

TRADE CONCENTRATION AND EXPORT INSTABILITY
IN SRI LANKA SINCE INDEPENDENCE

KANGESU JAYANTHAKUMARAN

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ABSTRACT

It is generally believed that export instability is severer for less developed than for developed countries. Sri Lanka exhibits characteristics of a less developed country. Foreign trade has played and continues to play an important role in the economy of Sri Lanka. Export proceeds form an essential component of economic development. Sri Lanka has to rely on such earnings though export of its primary commodities such as tea and rubber, which often face inelastic demands in the market, and even more importantly, a demand trend which is rapidly decreasing. Constant price fluctuations is another notable feature of Sri Lanka's economic difficulties.

This study attempts to indicate the degree of instability faced by these crops and the causes for the decline in our export earnings. The most important of these causes is trade concentration. Trade concentration includes commodity concentration and market concentration. The argument that high concentration leads to greater instability in export proceeds has been the traditionally accepted hypothesis. This hypothesis suggests that a country which depends on a few commodities for its export earnings is highly vulnerable to fluctuations in the export market. Although this hypothesis has been challenged on the basis of cross-sectional data,

subsequent studies, on a country by country basis, tends to support this hypothesis. The Sri Lankan experience since 1948 may be studied in respect of two distinct periods: (i) of export concentration (1948-1974) and (ii) of export diversification (since 1974). The data of relating to these periods are used to test the above hypothesis. The findings clearly show that commodity concentration usually increases the instability of export proceeds. Therefore, my study reinforces the suggestions of made for the need to further diversify the export commodities of Sri Lanka. This study, also attempts to analyse the impact of diversification. It further considers the question whether there is a connection between market concentration and export instability. The connection between these two variables cannot be easily quantified and established.