Lankan market for tooth paste is growing very fast. Presently only two brands are made in Sri Lanka and a large variety of tooth paste is imported. One group of Sri Lankan companies with whom the Study Group interacted, showed keen interest in collaborating with an Indian enterprise for phased manufacture of tooth paste especially a brand which uses clove oil as a distinctive characteristic. The

Study Group has already taken steps to follow up on this by introducing the Indian and Sri Lankan parties to each other.

14. Salt

The Sri Lanka National Salt Corporation (NSC) manufactures and sells common salt, crushed salt, washed and packeted salt, refined salt, iodised salt, epsom salt, gypsum and agricultural salt.

The NSC has initiated a programme to popularize the use of iodised salt in keeping with the campaign launched by the Sri Lankan Government to introduce iodised salt to prevent endemic goitre caused by iodine deficiency. However, Sri Lanka does not as yet possess adequate salt iodisation facilities. Some businessmen and government officials with whom the Study Group had discussions informed that they were not aware of the requirement in India of compulsory iodisation of table salt nor that the leading Indian business house supplies most of the requirement of iodised salt in India. Sri Lankan businessmen showed keen interest in setting up a joint venture with appropriate Indian enterprises for iodised salt manufacture.

There is a major programme (at an estimated cost of $30 million) for exploiting the salt resources near Epsom for export purposes. It is also envisaged to manufacture caustic soda which is presently imported by Sri Lanka. However, the disposal of the by-product, chlorine, is a major problem.

The local demand in Sri Lanka for chlorine is about 4-5 tonnes per day, whereas the demand for caustic soda is about 25-30 tonnes per day. The limited demand for chlorine is a constraint in increasing the plant capacity to more than 5 tonnes of caustic soda per day. The balance annual requirement of caustic soda (8,000 tonnes) is being imported by Sri Lanka.

A chemical plant to produce caustic soda and chlorine out of salt has not proved viable so far. However, the feasibility of producing other salt-based products such as P.V.C., more economical production of caustic soda, and chlorine, and gainful use of salt for conditioning land under coconut cultivation, are being studied.

India's collaboration with Sri Lanka, therefore, could be in the following:

1) Setting up of a joint venture plant in Sri Lanka for iodised salt;
2) Setting up of a joint venture plant for manufacture of caustic soda. However, as mentioned above, some way has to be found for utilising the byproduct, viz. chlorine.

15. Rock Phosphate

Both India and Sri Lanka import phosphatic fertilisers. Major reserves of rock phosphate have been discovered in Sri Lanka at Eppawala with firm reserves of 30

million tonnes (average 38 per cent $p_2 O_5$) and inferred reserves of 60 million tonnes of high quality rock phosphate. However, this rock phosphate is not soluable in water and citrate solubility is only two and half per cent. The high chloride content causes corrosion of plant and machinery and the high iron and aluminium content give rise to coagulation that causes reduced filteration rates of phosphoric acid. Some Indian companies in the fertiliser sector may have developed technology to process this kind of rock phosphate or may be in a position to develop the same. In that case exploitation of rock phosphate may become an important area of Indo-Sri Lankan cooperation. Depending upon the locational economies, the rock phosphate can be processed into fertilisers in Sri Lanka or could be brought to India for processing.

16. Gems and Jewellery

Gems and Jewellery is one of the top export products of India employing about 0.5 million people. Sri Lanka also has been giving prominence to her gems and jewellery exports which occupies third position after garments and tea in Sri Lanka's total exports (see Table 3.18 for details of Sri Lanka's gems and jewellery exports).

The Sri Lanka Gems and Jewellery Exchange, scheduled for opening in September 1991, is to provide services such as exports, gem laboratory and test centre, trading booths, banking and research which have so far been dispersed in many parts of Colombo. 41 trade booths set up by the private traders are expected to enable foreigners to buy and place orders for gems and jewellery which have been tested for clarity, cut, carat and colour. Local miners can sell prospected gems directly to the Exchange instead of going through middlemen. The National Gem and Jewellery Bill and the Gem Trading Bill, cleared by the Sri Lankan Cabinet and expected to go before the Parliament, will enable the Exchange to develop gem trade among foreigners, supervise mining without endangering the environment, supervise gem-cutting to minimise losses, and provide loans.

There is an international requirement for hallmarking jewellery but this is not legalised in Sri Lanka. After the two bills are passed by the Parliament, hallmarking of jewellery will become a legal requirement in Sri Lanka.

TABLE 3.18
SRI LANKA'S EXPORTS OF GEMS AND JEWELLERY

(SLR million)

	1987	1988	1989
Gems, precious/semi precious	1,447.1	2,070.3	2,204.2
Diamonds	829.1	1,629.3	3,258.0
Jewellery	61.4	110.8	141.6
Total (including others)	2,338.6	3,813.1	5,623.2

Source: Ceylon Chamber of Commerce, *Annual Review of Business and Trade, 1989*

16.1 Geuda

Geuda is not a gemstone but refers to a condition that may or may not be present in a gemstone. Sri Lanka's State Gem Corporation has defined geuda thus:

> "Geuda is a local term applicable to a condition seen in certain types of gemstones. Generally, stones containing geuda display a smoky, milky or murky appearance.
>
> It is not abundantly seen in the corundum family followed by the stones of the chrysoberyl group.
>
> The term geuda will invariably refer to corundum displaying a smoky, milky and murky appearance, having within it titanium dioxide in the form of rutile and will not display asterism.
>
> The term geuda will bear meaning and significance only to that portion of the gemstone that displays this phenomenon, e.g. a corundum may have a geuda confined only to a particular area of the stone, while the rest of the stone would be free... the whole stone will not and shall not be classified as geuda." (*Business and Political Observer*, 16 February 1991)

Geuda constitutes about 30 per cent of the stones in the corundum family. Gemologists observe that heat treatment can transform some geuda corundums into high quality blue sapphires. The science of heat treatment of these geuda stones and high value addition has been mastered by Thais (see Ministry of Industries, Science and Technology, Natural Resources, Energy and Science Authority of Sri Lanka, *Natural Resources of Sri Lanka: Conditions and Trends*, sponsored by the USAID, 1991, p. 185).

