

THE
OVERSEAS TRADE
OF
CEYLON

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THE OVERSEAS TRADE OF CEYLON

THE Overseas Trade of Ceylon has entered on a course which is both unexpected and unprecedented. International controls, which were inevitable during the war, were expected to be relaxed or withdrawn within a short period of the termination of hostilities. It was thought that the precedent of World War I would be followed by World War II, though perhaps with some added severity. But the aftermath of World War II is persisting over a longer period and would appear in some respects to have become somewhat intractable. Even talks about peace treaties in the political sphere are hardly heard. Indeed, the victorious nations, while elaborating details of trade and tariff agreements, bilateral in many and multilateral in a few cases, intended to promote employment, production and prosperity the world over, are making provisions for stock piling of commodities essential for national security—to preserve peace against a threat of war! Disequilibrium in the balance of trade of a country is, *inter alia*, regarded as a sufficient ground to claim exemption from the application of the general provisions of these agreements. Scarcity of foreign exchange of all or particular currencies is taken as a good reason to restrict the purchase in sufficient quantities of even the essential requirements of society. It is in the light of this background, of a war-disturbed world, that one has to review the Overseas Trade of Ceylon today.

TEA

During the war, after Japan over-ran South East Asia, Great Britain took full control of the exportable surplus of Ceylon's major plantation products. Tea was subject in its entirety to bulk purchase. The price paid for it was based on what obtained during a period of three

years, 1936—1938, immediately preceding the year war was declared. The basic price was subject to adjustments from time to time to meet changes in costs of production, whether due to inflationary or other factors occasioned by the war. Labour was given increasing dearness allowances based on the cost of living index. The profits earned by the producer estates were however to be kept at pre-war standards. As over 80 per cent. of the tea estates were owned by non-Ceylonese and by companies or individuals registered or resident in the United Kingdom, no benefit accrued to them by earning excess profits. Under English Law a hundred per cent. of such profits went into the coffers of the British Exchequer and in consequence, although tea was cultivated on Ceylon land, there was no encouragement to earn excess profits which might have resulted in the Ceylon Treasury getting at least 50 per cent. under Ceylon Law.

While therefore the price payable by the United Kingdom Ministry of Food for the tea exports of Ceylon was determined by the cost of production in terms of rupees and cents, unfortunately owing to a blunder, the subsidy given by the Government of Ceylon on rice, wheat flour and subsidiary foodstuffs was not taken into account. In other words, the cost of production which was taken to determine the price payable under the bulk purchase scheme was not the real but the fictitious subsidised cost. The State continued to recover the export duty of three Ceylon cents a pound of tea by way of revenue, but the amount of revenue collected from tea during the war period, on the average of about Rs. 6,500,000 a year, was altogether insufficient to recoup the cereal subsidy granted by the Government to those engaged in the industry. In the result, tea drinking abroad was in fact subsidised by the Ceylon tax-payer.

It will be noted that under the war-time bulk purchase scheme there was no question of price being determined by the peace-time law of

supply and demand. It must not be forgotten that even before the war, the supply of tea was regulated by international action, under a scheme of control of production, which made it possible for demand not to be over-saturated and therefore for prices and values to be kept at remunerative levels. When one of the important producer areas, *viz.* the Netherlands East Indies, was over-run by the Japanese, the United Kingdom had full political and military control over the other two important producing countries, *viz.* : pre-partition India and Ceylon.

Apart from this control there was also the question of providing carriage and freight. Overseas trade was not possible except through ships provided by the British Ministry of Shipping. The most important consumer countries were all on the same side. To meet their demand the British Ministry had to make allocations of the available supplies, but the allocations were subject to the price scheme formulated and adopted by the United Kingdom Ministry made with the concurrence, willing or unwilling, of the producing countries. The supply to be effective required freight and the buyers had control of that freight.

