

Sri Lanka Development Drivers: The Cooperation with European Union and China

Yuan Miao

Abstract The European Union and China have established a deep relationship and the demand to expand the cooperation has been felt more strongly. To establish cooperation at a worldwide level will be a good choice. Under this condition, Sri Lanka will be the next place to be the new engine of the Sino-European Union cooperation.

Sri Lanka was colonized successively by the Portuguese, the Dutch and the British and during this period the plantation economy developed which has occupied the most important position in the national economy of Sri Lanka for a long time. After independence, Sri Lanka was seeking a driver for its development, thus its attention gradually moved to the textile industry. Its economy still relies heavily on exports which provides for China and the EU the opportunity to develop further their trade with Sri Lanka and to enhance their reciprocal cooperation.

After Sri Lanka's independence, China traded with Sri Lanka and provided assistance while Sri Lanka gave political support to China. Thus, China has the experience to work with Sri Lanka. During the colonial era, European countries had a large effect on the culture of Sri Lanka. Until now many tourist cities are still famous for the fortifications built by the colonial powers and the percentage of English speakers is higher than in many other countries in Asia. Then we have not to forget the chapter of the long ethnic civil war with its high cost in terms of human life and de facto a transfer of resources from development to military expenditure. While in the past the main products exported to the EU were gems and tea, Sri Lanka now has switched to the garment trade, which leads to a sense of closeness not only in culture but also in economy. In the future, if the EU and China could take advantages of each other, Sri Lanka could be the next point of cooperation.

Keywords Sri Lanka - Tea export - Textile export - European Union and China cooperation

1. Introduction of Sri Lanka economy

1.1 The tea industry

Sri Lanka is famous all over the world for its attractive red tea production. The sales of red tea have occupied an important position in the national economic development for a very long time thanks to the suitable climate of Sri Lanka. The island, located at southern tip of the

Yuan Miao (✉)
University of International Business and Economics, Beijing, China
e-mail: m_yuan93@126.com

subcontinent, belongs to tropical monsoon climate that provides for the wet and hot weather required for the planting of economic crops.

Since 1505, Portuguese, Dutch and British colonists successively came to the island and that was the beginning of Sri Lanka's plantation economy. Afterwards the Kandy Kingdom began with planting coffee, but production collapsed by the 1870s because of the slump of the price and the coffee tree disease. This situation provided a good opportunity for tea planting and the economic development has been very prosperous. However, from the beginning Sri Lanka's economic system established a highly foreign dependence model. Until the eve of independence, the annual output reached 271 million pounds, accounting for 68% of the total export amount.

After that, by expanding the percentage of national capital put into the production of tea, Ceylon's government still fostered the domestic tea industry. However, with the not entrepreneurial and efficient development of the tea industry (export-oriented and strong dependence), the government needed to explore the ways to build a more compatible if not self-sufficient economic system. Although the tea industry is still playing an important role in the national economic system, the textile industry has now become the driving force for exports.

1.2 The textile industry

Since the 1970s, the development of the textile industry has experienced a booming trend. The share of garments in total exports rose from 27% in 1986 to 52% in 2002¹. Even during the economic crisis in 2009, the export amounts of first quarter still rose by 8.8% compared to the same period of 2008.² The garment industry has become the new economic growth point in the national economic system and gradually replaced the leading position of the tea industry.

The European Union and the United States are the main international markets for the garments of Sri Lanka. The manufacturers of Sri Lanka have established a friendly cooperation with many famous brands of these countries and they also created their own brands in 2003. Thus, after the decline of the tea industry, the textile industry will become the new highlight of Sri Lanka's development.

2. Sino-Sri Lanka economic relationships

Earlier in the 1-6 centuries AD, Chinese ambassadors stopped for several months in Ceylon when they went to India. During the Han Dynasty, China's eminent monks had spent two years in Ceylon, from where they brought the Buddhist Scriptures back to China which helped the development of China's Buddhism. After the foundation of new China, Ceylon was one of the first countries that established diplomatic relationships with China.

The economic cooperation between China and Sri Lanka began with the rubber industry. At that time China badly needed a great amount of rubber and Sri Lanka had a heavy backlog that could not be sold. As a result, despite of the economic sanctions and embargo against China, Sri Lanka still traded with China. By 1956 Sri Lanka was China's second largest trading partner among Asian and African countries, and the trade back to China occupied the third largest position of Sri Lanka's foreign trade amount, followed the British and India.

¹ "Ready-made Garment Industry in Sri Lanka: preparing to face the Global Challenge", Asia-Pacific Trade and Investment Review, Vol.1, No.1, April 2005, p 53.