Previously, Sri Lanka's geuda used to be purchased exclusively by Thai dealers. Under an agreement with the Sri Lankan Government, Thai dealers could register themselves as geuda buyers with the Sri Lankan Authority and set up buying operations in the Ratnapura district provided they bought a minimum of $8,000 worth of roughs a month. In 1991 geuda policy has been redrawn inviting gem dealers from all over the world. The minimum buying was fixed at $10,000 per month. The categories of roughs permitted for exports are regulated. Geuda in rough form can be exported. Apparently one of the reasons for opening the geuda trade to buyers all over the world is that the Chantanburi mine in Thailand is now producing large quantities of gemstones and hence Thai dealers are not pressed for finding rough stones elsewhere.

Previously there were 500 registered Thai dealers, but it is reported at any given time 800 to 1,000 Thai dealers were buying geuda in Sri Lanka. This showed that there was some unofficial trade in roughs. The increase of gems exports by 33 per cent from 1989 to 1990 showed that there is some progress in controlling unofficial trade in gems.

Sri Lanka is proposing to develop gem parks in Ratnapura to develop cutting industries. The major problem is for small operators selling cut and polished geuda overseas. The Ellawala report on gems suggested an assistance fund of Rs. 100 million to be set up by the Central Bank. Loans are to be given to gem cutters keeping the polished stones as collateral.

India's export of gems and jewellery are shown in Table 3.19. It can be seen from this table that cut and polished diamonds account for 90 per cent of India's total exports of gems and jewellery. The other major items exported by India are gold jewellery and colored gem stones.

TABLE 3.19
INDIA'S EXPORTS OF GEMS AND JEWELLERY

(INR million)

Year	Total	Of which: cut and polished diamonds
1980-81	6,410	5,910
1983-84	13,240	11,890
1987-88	26,530	24,400
1989-90	54,790	49,720
1990-91	53,100 (E) 59,500 (T)	47,370 (E)
1991-1992	70,000 (T)	60,000 (T)

Source: *Economic Times*, 27 April 1991
Notes: E = estimates
T = target set by the Gems and Jewellery Export Promotion Council

Imports of roughs into India are shown in Tables 3.20 and 3.21. The value addition in India was INR 15 bn in 1990-91 and is expected to reach INR 18 bn in 1991-92.

The fall in India's exports in 1990-91 is attributed to recessionary conditions in the US and demand shift from small and medium size to bigger size stones in the US, Japan and Western Europe.

TABLE 3.20
IMPORTS OF ROUGHS INTO INDIA BY SOURCE

(Quantity: million carats
value: $ million)

	DTC		Other Sources	
	Q	V	Q	V
1980-81	6.0	119	12.7	263
1989-90	16.0	859	42.8	1,588

Source: *Economic Times*, 27 April 1991

TABLE 3.21
INDIA'S IMPORTS OF ROUGHS BY CATEGORY

(INR million)

Category	1989-90	1990-91
Total	44,005	38,558
of which:		
Rough diamonds	40,772	35,440
Coloured gemstones	1,164	920
Gold bars	1,889	2,000

Source: *Economic Times*, 12 April 1991

Indo-Sri Lanka cooperation could be in the following:

a) Sri Lanka has been attempting to master the heat treatment technology that Thailand has. India could import geuda and also enter into a joint venture in Sri Lanka for geuda upto heat-treatment stage with buy-back arrangement. About 50 per cent of the sapphires could be exported to India for lapidary work.
The differential in price of roughs and the final product is quite large - the price of raw material input is in the range of US$1.25 to US$ 25 per carat, while the end product sells at prices ranging from US$300 to US$2,000 per carat in world gem markets.

b) Small stones from Sri Lanka could be imported into India for incorporating in jewellery catering to the demand of the vast middle class population in India. Presently limited quantities of unsorted diamonds (whether or not worked, not mounted) and dust and powder of diamond are imported from Sri Lanka (see Table 3.22).

c) As both Sri Lanka and India are exporting gems and jewellery, cooperation in joint marketing should prove beneficial to both the countries.

d) The Minerals and Metals Trading Corporation of India Ltd. (MMTC) has suggested that India could import rough sapphires (blue and yellow), rough rubies and zircon, etc. from Sri Lanka.

17. Consultancy Services

Indian consultancy organisation have been rendering their services all over the world for preparation of feasibility studies, designs including detailed engineering, project implementation, commissioning and management for a wide range of infrastructural and industrial projects. Exports of consultancy services have significant linkages with exports of capital goods from a country. In order to exploit emerging opportunities in Sri Lanka the leading Indian consultancy organisations should establish their presence or partnerships in Sri Lanka.

TABLE 3.22
INDIA'S IMPORTS OF GEMS FROM SRI LANKA AND OTHER MAJOR SUPPLIERS

(Quantity: '000 carats, Value: INR '000)

Code		1987-88		1988-89	
		Quantity	Value	Quantity	Value
71021000	Unsorted diamonds whether or not worked, not mounted				
	Belgium	42,433.0	11,090,318.0	47,787.3	17,509,773.3
	UK	12,899.0	6,986,442.5	21,026.1	11,228,588.7
	Israel	1,365.1	850,736.3	2,008.9	1,771,321.3
	USA	339.1	52,481.6	582.9	172,783.0
	Sri Lanka	-	-	6.8	13,411.5
	Total	58,813.3	19,572,570.5	72,452.8	31,051,230.7
71051000	Dust and powder of diamond				
	FRG	-	1,504.5	-	7,423.9
	USA	-	27,625.4	-	4,830.0
	UK	-	5,280.3	-	1,523.7
	Ireland	-	4,199.1	-	-
	Sri Lanka	-	225.3	-	-
	Total	-	45,131.2	-	15,474.9

Source: Directorate General of Commercial Intelligence and Statistics (DGCIS), *Monthly Statistics of Foreign Trade of India, Vol. II (Imports)*, various issues.