Although the price progressively increased with the increased cost of production yet partly owing to the blunder of ignoring the cereal subsidy the increase was only nominal. The Agency Houses in Ceylon were happy at the thought that they were receiving more rupees and cents and therefore their principals more shillings and pence for every pound of tea manufactured. But when it came to a question of the real value of the exported tea, it was discovered that, instead of a bright boom in the tea trade, there was in fact a slushy slump. Tables I and II, showing volume, value and f.o.b. price of tea exports from Ceylon and the real value of Ceylon tea in terms of essential food and clothing are significant.

TABLE I
CEYLON'S TEA EXPORTS

Year	Volume of Exports lbs.	Value of Exports Rs.	F.O.B. Price per lb. Cts.
1934	.. 218,213,360	144,742,141	66
1935	.. 211,933,802	145,613,030	69
1936	.. 217,887,351	153,215,921	70
1937	.. 213,132,751	170,586,705	80
1938	.. 235,739,097	172,420,857	73
1934—38 (Average)	.. 219,381,272	157,315,731	72
1939	.. 228,062,617	188,029,089	82
1940	.. 246,369,545	207,910,133	84
1941	.. 237,537,348	224,735,811	95
1942	.. 265,675,402	253,762,017	95
1943	.. 263,434,731	268,897,034	102
1944	.. 273,451,377	•308,147,011	112
1945	.. 299,238,501	274,956,249	119
1946	.. 290,510,723	378,850,178	130
1947	.. 287,259,020	566,522,598	197
1948 (10 months)	.. 250,263,120	498,059,819	199

TABLE II
PURCHASING CAPACITY OF CEYLON'S TEA EXPORTS IN TERMS OF CERTAIN ESSENTIAL COMMODITIES OF IMPORTS

Year	TEA .. 1,000 lbs.		
	Rice	Wheat Flour	Cotton-Dyed Piece Goods
	cwt.	cwt.	Yds.
Average 1934—38	.. 136	106	3,000
38	.. 140	122	2,703
39	.. 158	160	3,154
40	.. 141	120	3,652
41	.. 116	140	2,937
42	.. 67	98	2,568
43	.. 45	81	1,000
44	.. 44	105	543
45	.. 47	107	591
46	.. 48	80	775
47	.. 76	84	1,145
9 months 48	.. 69	68	1,267

It will be noted that compared with the year 1939, just preceding the introduction of the bulk purchase scheme, the purchasing power of Ceylon tea had been reduced by 1944 to less than one-third in terms of rice, to two-thirds in terms of wheat flour and to about one-sixth in terms of cotton dyed piece goods. Not only did the purchasing power of tea suffer a severe decline, but goods could not be bought as they were not available, even for the full face value of the total exports. The difference between the value payable and the value of the goods supplied, though at comparatively high prices, was left to accumulate in the hands of the buyer to be repaid at some future date by him. When, further, it is realized that the currency of the seller was in this case linked up with the currency of the purchaser (rupee notes could be printed on the sterling security of accumulated balances) and managed by the latter, it becomes clear how difficult it is to estimate correctly the full extent of the economic consequences for Ceylon of her war-time international trade.

It was not until 1947, when Ceylon increased her export duty from three cents to thirty-eight cents on every pound of tea exported, that she was able to regain to some extent the purchasing power which her tea had lost before. For 1948 the price increase given by the United Kingdom Ministry of Food for her requirements of tea was not determined by the formula which had obtained previously when price increases were allowed. If the Ceylon Association in London, *i.e.* the Association of Producers of Ceylon Tea, had conformed merely to the formula based on cost of production, the increase to which Ceylon tea would have been entitled was between a half-penny and a farthing per pound. Representations were however made by the Government of Ceylon and these, among other reasons, made the United Kingdom Ministry of Food pay a two-pence increase over the 1947 price.

