

# ISAS Brief

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## Singapore-Sri Lanka Trade: A Brief Overview

*Singapore and Sri Lanka have had growing trade relations. This paper seeks to explain the growing trade relationship, and identifies the key sectors in Singapore-Sri Lanka trade relations.*

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Singapore and Sri Lanka are two island-countries with strategic geographic locations. However, there are significant differences between the two nations in terms of their participation in world trade and dependence on trade to foster economic growth and development.

Singapore is one of the busiest ports in the world, both in terms of trade for the domestic population as well as re-exports of goods imported from other countries. Trade and investment relations with other countries, along with a conducive business environment at home, lie at the root of Singapore's economic prowess. Singapore ranks first in the world in doing business indicators as of 2016. Singapore had a population of around 5.5 Million as of 2014 with a trade-to-Gross Domestic Product (GDP) ratio of 359.3, and per capita trade of US\$ 199,862 between 2012 and 2014, clearly establishing the importance of trade for Singapore. Singapore's rank as an exporter and importer of merchandise in the world stood at 14 and 15 respectively in 2014.<sup>2</sup>

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<sup>2</sup> Statistics quoted from WTO country factsheets.

Sri Lanka, which is located in a currently less-vibrant region (South Asia) as far as international trade flows are concerned, comes out as a less trade-dependent country. Sri Lanka is a lower-middle-income country with a doing business rank of 107 in 2016 (improved from 113 in 2015). As a developing nation, Sri Lanka had a population of 20.6 million in 2014 with a trade-to-GDP ratio of about 55.6, and per capita trade of US\$ 1,825 between 2012 and 2014 bringing out the far lower salience of trade for Sri Lanka. Sri Lanka's rank in world merchandise exports and imports were 87 and 77 respectively.

Bilateral merchandise trade between Singapore and Sri Lanka has grown at an average annual rate of 7% from 2005 till the end of 2015 as opposed to an average annual growth rate of 3% in Singapore's trade with the entire world.<sup>3</sup> Sri Lanka's trade with the world has increased at an average annual rate of 10% between 2005 and 2014.<sup>4</sup> Singapore's domestic exports to Sri Lanka stood at S\$ 1.04 bn while merchandise imports from Sri Lanka were pegged at S\$ 0.14 bn, resulting in a significant trade surplus for Singapore. The last ten years have however seen significant fluctuations in Singapore-Sri Lanka trade both in response to global crises as well as Sri Lanka's political and economic problems.

At a broad level, Singapore's most important imports from Sri Lanka in 2014 were textiles and clothing which commanded a share of 25% of Singapore's total imports from Sri Lanka. This was followed by fuels (14%), stone and glass (13.09%) and vegetables (12.16%).<sup>5</sup>

Looking at the trends of Singapore's imports from Sri Lanka over the last ten years, noticeable is a decline in the share of capital goods, and a rise in the share of consumer goods. Shares of different goods in Singapore's import basket from Sri Lanka have been volatile. Fuel imports picked up, being the largest share in the basket post-2012, but this share fell in 2014. Textiles and clothing, animals, vegetables, stone and glass form the other significant shares in Singapore's import basket from Sri Lanka. Singapore's imports from Sri Lanka as a share of its imports from the world across broad sectors are well below 1% for most sectors.

Singapore's shares in Sri Lanka's exports to the world have been higher in industries like transportation and minerals. Singapore accounted for about 30% of Sri Lanka's transportation exports in 2014, and 10% of mineral exports in the same year. Sri Lanka's major exports to the

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<sup>3</sup> Statistics sourced from Singstat <http://www.singstat.gov.sg/statistics/browse-by-theme/international-trade-tables>. Singapore's trade with the world is calculated summing its annual merchandise exports and imports with regions viz: America, Asia, Europe, Oceania, and Africa.

<sup>4</sup> Statistics obtained from World Development Indicators, World Bank Databank

<sup>5</sup> Statistics compiled from World Bank WITS data by the author.

world in 2014 were textiles and clothing (45.2%) and vegetables (20.7%) which were significantly exported to Singapore as well.

As for Singapore's exports to Sri Lanka, fuels had the single largest share (79%) in 2014, with all other sectors accounting for less than 10% each. Looking at shares of different types of goods exported from Singapore to Sri Lanka, we find that the share of consumer goods has risen significantly since 2010, almost off-set totally by the decline in the share of intermediate goods and capital goods. Fuels have become principal imports of Sri Lanka from Singapore since 2007, and the share has progressively risen through the last decade. Other important sectors include machinery and electricals, but the share has declined since 2012. Sri Lanka's importance in Singapore's export basket is limited. The Sri Lankan shares for most sectoral exports from Singapore were below 5% as of 2014.

Singapore's major exports to the world in 2014 were machinery and electricals (42.9%) and Fuels (16.8%). Sri Lanka is a marginal importer of these commodities from Singapore. However, in Sri Lanka's imports of these commodities from the world, Singapore is a significant contributor.

To conclude, while Sri Lanka-Singapore trade has been growing, Sri Lanka's importance in Singapore's trade basket is not as high as Singapore's importance in Sri Lanka's trade basket. Sri Lanka's importance in Singapore's trade basket may increase if trade barriers are brought down by Sri Lanka. Specifically, since Singapore's major exports to the world include machinery and electricals, prospects of Sri Lanka increasing its imports in this sector from Singapore may be investigated further. However, such steps would need to be taken, keeping in mind the broad challenges currently facing the Sri Lankan economy and its domestic industrial and public interests.

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