18. Tourism and Tourism Infrastructure

Tourism is a major foreign exchange earner in Sri Lanka. In India also a special importance is attached to tourism as a source of foreign exchange earnings. Besides attracting third country tourists especially those from the developed countries, there is considerable scope of expanding tourism between the two countries. The latter would also help in strengthening the trade and industrial cooperation between two countries. In the area of tourism and related infrastructure, cooperation between India and Sri Lanka could include the following:

a) Development of tourism infrastructure: several Indian companies have got considerable expertise in building and managing world class hotels. Already, two Indian companies, namely Indian Hotels Co. Ltd. (Taj Hotels), and Shanti Vihar Hotels are operating hotels and restaurants in Colombo as joint ventures. Another company, namely Oberoi Hotels is operating Hotel Lanka Oberoi in Colombo on management contract basis. Sita world Travel India is operating a joint venture in Sri Lanka for promoting package tours and travel. Interest has been shown in Sri Lanka for tapping the Indian expertise in further development of tourism infrastructure, especially high way restaurants and motels.

b) Package tours and joint marketing: presently Sri Lanka and Maldives are marketing a joint package in Europe. It is believed that introduction of some Indian sites into the two country package could make it more attractive.

Alternatively, India-Sri Lanka joint package could also be developed and promoted to attract western tourists.

c) Tourism between India and Sri Lanka: there is considerable potential of tourism between India and Sri Lanka. However, this is hampered by the lack of direct flights between New Delhi and Colombo and also foreign exchange constraints. It is imperative that Indian Air Lines and Air Lanka should reach an understanding to organise frequent direct flights between New Delhi and Colombo. Further, two countries could consider to provide limited convertibility of their currency for tourism purposes through Asian Clearing Union.

19. Other Areas of Joint Ventures and Technology Transfers

Sri Lankan companies have shown interest in setting up joint ventures with Indian assistance in the following areas:

- Aluminium products
- Software exports
- Computer and related products
- Manufacture of nuts and bolts
- Manufacture of glass containers
- Spice oleoresins
- Ground/instant coffee
- Know-how for water proofing and plumbing
- Toilet and laundry soap
- Abrasives: garnet, quartz glass and feldspar sand paper and polishing cake (the company seeking know-how mines silica quartz, mica and garnet sand in Sri Lanka)
- Ceiling sheets using mica
- Mini cement plant
- Mini steel plant
- Mini paper plants -MG kraft
- Manufacture of plywood and tea-chests
- Hybrid seeds for vegetables
- Printing and publishing
- Mutual funds

Annex 3.1
India's Import Policy on Spices

Import of spices

167.

1) Import of (1) Cloves (2) Cinnamon/Cassia (3) Nutmeg and (4) Mace will be allowed against licences. Such licences may be granted to those who imported these items during any of the financial years from 1983-84 to the preceding licensing year. Import licences will be issue on the basis of the best year's imports of an item from 1983-84 to the preceding licensing year. The percentage entitlement as well as minimum value of licences will be as notified by the Chief Controller of Imports and Exports. From the licensing year 1991-92, applicants will be required to furnish evidence of exports of Indian spices, during the preceding licensing year, for a value equal to the value of the import licence granted during the preceding licensing year. Only exports of (1) Cardamom (small), (2) all Spices/spice products in approved consumer packs of 450 g. or less except spice oils and oleoresins and saffron (3) Herbal spices such as rosemary, thyme, tarragon, sage, etc., (4) Vanilla, (5) Black cumin, (6) Star anise, (7) Kokum, (8) Garlic, (9) Cardamom (large), (10) Bishopsweed, (11) Caraway and (12) Cumin seed, will be taken into account for the above purpose. Items may be added or deleted by the Chief Controller of Imports and Exports as and when considered necessary in public interest.

2) Exports referred to in sub-paragraph (1) above should be direct exports by the applicant in his own name with the export proceeds i.e. the foreign exchange realisation in his own name, or exports through the Consortium of Spices Exporters, membership of which is to be confined only to dealers of spices who want to avail of the facility for exports through the Consortium. Documents required to be furnished alongwith the application for grant of licences for spices shall be as provided in sub-paragraph 166(6) above.

3) Actual users who have no past imports will also be eligible for licence on the recommendation of the sponsoring authority and approval by the Head-quarters Supplementary Licensing Committee.

4) Applications for import of spices are to be made to the licensing authority concerned.

(Source: Government of India, Ministry of Commerce, *Import and Export Policy, April 1990-March 1993, Vol. 1*, p. 53)

Annex 3.2
Cloves Import Licensing to be Revised

The Government has decided that licences would be granted for the import of cloves and cinnamon/cassia in 1991-92 to past importer to the extent of five per cent of their best year's imports during 1983-84 to 1990-91.

According to a public notice issued by the Chief Controller of Imports and Exports in New Delhi recently, and calculation of the entitlement and minimum value of the licence will be in terms of the earlier notification issued in 30 October 1990.

Applicants are required to produce evidence of the fulfilment of export performance as per the notification issued on 19 December 1990.

The time limit for the fulfilment of export obligation in respect of licences issued during 1988-89 and 1990-91 has been extended to 31 July 1991. A number of documents like shipping bills, bills of entry as well as those concerning export obligations are required to be submitted by eligible applicants.

(Source: Trade Fair Authority of India, *Economic and Commercial News*, 13 July 1991)

Annex 3.3
GCEC Qualifying Criteria

I Textile Mill for the manufacture of woven fabrics should have a minimum weaving cum finishing capacity of 12 million square metres annually;

II Textile Mill for the manufacture of knitted fabrics should have a minimum knitting cum finishing capacity of 6 million square metres annually;

III Textile Mill for the finishing of woven and/or knitted fabrics should have a minimum finishing capacity of 20 million square metres annually;

IV Age of the plant, machinery and equipment imported by any such Textile Mill should not be more than 10 years reckoned from the date of manufacture;

V Foreign direct investment in any such Textile Mill will not be subject to a ceiling;

VI At least 90 per cent of the output of any such Textile Mill should be physically exported or sold locally to approved garment exporters within and outside the GCEC sector for payment in foreign currency; such local sales will be deemed to be export sales for the purpose of fiscal incentives.