² "Apparel Industry Records 2013 Percent Growth", <http://www.lankatimes.com/fullstory.php?Id=17469>.

In the 21st century, the Sino-Sri Lankan economic relationship has developed into a new stage. On June 6, 2012, the first deep harbor in Hambantota supported by China was enabled and in the same year Sri Lanka decided to accept military training from China lacking of the military interaction with India³. In addition, the financial assistance provided to Sri Lanka has gradually increased gradually since the 1950s. By the end of 2010, the total financial support provided to Sri Lanka has reached 3.04 billion dollars. The bilateral relations experienced a positive development since the establishment of diplomatic relations and it can be said that the Sino-Sri Lanka cooperation has become one of the most valuable relationships of Sri Lanka's international relations.

But we have not to forget the chapter of the long ethnic civil war, with a high cost in terms of human life and *de facto* a huge absorption of resources from development to military expenditure.

3. Economic relationships between EU and Sri Lanka

Due to historical reasons, Sri Lanka has important ties with Europe on the traditional cultural level. The Dutch and British culture is reflected in the ancient castles and hospitals, which were built during the colonial era. They are still famous and attract a great number of tourists from all over the world every year. As the model law for many developing countries, the law system of Sri Lanka is composed of Roman-Dutch Law, British Law and Kandy Law. In addition, the comprehensive welfare system providing free medical care and education which supported the formation of a high-quality workforce and the high percentage of English-speaking people also originated from the colonists' regime. Thus, people in Sri Lanka have the sense of closeness with the countries in UN.

The plantation of red tea began in the era of British colony, so the British became not only the biggest buyer but were also controlling the tea industry. A great amount of tea was exported to the Europe. Even during World War II, tea still accounted for 68% of the total export⁴. As a result, though it has been a long time since Sri Lanka's independence, the market in Europe is still one of the biggest markets for its exports and this trend of the trade will still be remained in the future.

Sri Lanka

Top 10 Export Partners in 2013

US Dollars, Millions

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
United States	1869.29	1988.09	2005.48	1969.98	1869.39	1576.05	1701.24	2144.85	2070.70	2228.49
United Kingdom	779.17	777.26	880.10	1018.04	1090.38	1023.58	989.72	1112.19	1006.52	869.83
India	391.51	566.41	489.46	515.28	418.33	321.92	473.95	519.04	586.11	611.68
Germany	274.06	271.83	328.81	437.85	405.26	346.85	400.16	509.99	432.58	438.89
Belgium	0.00	0.00	0.00	406.60	408.70	368.05	270.89	546.32	437.03	411.97
Italy	152.86	199.62	258.02	394.88	445.06	437.53	466.01	610.07	476.84	382.91
Russian Federation	150.98	157.66	188.18	202.60	220.74	192.41	243.26	281.46	275.79	365.87
United Arab Emirates	137.78	170.29	174.77	209.17	252.64	211.35	287.77	298.21	243.44	272.57
Japan	157.60	144.61	163.56	159.64	159.00	139.27	170.96	222.97	218.56	269.43
Iran, Islamic Republic of	57.89	74.14	83.39	117.15	154.50	145.63	165.31	180.38	200.62	224.62

Source: Direction of Trade Statistics (DOTS)

Data extracted from IMF Data Warehouse on: 9/30/2014 2:46:51 AM

³ "We are ready to train Sri Lanka Army: Chinese Defense Minister", Lanka C News, Sep. 2, 2012.

⁴ "Tea industry and the Sri Lanka economy", Xiao Wen, South Asian Studies, 1988, No.4.

The charts above illustrate that in 2013, the biggest international market for the export products of Sri Lanka are the United States, the United Kingdom and India. Germany, Belgium and Italy followed as the fourth, fifth, and sixth. Apart from the United States and India all other countries are from the European Union. It should be noticed that trade increased rapidly with many European countries while the amount of the United States remained stable. Among the trade products garments occupied the most important position. In the process of establishing a self-sufficient economic system, Sri Lanka gave priority to the development of the textile industry. Most of its production is exported to the United States and European Union, 63% and 30% respectively⁵. In return, the European Union also granted a preferential policy to Sri Lanka in order to support the development of the garment industry. For a long time, Sri Lanka enjoyed the GSP+ given by the European Union which made Sri Lanka more competitive than other countries. Though it experienced the challenge in 2009, it still pursued the same policy in 2010 with the promise to develop the poor northern villages supported by the European Union. This could be a further point for the cooperation of EU and Sri Lanka.