Besides, the Colombo Auctions which had been suspended since September, 1942, were resumed from the beginning of 1947, and consumer countries were able to buy their requirements in the Colombo Auctions. Even the United Kingdom obtained part of her

requirements, which could not be met fully under the tender system, by purchases at the Colombo Auctions. These requirements however were under strict control. Tea was subject to rationing in the United Kingdom and the quantum of the ration had been cut down during the latter part of 1947 from $2\frac{1}{2}$ ounces to 2 ounces per person per week. The Government of the United Kingdom also subsidized the tea supplied to the consumer. The exact amount of the subsidy is not known but it is doubtful whether the subsidy is in fact substantial and real when the import duty of six pence per pound levied by the United Kingdom Government is taken into consideration.

One significant fact in regard to price emerged during 1947. The average prices realized for about two-thirds of Ceylon's exportable surplus which went through the Colombo Auctions was *4d* to *5d* higher per pound than the average prices paid for tea under the tender purchases by the United Kingdom Ministry. It is claimed that this higher price was possible because one-third of the exportable production had been taken off the auction market. To that extent the demand was keener for the short supply placed on the market, and it is generally felt that, but for this condition created by the United Kingdom tea contracts with individual producers, the prices fetched at the Colombo Auctions would not have been so high. This claim, it is urged, has been justified by the experience of 1948. It is true that during the months of May, June, July and August of this year the average prices realized at the Auctions have been lower and in some months very much lower than those realised under the contracts, but the position during September and October has changed and at present the overall average is less than a penny in favour of the prices payable under the contracts. Is this change due to the tender purchases system under which one-third of Ceylon's tea has not come into the Auctions or is it due to the fact that the world supply position has improved, owing to the Netherlands East Indies placing in the World Markets more teas during 1948 than during 1947?

Speaking in the language of a somewhat out of date law of supply and demand, it is stated that what was altogether a sellers' market

during the war and until 1947 has now begun to show signs of becoming a buyers' market. The gap between supply and demand was widest during 1947. It has become narrowed during 1948 and it will become progressively narrowed until 1951 when, with the rehabilitation of the tea industry in Indonesia and the full equipment of its factories, the supply will be well above demand.

You will observe that I have used the phrase "somewhat out of date law of supply and demand." One cannot be certain whether there will be in the world hereafter such an 'interplay of economic causes as will make for unregulated production resulting in an over-supply in any commodity. It has already been indicated that even before the war there was control of production of tea and it is more than likely that the producer countries will find it necessary and expedient to continue to collaborate to restrict output side by side with trade and tariff agreements to expand production. Of course such agreements can be invoked by a large consumer country like the United Kingdom to prevent restriction of production of tea in a country such as Kenya or Tanganyika over whose economy she has full control. But even so, countries over which there is no such control may consider it prudent from the point of view of balance of payments and of international exchange so to order their production, supplies and prices, as will enable them to obtain maximum advantage of trade and minimum disequilibrium in its balance.

In anticipation of a possible return to a free market in international trade in tea, it has been suggested that the Auctions in London may be resumed and may be made to function as before the war along with the Auctions in Calcutta, Colombo, possibly Karachchi, and Amsterdam. No doubt the producer countries will have to consider most carefully the effects of accepting the suggestion particularly after the changes brought about by the war. To mention just four considerations:—

In the first place it is not unlikely that all the consumer countries, the United Kingdom not excluded, will continue to limit consumption through rationing. Some countries may even subsidize tea purchases.

There can be no superstructure of a free market without the foundation of free consumption.

Secondly, owing to the war, consumer countries which in the past depended on, or took part of their supplies from, the Mincing Lane Market have now become regular purchasers at the Auctions held in the producing countries. Colombo now sells practically 60 per cent. of her exportable tea through her Auctions while, before the war, she sold only about 40 per cent. No one can deny that this change has been to the distinct advantage of Ceylon.

Thirdly, while there are restrictions on the ground of international exchange and while particular countries are anxious to earn particular kinds of hard currency like the dollar, it is doubtful whether the producing countries will forego the advantage which they now possess of earning hard currency by the sale direct of their teas to such currency countries.