VII Fabrics purchased by approved garment exporters should be used by them only for the manufacture of garments for export. Approved garment exporters within the GCEC to ensure such use. Approved garment exporters outside the GCEC sector will store such fabricating their customs-approved bonded warehouse and convert such fabrics into garments under the manufacture-in-bond scheme;

VIII Subject to compliance with standard GCEC criteria as regards minimum investment, environmental safeguards etc., any such Textile Mill will be approved as an area enterprise or a licensed enterprise, depending on its locations.

(Source: Same as in Table 3.13)

IV COOPERATION IN DEVELOPMENT OF SMALL AND RURAL INDUSTRIES

Small scale and cottage industries occupy an important place in the economies of both India and Sri Lanka. In India 50 per cent of industrial output is accounted for by the small scale industries. Presently they account for about 28 per cent of India's exports directly but their actual contribution to exports is much greater in view of their indirect exports (i.e. exports through export houses and trading houses). in Sri Lanka they reportedly account for about 33 per cent of industrial output. Their contribution to creation of employment opportunities, equitable distribution of income, decentralised pattern of industrialisation, saving of scarce resources such as capital and foreign exchange and development of entrepreneurship are even more valuable. Therefore, promotion of small scale and cottage industries enjoys a high priority in most of the developing countries. In Sri Lanka's case small size of domestic market provides yet another consideration for attaching high priority to small and rural industries.

India has accumulated considerable expertise in institution building for promotion of small scale and cottage industries and has developed technology and other skills in this process which are more appropriate for developing countries especially those in South Asia. A number of developing countries including those in the South Asia have drawn upon the Indian expertise in this are to foster small industries in their economies. For instance the National Small Industries Corporation (NSIC) of India has been setting up industrial estates in Nepal and some industries on turn key basis in Bangladesh. Some programmes have also been initiated in Bhutan and Maldives. In Sri Lanka also NSIC had organised a workshop and a technology exposition in March 1988 with Sri Lankan Ministry of Rural Industrial Development. It has also provided machinery and equipment for the common facility centre at Kotagala in Sri Lanka, managed by the Congress Labour Foundation. The workshop and technology exposition organised by NSIC generated a lot of interest among potential entrepreneurs in Sri Lanka. However, more concrete results could not be obtained partly due to disturbed conditions and partly due to lack of sustained follow up action.

The Sri Lankan Government, Ministry of Rural Industrial Development in particular, has sought expertise of appropriate Indian bodies for promotion of rural cottage industries in Sri Lanka in conjunction with the Jansavia programme of poverty alleviation of the Sri Lanka. The Ministry has felt that the Indian experience in promoting small and rural industries could be fruitfully utilised in Sri Lanka for inducting a new vitality in the process of transformation of its rural economy. Indian rural resources based technologies such as re-cycling of agricultural and horticultural waste, manufacture of hand made paper, handlooms, food processing etc, and programmes such as entrepreneurship development and training of craftsman and marketing and research support to the village and small enterprises could be suitably adopted in Sri Lanka with active support of appropriate Indian organisations.

It is therefore, widely recognised that there is considerable scope of cooperation between India and Sri Lanka in the area of promotion of small scale and rural industries. However, it is felt that fruitful results can be obtained only from a sustained cooperation rather than one shot visits of experts and officials. There is a need for an institutional infrastructure for tapping the Indian expertise, technology and experience for fostering small scale and rural industries in Sri Lanka on a sustained basis. The institutional framework of cooperation in the area of promotion for small and village industries may include the following:

a) A bilateral agreement could be signed between the Indian Ministry of Industry and the Sri Lankan Ministry of Rural Industrial Development for cooperation in the area of small scale and rural industries and for setting up a Small Industries Service Centre (SISC) to implement this on a continuing basis, initially for five years.

b) Government of India could depute three or four experts to Sri Lanka at the SISC from agencies such as NSIC, KVIC, SIDBI, DCSSI etc. The Ministry of Rural Industrial Development will provide local hospitality, secretarial support as well as the matching manpower to the SISC.

c) The SISC could advise the Sri Lankan Ministry of Rural Industrial Development (MRID) and Ministry of Industry and Science and Technology on the desirability and need of setting up industrial estates, common facility centres, tool rooms and other infrastructural support, training of skilled manpower in different trades, etc., marketing support, price preferences, fiscal incentives, infant industry protection and the credit requirements for the development of small scale and cottage industries and will follow up the action. Wherever, the Indian assistance or expertise is required, the SISC will liaison with the appropriate agencies in India and will requisition their support.

d) The SISC with the help of other appropriate agencies in Sri Lanka such as the Industrial Development Board of Sri Lanka, Sri Lankan Chamber of Small Industries etc. will identify and conceive small scale and rural industrial projects which could be set up in Sri Lanka with Indian technical assistance and have project profiles prepared. Simultaneously they will identify potential entrepreneurers and will organise entrepreneurship development programme with the assistance of Indian institutions like EDI and NIESBUD.

e) Once the techno-economic feasibility and economic viability of the projects are established, the SISC could arrange for live demonstration of the machinery and technology and will help the potential entrepreneurs to identify the sources of supply of consultancy services, technology, machinery and raw materials, etc.

f) It is understood that most of the activities of the SISC could be funded by multilateral agencies like UNDP through linking its activities with the ongoing UNDP/ILO Project SRL/87/035 Integrated Entrepreneurship Development Programme, as they would go a long way in materialising its basic objectives

(cf. Rural, Tiny and Small Industries in Sri Lanka - Need for Better Deal through Collaboration with Specialised Agencies in India, Report of the Chief Technical Advisor, ILO under UNDP/ILO Project SR/87/035, p. 6). Further, the SISC could also tap additional resources under the Perez-Guerrero Trust Fund for ECTC among Developing Countries as it is meant to support pre-investment feasibility reports and facilitating the implementation of projects, involving at least two developing countries, and also the SAARC Fund for Regional Projects when it comes into being.

g) The SISC would also operate a scheme of equipment leasing or provision of machinery to potential entrepreneurs on hire purchase basis on the lines of NSIC's experience in India. For this, the Government of India may consider opening of a line of credit to part finance the imports of plant and machinery from India for small and cottage industry developments in Sri Lanka. Initially, a line of credit to part finance the imports of plant and machinery from India for small and cottage industry developments in Sri Lanka. Initially, a line of credit of INR 20 million could be opened.

h) The SISC would organise a publicity and information campaign to popularise the opportunities for setting up small and cottage industries in Sri Lanka.