4. Sino-EU cooperation drives by Sri Lanka

Top 10 Import Partners in 2013

US Dollars, Millions

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
India	1439.15	1835.43	2172.85	2610.14	3447.21	1819.82	2569.53	4430.70	3869.45	4650.01
China, P.R.: Mainland	454.04	630.56	779.74	923.81	1114.49	1028.91	1240.09	2092.06	1188.94	3781.00
Singapore	698.45	736.86	992.75	1118.54	1245.71	1065.61	1566.65	2123.95	1502.66	2161.14
United Arab Emirates	202.69	296.31	219.58	333.22	427.14	408.10	493.97	656.03	1311.11	1318.13
Iran, Islamic Republic of	418.75	523.86	758.93	844.20	1194.29	897.00	906.34	1602.40	1042.19	1047.77
Oman	3.00	3.59	6.68	61.44	10.09	12.51	90.03	204.44	269.79	751.61
Japan	411.71	379.69	449.58	413.17	425.97	223.93	584.11	1024.60	547.12	637.83
Malaysia	329.18	393.50	444.81	283.49	358.61	287.91	384.62	684.51	769.73	631.75
China, P.R.: Hong Kong	619.40	648.19	659.05	724.81	694.60	517.19	579.66	631.95	165.64	531.11
Taiwan Province of China	290.84	278.66	274.83	263.60	251.26	201.47	264.08	352.17	409.32	470.13

Source: Direction of Trade Statistics (DOTS)

Data extracted from IMF Data Warehouse on: 9/30/2014 2:46:51 AM

As the charts above demonstrate the most important import partners are India, China, P.R, and Singapore while none of the EU countries was mentioned in the list. Thus, EU and China play different roles in the foreign trade of Sri Lanka. EU-the main export partner and China-the main import partner have not benefited from the crisis in this area, which could lead to the cooperation of both side.

China has gained much experience in providing assistance in the past years. During the political crisis in Sri Lanka, China has provided large supplies to the refugees from the war; in the seaquake of the Indian Ocean, China's Red Cross Society offered assistance in many

⁵ "The development of garments industry in the crisis and challenges", Tang Qipeng, Southern Asia Studies, 2010, No.2

ways. Nowadays, the EU is thinking of supporting the development of poor northern villages in Sri Lanka and that could be the line China can work with. In the assistance area, the EU has the natural superiority over other countries due to the close cultural relationship and one of the biggest export markets with a high demand for textiles in Sri Lanka. There will be no language barrier for them, because most of the people in Sri Lanka speak English and some of them speak French. These are all advantages for the EU to begin the assistance in the country. As China has a long history to work with Sri Lanka, it could provide valuable experience for EU.

Cooperation could not only happen in the assistance area but also in the economic area. Although Sri Lanka is still a lower-middle-income country, the development could be seen noticed the world. In this trend, Sri Lanka will provide more suitable market conditions for foreign investment. On the political scene, Sri Lanka is gradually expanding the degree of opening of the local market and that will be a good opportunity for foreign investment. China has already supported Sri Lanka with building the deep port and that will be an important link in China's ocean trade and the step for China to develop more independent international trade with the EU. As a result, Sri Lanka could be, even if in the small scale, the connection of the trade between China and EU.

Infrastructure projects in Sri Lanka might be another area for the cooperation of EU and China. Many cities in Sri Lanka are lacking of the basic infrastructure, such as traffic lights and taxis. These might be concluded in the next step of assistance given to by China.

At the same time, the EU is thinking of enlarging the assistance range in Sri Lanka. If they could work together in this line, it would lead to deep cooperation not only in trade but also in technology and even culture. Facing the problems of urban construction, China could use the wisdom of Europe for good reference.

In conclusion, EU has the cultural advantages to Sri Lanka and China has the tradition to trading with Sri Lanka. If these favorable conditions could be utilized properly and in a long term approach Sri Lanka could be new factor for further Sino-EU cooperation.

Reference

- Kaminski B, Ng F (2013) Increase in Protectionism and Its Impact on Sri Lanka's Performance in Global Market, the World Bank Development and Research Group, Trade and International Integration Team, June 2013
- Tang Q (2012) Development of Garment Industry in Sri Lanka: Opportunities and Challenges, *South Asian Studies Quarterly*, 2012 (2)
- Yang X (2013) Sri Lanka's Dynamic Balancing Logic in Developing Relations with India and China, *South Asian Studies Quarterly*, 2013 (2)
- Song Z, Ma C (2011) Economic Development in Sri Lanka and Sino-Indo Economic Competition in Sri Lanka, *South Asian Studies Quarterly*, 2011 (4)
- Yao Yu (2007) An Analysis on Sino-Sri Lanka Relation, *Southeast Asian Studies*, 2007 (1)
- Tong JM (2013) The Dutch Culture in Sri Lanka, *Oriental Forum*, 2013 (5)