On the other hand, one cannot overlook the claim which is often insisted upon, that the Auctions of the producing countries cannot bear the full weight of their total surplus. In consequence confusion, if not chaos, may ensue if owing to the change in pruning methods brought about by *Blister Blight*, large quantities of inferior quality tea are placed on the Auction Room during particular (three or four) months of the year. But the European Recovery Plan and the Marshal Aid to promote tea drinking on the continent of Europe may serve as helpful outlets which may mitigate the feared chaos. For purposes of international exchange our tea is our gold, and we cannot lightly acquiesce in any scheme that may depreciate its value. I refrain from any reference to possible nationalization of the tea trade or, for that matter, of Overseas trade generally; the time to consider such a radical change is not yet—not for the next decade or two.

If I have taken the Overseas Trade in tea for detailed analysis in this Address, it is because tea is by far the largest and the best export commodity of Ceylon. Her national economy and fiscal policy vitally depend on it; nearly one-fourth of her revenue is earned by it.

The changed circumstances brought about by the war and its aftermath indicate clearly that the law of supply and demand and the law of substitutes can hardly be applied when governmental intervention, either on the supply side or on the demand side, or in the matter of obtaining substitutes (*e.g.* non-alcoholic beverages), enters into the picture.

RUBBER

This conclusion is further illustrated by some of the other commodities which Ceylon exports. No longer does natural rubber have anything like a free market though it is so declared. The Schafer Act in the U.S.A. requires the compulsory use of a certain percentage of chemical rubber (*i.e.* synthetics) in the manufacture of tyres and other rubber goods. This is done for the avowed reason of national security which requires that, although it may not be as good as natural rubber, yet the machinery for the production of synthetic rubber must be maintained in a state of efficiency so that it may be in full production during a national emergency when supplies of natural rubber may not become available. Here again national security may be sometimes urged for suggesting to a producing country that it should not supply rubber to a possible enemy country because natural rubber is a war potential. To give effect to such an idea, exchange may well be so controlled and regulated as to prevent a country from purchasing its full requirements, or even if it made arrangements for such purchase, to bring prices down by releasing quantities held in stock piles for purposes of security. Further, considerations of acquiring hard currency exchange may make a producer country subsidise the marginal producer and thereby enhance the profits of the more efficient producer. On the other hand, it may be possible for the consumer country to consider it prudent statesmanship to purchase rubber at a higher price than what it would fetch in a free market in order to secure contentment among labourers and others in the producing country and thus avoid political reactions and complications of a far-reaching character.

In other words economics may be displaced by politics and considerations outside the free play of economic affairs may be brought to bear on questions of Overseas Trade.

The rubber trade, unlike the trade in other commodities, has been subject to a greater degree to influences other than economic. The history of rubber has been a history of politics admixed with economics. It is a younger industry than tea. Its consumption has increased at a faster rate than most other agricultural commodities and so also has its production expanded. The result has been a recurrence of booms and slumps ; each slump finding its cure generally in restriction, only to be followed by a greater boom than before. Rubber is indeed a munition of war. With the over-running of Indonesia and Malaya by the Japanese and the consequent denial of these supplies to the Allies, it is indeed true to say that the ultimate fate of World War II depended on the rubber industry of Ceylon. It was also inevitable that these circumstances should have led to the intensive expansion of a synthetic rubber industry in the U.S.A. One does not require foresight to have realised that the American industry, once established, would have become a potent rival of natural rubber. It is, indeed, a pity that at the time when Ceylon held a virtual monopoly of rubber, when she could have asked and received a price sufficiently high to have enabled the industry to write off its capital and re-establish itself as a regenerated industry of clonal rubber—which alone I think can compete with chemical rubber—it should have sacrificed the bargaining power for a price which, though it had the appearance of being extremely attractive then, has turned out, on subsequent analysis, to be a gross underpayment in terms of real values.