The progress achieved in the first five years of the existence of the SISC would be reviewed at the end of the term when a decision could be taken to renew another term.

1. Areas of Small and Cottage Industries

Some of the promising areas of modern small scale and cottage industries development that emerged during the discussions of the Study Group are as follows. This however, is not an exhaustive list.

Rural and Cottage Industries

- manufacture of fruit juices and cordial
- drying and preservation of vegetables and fruits
- fruit pulp making
- potato and banana wafers
- papadam making
- coir based industries
- carving of statues from wood and granite
- jaggaries
- hand made paper
- handlooms
- biogas plants
- holy ash making
- musical instruments

*Modern Small Scale Industries**

- pencil erasers, ink erasers, typewriting eraser
- oil seals
- hand hacksaw frames
- paper pins, gem clips and staples
- file fasteners
- staples
- staplers and punching machines
- wire nail
- builders' hardware
- panel pins
- polythene laminated jute bags
- bakelite electrical accessories
- voltage regulators and stabilizers
- sodium silicate
- gas cookers
- TV antenna
- immersion heaters
- hot plates
- water geyser
- hacksaw blades
- plastic recycling
- briquetting machine
- ink (for ball point refills)
- lemongrass oil
- medicinal tablets
- glass bottles
- glass containers
- leather/canvas travel kits
- leather gloves (industrial)
- agricultural implements
- aluminium utensils (milk cans)
- brake linings for automotive vehicles
- concrete (hollow) blocks
- door locks (pad locks)
- crushing of stones
- dairy cans
- pencils
- silencers and mufflers for automotive vehicles
- tin containers
- welding electrodes
- wood screws and rivets
- pressure die casting (copper and aluminium upto 1 kg cap)
- paper cones
- paper cups and saucers
- paper tubes
- acrylic buttons

- crockery (melamine)
- polythene bags
- p.v.c. woven sacks
- latex foam mattresses
- rubberised coir
- rubber pedals and brakes (for bicycles)
- canvas hoses
- water meter

* Projects identified by the Ministry of Rural Industrial Development, Sri Lanka Chamber of Small Industries, and NSIC of India at the time of workshop on Promotion of Small and Medium Scale Industries during September 1988 in Colombo.

V POLICY AND INSTITUTIONAL ASPECTS OF COOPERATION

The foregoing analysis has highlighted the low volume of trade between India and Sri Lanka and the various impediments including tariff and non-tariff measures coming in the way of expansion of mutual trade. Specific constraints in furthering cooperation in individual sectors have also been discussed. To foster economic cooperation at the policy and institutional level is also required. This chapter discusses these issues.

1. Special Arrangements in Trade Preferences

To increase the volume of bilateral trade between India and Sri Lanka for mutual advantage, it is essential to initiate an institutional mechanism for discussions on special trading arrangement between the two countries. To start with, negotiations could concentrate on reducing tariff and non-tariff barriers on trade of production of mutual interest. In due course this arrangement could lead to a free trade agreement on the lines of the US-Canada Free Trade Agreement which is operating quite well. The US-Canada Free Trade Agreement is considered as a formation of 'natural zones' for harnessing the advantages of geographical proximity, complementarities in resources, and benefiting from inter-industry and intra-industry trade.

2. Bilateral Credits

In 1987 India offered a line of credit of Rs 250 million to Sri Lanka. This credit line is administered by the Department of External Resources, Ministry of Finance in Sri Lanka and Ministry of Finance in India. The credit is for capital goods of Indian origin. The credit is repayable in 12 years initially, after a grace period of 3 years and carries and interest rate of 5 per cent.

The procedure for application is that the interested Sri Lankan importers furnish to the Department of External Resources a letter of request together with four copies of the proforma invoice. The value of the items is to be expressed in Indian rupees, and f.o.b. and freight is to be indicated separately. The Department of External Resources submits the contract applications to the Indian authorities for approval.

All applicants who receive allocations under the line of credit are required to pay counterpart funds to the full value of the allocation obtained under the credit. This implies that all Sri Lankan importers should have local currency resources to the full value of the items to be imported under the line of credit.

Private sector importers and parastatals are entitled to receive a rebate of 5 per cent after completion of the import procedures and customs clearance as an incentive for importing under the line of credit as compared to importing with foreign exchange.

The Sri Lankan Ministry of Tourism and Rural Industrial Development pointed out that advertisements were given in the local newspaper regarding the facility of importing capital goods from India under the credit line. Though there was good response to the advertisement, most importers backed out after learning about the stipulation of depositing funds with the Central Bank of Sri Lanka.

The constraint operating on the Indian side is that exports made under the line of credit are not eligible for Exim Scrips. This acts as a disincentive for the Indian exporters to export to Sri Lanka under the line of credit. Because of this constraint so far only about Rs 50 million have been utilised out of the credit line. However, it is understood that the Sri Lankan Government has forwarded a list of items of capital goods including railway equipment to the Ministry of Finance, Government of India which is likely to exhaust the remaining amount.

One way of meeting the constraints at the Sri Lankan end is to offer the line of credit to a development financial institution in Sri Lanka for administering the same.

Also the Exim Bank of India could consider extending a credit line to finance Indian exports of capital goods to Sri Lanka.

3. Human Resources Development

During the course of liberalisation process of the Sri Lankan economy and the trend towards peoplisation/commercialisation (privatisation) in Sri Lanka, there is a need felt in Sri Lanka for managerial personnel at various levels. Though some managerial manpower is available in the manufacturing and service sectors, it is still felt that the present availability is highly inadequate. In the plantation sector, as mentioned in Chapter 3, the managerial availability is even more inadequate. It is also felt that there is dearth in Sri Lanka of technical personnel at various levels required in the manufacturing industry.

To meet these demands of managerial and technical personnel, an important area of cooperation between India and Sri Lanka is setting up of an Institute of Technology and Management in Sri Lanka with technical assistance from IITs/IIMs of India. It is understood that already a feasibility study in this regard is being conducted by the Educational Consultants of India.