Tables III and IV give the volume, value, f.o.b. Colombo price and purchasing capacity in terms of cereals and piece-goods of Ceylon's rubber exports from 1934 onwards.

TABLE III
CEYLON'S EXPORTS OF RUBBER

Year	Quantity lbs.	Value Rs.	F.O.B. Price per lb. Cts.
1934	.. 178,556,182	56,615,226	32
1935	.. 120,478,543	38,393,614	32
1936	.. 111,823,140	46,840,344	42
1937	.. 156,098,892	77,010,122	49
1938	.. 114,624,081	45,274,962	39
1934—38 (Average)	.. 136,316,168	52,826,854	39
1939	.. 134,945,213	67,563,731	50
1940	.. 197,497,340	113,100,694	47
1941	.. 202,407,035	118,286,787	58
1942	.. 250,722,600	171,823,989	69
1943	.. 219,778,489	169,005,544	76
1944	.. 224,181,640	222,791,439	99
1945	.. 214,752,622	218,403,853	101
1946	.. 227,969,782	226,665,188	99
1947	.. 181,128,204	135,501,814	75
1948 (January-October)	.. 170,661,518	119,404,939	70

TABLE IV
PURCHASING CAPACITY OF CEYLON'S RUBBER EXPORTS IN TERMS
OF CERTAIN ESSENTIAL COMMODITIES OF IMPORTS

		RUBBER .. 1,000 lbs.		
Year	Rice	Wheat Flour	Cotton-Dyed Piece Goods	
	cwt.	cwt.	Yds.	
Average 1934—38	.. 78	61	1,792	
38	.. 75	65	1,444	
39	.. 96	97	1,923	
40	.. 96	82	2,478	
41	.. 72	86	1,812	
42	.. 48	71	1,865	
43	.. 34	61	755	
44	.. 38	92	476	
45	.. 40	91	502	
46	.. 33	60	586	
47	.. 28	31	433	
9 months 48	.. 24	24	445	

It will be seen from these facts and figures that rubber trade is highly speculative and dangerously political.

The rubber tree has hitherto held the second place in Ceylon's export trade. It has now been displaced by the coconut palm for the ten months ended October, 1948. And, thanks to the coconut palm, for these ten months there is substantial equilibrium in the visible balance of Ceylon's Overseas Trade. The world shortage of fats and oils, both for consumption and for use in industry, has given the coconut palm a better position than it had before the war. Indeed coconut products had fallen on evil days during the late twenties and the thirties and the producer was so demoralised that for the "sake of safety" he was willing to pay a large premium to insure against violent fluctuations in prices. His panic has cost him much. During the first two and a half years when the Copra Agreement between the United Kingdom Ministry of Food and the Government of Ceylon was in force, Ceylon sustained a loss of nearly two hundred million rupees by selling all her exportable surplus of copra and coconut oil under the Agreement at prices lower than the world prices and much lower than the prices realised even by one of the purchasers for her domestic production of the same commodity. Under the Revised Agreement a large premium will have to be paid to ensure that the sale of all Ceylon's exportable surplus realises a minimum price. In other words the price under the Agreement serves as a "floor price" and the exportable surplus over and above the quantities that have to be supplied under the Agreement have an open market, which at the present moment is nearly 40 per cent. better than the Agreement Price.

Here again the shortage in supply of fats and oil is such that an international body, *viz.*, the International Emergency Food Committee, finds it necessary to allocate the world's exportable surplus among the various consumer countries. Although the allocation is of quantities

and the prices are allowed at least in theory to be determined as between buyer and seller, yet in practice the seller is unable to secure the best price. Sometimes exchange control may be imposed if the price obtainable in a sellers' market is regarded as unreasonable by the country which obtains the allocation. This intervention by governmental authority, by control of exchange, to prevent the producer country from obtaining the prices the consumers are willing to pay has been well exemplified in Ceylon's Export Trade in cocoa.

The world's exportable surplus of cocoa is still subject to allocation by the I.E.F.C. Although Ceylon's annual exports are in the neighbourhood of 2,000 tons of cocoa compared with the world's exports of about 500,000 to 600,000 tons making allowance for the decrease in production due to *Swollen Shoot* in West Africa, and although it is comparatively a luxury commodity, yet the I.E.F.C. has been extremely keen in keeping Ceylon's cocoa under their scheme of allocation. This resulted during 1947 and previously in Ceylon not getting the best value for her cocoa. It was found that some of the countries which received allocations would not pay the best prices or could not afford to pay the prices which other countries would have ; they did not have enough exchange to pay high prices. In others the buyers formed combines to buy at low prices the country's allocation and then to distribute it among themselves according to plan. It was necessary therefore to request the I.E.F.C. either to free Ceylon cocoa from allocation, or to make it incumbent on the countries receiving allocations to pay certain minimum fair prices and, within the limits of those minimum fair prices the buyers in any particular country were made to compete among themselves so that Ceylon might get the best price. The success of this operation in the overseas markets has been fully felt during 1948. Ceylon was able to get about 60 per cent. higher prices from abroad than she was able to get during 1947. The figures in Table V are significant.

TABLE V (1)
CEYLON'S EXPORTS OF CACAO

Year	Quantity cwt.	Value Rs.	F.O.B. Price per cwt. Rs. Cts.
1934	81,365	1,802,382	22.15
1935	69,468	1,298,993	18.70
1936	58,921	2,030,548	34.45
1937	78,015	2,622,619	33.61
1938	72,441	1,430,692	19.75
1934—38 (Average)	72,042	1,837,047	25.73
1939	75,151	1,506,944	20.05
1940	82,126	1,899,297	23.13
1941	72,476	2,163,672	29.85
1942	64,945	1,917,365	29.52
1943	62,304	1,995,395	32.02
1944	45,938	1,809,682	39.39
1945	40,390	2,283,238	56.51
1946	27,237	2,941,811	107.99
1947	36,582	3,478,936	95.08
1948 (January-October)	44,408	6,698,090	150.83

TABLE V (2)
**PURCHASING CAPACITY OF CEYLON'S COCOA EXPORTS IN TERMS
OF CERTAIN ESSENTIAL COMMODITIES OF IMPORTS**

		COCOA .. 1-ton		
Year	Rice	Wheat Flour	Cotton-Dyed Piece Goods	
	cwt.	cwt.	Yds.	
Average 1934—38	96.7	75.4	2,125	
39	77.3	78.0	1,542	
40	77.6	66.1	2,011	
41	73.8	88.8	1,865	
42	41.5	60.7	1,595	
43	28.4	51.1	628	
44	30.5	73.3	378	
45	43.9	100.6	557	
46	79.4	132.0	1,278	
47	72.7	78.9	1,100	
9 months 48	103.7	102.9	1,905	

GOVERNMENTAL REGULATION

It must be mentioned that attempts made by some of the countries which received their allocations to buy at prices lower than the minimum fair prices by purchasing through non-competing government-appointed agents were resisted successfully and Ceylon has been able to obtain phenomenal prices during 1948 which are more than likely to continue during 1949. This again illustrates necessity for governmental regulation and supervision of the supply side, if there is governmental control of the demand side. Free market operations postulate free market conditions at all stages from production to consumption. If at any stage freedom is restricted, then freedom at other stages may have to be regulated in order that there may be maximisation of advantage to both producer and consumer.

Governmental regulation of prices now exist in the Overseas Trade of copra, coconut oil, fresh coconuts, desiccated coconuts, coir fibre, bristle and mattress, and cinnamon.