Further, Sri Lanka has sought expansion of training facilities for Sri Lankan nationals under ITEC programme.

4. Rural Banking and Credit

There are a large number of institutions in Sri Lanka for the rural sector banking and credit needs such as Regional Rural Development Banks (RRDBs), Cooperative Rural Banks (CRBs), Thrift Credit and Cooperative Societies (TCCSs) and so on. Apparently the gamut of rural credit and banking institutions is not functioning efficiently. As the experience is similar to that in India, interest was shown whether the two countries could get together in attempting to improve the functioning of the rural banking and credit institutions.

5. Information

One of the most important constraints, brought out in Chapter 3, holding back the fuller exploitation of the potentials of economic cooperation is the information gap between the two countries. Despite the geographical contiguity, the flow of information between the two countries is very scanty. To bridge this gap, increased cooperation among the media and news agencies of the two countries would be useful. Also, a weekly or fortnightly periodical on the lines of *Business Asia*, or *Far Eastern Economic Review*, would greatly help in improving the information base for furthering the economic relations within the region.

6. Exchange Control Regulations

Exchange control regulations imposed by the Sri Lankan government appeared to have posed a few irritants for smooth functioning of joint ventures and investment as follows:

i) The Central Bank of Sri Lanka provides foreign exchange at the rate of £250 per director upto a maximum of two directors in a year enabling the expatriate directors to attend the board meetings of foreign subsidiaries in Sri Lanka. This may constrain the smooth functioning of the subsidiaries as the directors may need to visit Sri Lanka more often than once a year. The Central Bank of Sri Lanka should allow foreign exchange to cover the visits of directors as and when required.

ii) Under the Sri Lanka Exchange Control Act circular reference No. EC/12/88/(C+F) dated 15 July 1988, foreigners having assets in Sri Lanka can remit funds to their country once in life time upto a sum of SLR 3.5 lakhs (earlier SLR 2 lakhs). In case where the sale proceeds of properties is higher than SLR 3.5 lakhs the amount is blocked in NR account without fetching any interest. This again is a restrictive regulation which needs redressal at the Sri Lankan end.

In order to facilitate business and other travel between the two countries, a scheme of limited convertibility of currencies through the Asian Clearing Union could be worked out to eliminate the need of hard currency.

7. Imbalances in Trade

The balance of Indo-Sri Lankan trade has been consistently in India's favour. This situation appears to discourage further expansion of trade. However, the balance of trade will not be so much adverse if one could take into account the trade in services and unreported trade. It is learnt that the Sri Lanka Dock Yard gets about US$70 million worth of business from Indian ship owners in a year.

The balance of trade deficit owes its origin to the narrow range of exportable goods offered by Sri Lanka and this has been the case with Sri Lanka's major trading partners in Asia such as Japan, China, Taiwan, Hong Kong, South Korea, Malaysia, Thailand and Singapore. This could be rectified by increasing the exports of existing commodities by removing supply and other constraints as discussed in the previous chapters. Further, the cooperation in the manufacturing sector as outlined in the previous chapters of this study will strengthen the industrial capabilities of Sri Lanka and thus enable her to diversify the range of exportable products. Establishment of certain trade creating joint ventures could also help in offsetting the adverse balance of trade.

8. Shipping and Transport

The benefits of geographical contiguity and economies of freight are normally not available in the case of Indo-Sri Lanka trade. For instance, the attention of Study Group has been drawn to the fact that the sea freight between Madras and Colombo is prohibitive in comparison to the freight between Colombo and Singapore. This is a serious constraint for expanding trade. The capitals of the two countries are not connected by direct flights leading to long and arduous journeys. The terminal handling charges are found to be very high at the Indian ports. Steps are needed to be taken to start direct flights between New Delhi and Colombo, and to have a favourable freight structure for Indo-Sri Lanka trade.

9. Infant Industry Protection

Sri Lanka has been liberalising her economy in a big way. As a result imports are allowed freely with low rates of duty. This situation discourages investments in joint ventures, because a new unit cannot compete with established suppliers of goods to the country, who enjoy tremendous economies of scale because of massive scales of production. A new unit will need protection from imports at least in the initial stages of production until it overcomes the teething troubles. The need for infant industry protection for development of local industries is well recognised in the development policy literature. The protection granted to an industry can be withdrawn in phased manner after a certain minimum period considered necessary for overcoming the initial teething troubles.

10. Revolving Fund for Joint Ventures

The Indian joint ventures are often constrained by the Indian guidelines on joint ventures which generally do not allow cash remittances from India and restrict Indian equity holding to 40 per cent. The Government of India may consider setting up a revolving fund on which Indian joint venture could raw upon. The Fund could have provision of both equity and loan financing for financial viable projects.

VI POLICY RECOMMENDATIONS

Herein we give a profile of policy recommendations that emerge from the analysis of previous chapters.

1. Special Trading Arrangement between India and Sri Lanka

For increasing the level of bilateral trade and improving other aspects of bilateral economic cooperation, an institutional mechanism is recommended to initiate discussions on evolving suitable trade preferences for expanding trade flows between the two countries.

2. Bilateral Credit

In future programme of cooperation between India and Sri Lanka involving line of credit, two constraints in its operation have to be kept in mind: viz. the stipulation that the Sri Lankan importer should deposit counterpart funds to the full value of the allocation with the Central Bank of Sri Lanka; and the noneligibility of Indian exporters for Exim scrips for exports under the line of credit.

It may be worthwhile to provide the line of credit to a development finance institution in Sri Lanka which could solve the first constraint. The Government of India may look into the issue of providing the Exim Scrip incentive for exports under the line of credit. Exim Bank of India may also consider extending lines of credit to finance exports of Indian capital goods especially machinery and equipment regularly to Sri Lanka.

3. Human Resources Development

An important area of cooperation between India and Sri Lanka could be setting up of an Institute of Technology and Management in Sri Lanka with technical assistance from IITs/IIMs of India respectively.

4. ITEC Programme

The cooperation between the two countries under the ITEC programme, which is highly appreciated in Sri Lanka, may be expanded in scope for imparting greater assistance to Sri Lanka.

5. Rural Credit and Banking

As the experience is somewhat similar in India and Sri Lanka with regard to rural credit and banking institutions, the two countries could together attempt to improve the functioning of rural banking and credit institutions

6. Information

As information gap is one of the most important constraints holding back the fuller exploitation of potential of economic cooperation, increased cooperation among the media and news agencies of the two countries is recommended.

7. Travel for Business Purposes

To facilitate intensive cooperation between India and Sri Lanka, it is desirable that visa formalities are relaxed. The two governments may consider granting multiple-entry visas to bonafide businessmen.

8. Exchange Control

Sri Lankan authorities could consider to remove the irritants arising out of exchange control regulations such as those restricting travel for attending board meetings of subsidiary companies and repatriation of proceeds of sale of properties.

In order to facilitate business and other travel between the two countries, a scheme of limited convertibility of local currencies through ACU could be worked out to eliminate the need of hard currencies.

9. Shipping and Transport

Steps are needed to be taken to start direct flights between New Delhi and Colombo and to have a favourable freight structure for Indo-Sri Lanka trade to exploit the benefits of geographical contiguity fully.

10. Revolving Fund for Joint Ventures

The Government of India could consider setting up a revolving fund on which Indian joint ventures abroad could draw upon for their financing needs.

11. Areas of Cooperation

11.1 Tea

i) Both Sri Lanka and India are concerned with increasing yield in tea plantations. The two countries could cooperate in tea research for improving the yields.

ii) A major problem in Sri Lanka is the lack of managerial culture in the plantation sector. The proposed institute of management in Sri Lanka with Indian technical assistance could help in meeting this need also.

iii) The need for joint marketing for tea by India and Sri Lanka still exists. The cooperation could be in setting up a joint venture between two countries for mixing Indian and Sri Lankan teas and developing joint brands in third countries.

11.2 Rubber and Rubber Products

i) India could import larger volumes of natural rubber from Sri Lanka. Sri Lankan rubber has become uncompetitive in terms of prices due to declining production and imposition of export duties and cesses by the government. Despite tariff preferences and freight advantage enjoyed, Sri Lankan rubber is not able to bid successfully to the tenders floated by STC for import. Appropriate action needs to be taken at Sri Lankan end to make their rubber more competitive by possible reduction of duties and by increasing the production.

ii) There is need for intensifying cooperation between the two countries in research and development in rubber plantation and production especially in view of very low yield rate in Sri Lanka.

iii) There is scope for import of rubber scrap such as used tyres by India from Sri Lanka as the former has a well developed rubber reclaimation industry.

iv) India could export automotive tyres and import camel back strip and possibly surgical rubber gloves from Sri Lanka.

v) Scope for setting up joint ventures exists for manufacture of tyres, and tubes, tyre retreading (pre cured process), moulded and extruded rubber products, solid tyres, rubber belts, and rubber condoms.

vi) There is scope for transfer of technology for making furniture from waste rubber trees.

11.3 Coir and Coir Products

i) India and Sri Lanka may explore the possibility of arriving at a minimum price ceiling for coir and coir goods for export market.

ii) A comprehensive action programme including joint R & D needs to be drawn up by the two countries in order to improve the competitiveness of coir over its substitutes and finding new uses.

iii) Adoption of uniform international standards is a pre-requisite for arriving at a minimum ceiling price acceptable to both the countries.

iv) Sri Lankan know-how in brown fibre production and coir pith processing could be exchanged for Indian know-how in manufacture of coir products from coir yarns.

11.4 Cloves

i) We recommend that imports of cloves into India be placed under Open General Licence (OGL) list to enable their import against Exim Scrip.

ii) As Sri Lankan prices of cloves are higher than those of other suppliers to India, Sri Lanka may strive to improve its productivity of cloves so that it could become price competitive for supplying to India. Further, the oil content in cloves supplied from Sri Lanka is less compared with that of other suppliers. Therefore, Sri Lanka may also try to improve the oil content in cloves.

11.5 Fresh Fruits

India could be quire price competitive in exporting fresh fruits such as apples to Sri Lanka. In the case of apples an important consideration in Sri Lanka is that the apples should have long shelf-life.

11.6 Sugar

i) India could attempt to supply a large portion of the total domestic requirements of sugar in Sri Lanka which is mostly met through imports.

ii) As Sri Lanka is keen on expanding sugarcane plantations and setting up of sugar mills, India could consider cooperation with Sri Lanka in development of sugar plantations and setting up of sugar mills in Sri Lanka.

11.7 Textiles and Garments Industries

i) Leading Indian fabric manufacturers should appoint indenting agents in Sri Lanka to expand India's share in Sri Lankan imports of textile fabric for domestic consumption and for export-oriented garment industries.

ii) The restrictions placed on imports of Indian silk sarees could be removed to legalise their trade for mutual advantage.

iii) Indian companies should consider to set up joint ventures to exploit the attractive opportunities of establishing textile mills in Sri Lanka for feeding the expanding garment export industry. Such a project appears to be technically feasible and financially viable on the basis of preliminary study.

iv) Indian garment manufacturers could also set up units in Sri Lankan export processing zones to overcome the quote restraints on their exports to the Western countries.

v) India should assist Sri Lanka in improving the quality of handlooms by providing services of Indian master weavers under multilateral funding.

11.8 Metal Products

i) Indian companies should explore export of steel tubes, GI pipes, billetes, slabs, MS angle, MS steel wire rods in coil form, industrial fasteners, kitchenware, tin plate and metal cans, railway track material and aluminium ingots and extrusions to Sri Lanka by appointing indenting agents.

ii) India can import larger volumes of iron and steel scrap and copper waste from Sri Lanka.

iii) Indian stainless steel utensils can find better consumer acceptance if they are finished by machines in place of hands.

11.9 Transport Equipment

i) Indian manufacturers should tap demand for nearly 1,200 buses in Sri Lanka imports of which are now being financed under SMI loans scheme jointly funded by the World Bank and ADB.

ii) Indian manufacturers of 4-WDs, passenger cars and two wheelers should increase their market shares in Sri Lanka through intensive marketing, taking advantage of recent imposition of heavy duty on luxury cars (including certain 10 seater 4-WDs), better publicity of product improvements, and improved competitiveness as a result of devaluation of Indian rupee.

iii) Easy availability of spares and prompt after sales service of Indian vehicles needs to be ensured. The Government of India should streamline the procedures for warrantee replacements by permitting free replacements upto a certain percentage of price.

iv) There is scope for cooperation between India and Sri Lanka in the area of railway modernisation. India can supply consultancy services, rollings stock, sleepers, coaches, wagons and spare parts to Sri Lankan railways.

11.10 Consumer Durables

i) Indian manufacturers of consumer durables such as electric appliances, radios, TVs, kitchen equipment, synthetic carpets etc. should establish their presence in the Sri Lankan market through agencies, displays in the show rooms, promotion of brand names, as well as promise of efficient after sales services.

ii) Indian companies should consider setting up a joint venture in Sri Lanka for assembling radio receivers, radio cassette recorders and B & W TV sets on the basis of CKD/SKD kits supplied from India.

11.11 Machinery and Equipment (n.e.s.)

i) There is considerable scope for exporting a wide range of Indian machinery to Sri Lankan e.g. textile machinery, agricultural machinery, tea machinery, rubber machinery, plastic machinery, food processing machinery, engines, pistons and parts, leather machinery, construction and material handling equipment, metal working machinery, hand tools, pumps, valves and compressors, refrigeration and airconditioning machinery, chemical machinery, mini cement plants, mini

steel rolling mills, glass machinery, fishing equipment, electrical equipment, telecommunication equipments and office automation equipment.

ii) Indian engineering companies should consider to secure a representation in Sri Lanka by appointing agents or opening a joint office under the auspices of CEI.

iii) Exim Bank of India could provide lines of credit to facilitate Indian exports of machinery.

iv) The Government of India should consider to provide export incentives such as Exim Scrip to exports effected under credits.

11.12 Industrial Chemicals and Dyes

i) There is scope for expanding imports into India of glycerine, resinoids, graphite etc. from Sri Lanka.

ii) Indian manufacturers of industrial chemicals and gases and dyes and dyestuffs and pigments should establish their presence in Sri Lanka by appointing indenting agents to explore the potential of exports.

11.13 Medicines, Pharmaceuticals and Personal Care Products

i) There is scope for expansion of Indian exports of medicines, pharmaceuticals and personal care products to Sri Lanka.

ii) Indian exporters of pharmaceuticals should take steps to promote Indian brands among the Sri Lankan medical profession through organising expositions, sponsor their participation in seminars and conferences in India, distribution of Indian medical journals etc.

iii) Strict inspection of quality/packaging norms need to be adhered to in the case of pharmaceutical exports.

iv) Steps need to be taken to ensure quick delivery of pharmaceutical products by overcoming port congestion problems.

v) In addition to a joint venture for pharmaceutical formulations work towards which has already been initiated, there is scope for more joint ventures for production of surgical items and tooth paste.

11.14 Salt

i) As Sri Lanka as yet does not possess adequate salt iodisation facility, Indian companies could consider setting up a joint venture in Sri Lanka for iodised salt manufacture.

ii) Also India could cooperate with Sri Lanka in the latter's proposed import substitution programme in caustic soda. However, attention needs to be given to the disposal of the by-product, chlorine, which is a major problem.

11.15 Rock Phosphate

Indian fertiliser companies should explore to develop technology to process low solubility rock phosphate available in Sri Lanka into fertilizers for consumption in Sri Lanka and India.

11.16 Gems and Jewellery

i) India could import geuda from Sri Lanka and also enter into a joint venture in Sri Lanka for heat treatment of geuda with buy-back arrangement for lapidary work in India.

ii) India could also import rough sapphires (blue and yellow), rough rubies and zircon, etc. from Sri Lanka.

iii) As both India and Sri Lanka are exporting gems and jewellery, cooperation in joint-marketing could be explores.

11.17 Consultancy Services

Leading Indian consultancy organisations should establish their presence or partnerships in Sri Lanka for providing services in the preparation of feasibility studies, designs, detailed engineering, project implementation, commissioning and management of infrastructural and industrial projects.

11.18 Tourism and Tourism Infrastructure

i) There is an interest in Sri Lanka for tapping Indian expertise for further development of tourism infrastructure especially highway restaurants and motels.

ii) Marketing of joint India-Sri Lanka or India-Sri Lanka-Maldives packages could become very attractive for the Western tourists. Steps should be taken in this regard.

iii) For facilitating tourism between India and Sri Lanka, introduction of direct flights between Colombo and New Delhi and limited convertibility of local currencies through ACU should be considered.

11.19 Further Areas of Joint Ventures and Technology Transfers

Scope and interest for setting up joint ventures in Sri Lanka with Indian assistance was found in: aluminium products, software exports, computer and related products, manufacture of nuts and bolts, manufacture of glass containers, spice oleoresins, ground/instant coffee, know-how for water proofing toilet and laundry soap, abrasives, ceiling sheets, mini cement plant, manufacture of plywood and tea-chests, hybrid seeds for vegetables, printing and publishing and mutual funds.

12. Cooperation in Development Small and Rural Industries

i) A Small Industries Service Centre (SISC) can be set up in Sri Lanka with Indian assistance to tap her expertise in development of small scale and rural industries for Sri Lankan industrialisation.

ii) SISC will pursue programmes of development of small and village industries in consultation with the Ministry of Rural Industrial Development (MRID) covering formulation of policy framework, identification of viable industrial

projects, entrepreneurship development, preparation of feasibility studies, identification of sources of supply of consultancy services, technology, machinery and raw materials, live demonstration, and provision of machinery on leasing or hire purchase basis to entrepreneurs.

iii) The Government of India could depute three/four experts from Indian agencies such as NSIC, KVIC, SIDBI, DCSSI at the SISC and also provide a line of credit of about INR 20 million to part finance the import of plants and machinery from India. The Government of Sri Lanka could provide facilities. Additional resources could be raised from multilateral agencies.

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