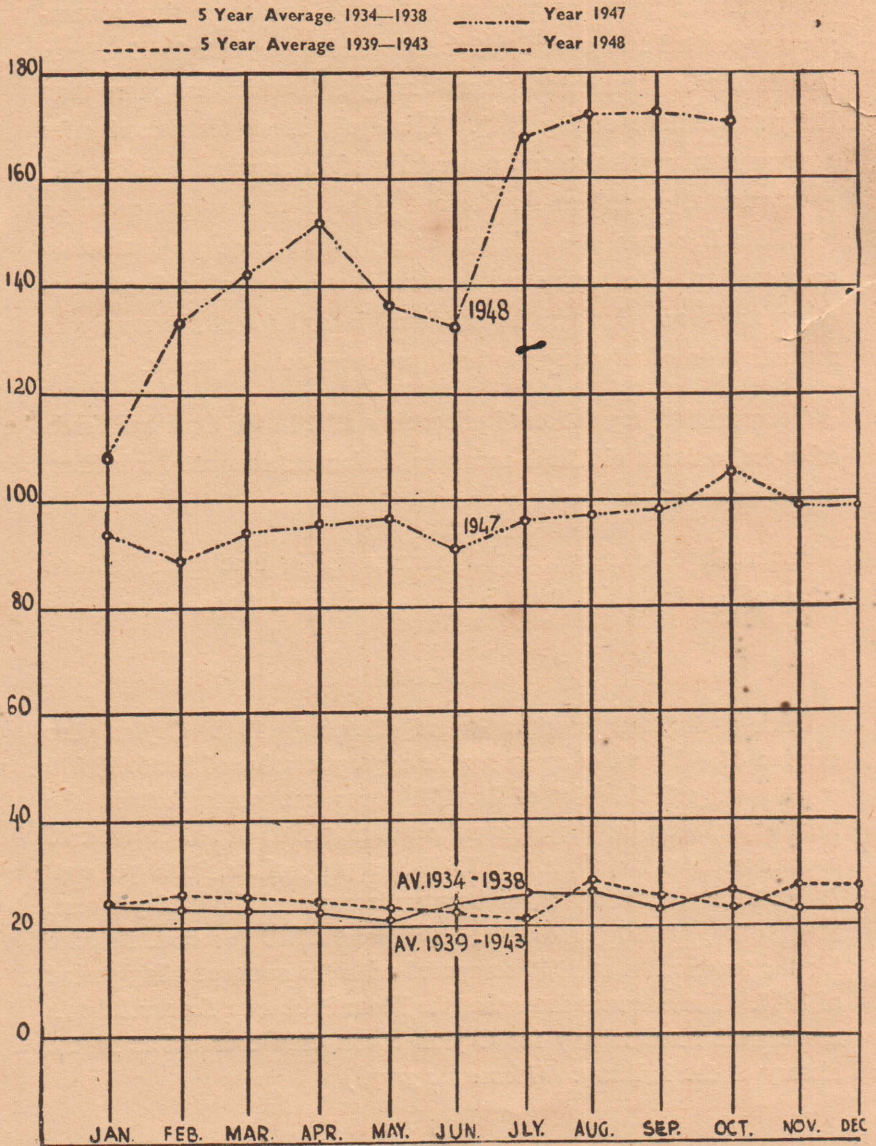
The results of ten months can be summarised in these terms for those commodities for which there has been such regulations.

COCOA

During the ten months ended October, 1948 Ceylon has shipped 44,408 cwts. of cocoa for the aggregate value of Rs. 6,698,090 at an average f.o.b. price of Rs. 151.00 per cwt., compared with the total exportation for the same period during 1947 of 30,660 cwts. of cocoa for the value of Rs. 2,892,483 at a price of Rs. 95.00 per cwt. It will be noted that there has been an increase of about 50 per cent. in quantity, of 230 per cent. in value, and of 60 per cent. in price for the ten months of 1948 compared with the corresponding period of 1947. These figures show that the Floor Price *cum* Tender Scheme has earned more money for Ceylon cocoa than ever before in the history of the industry. (Please see graph)

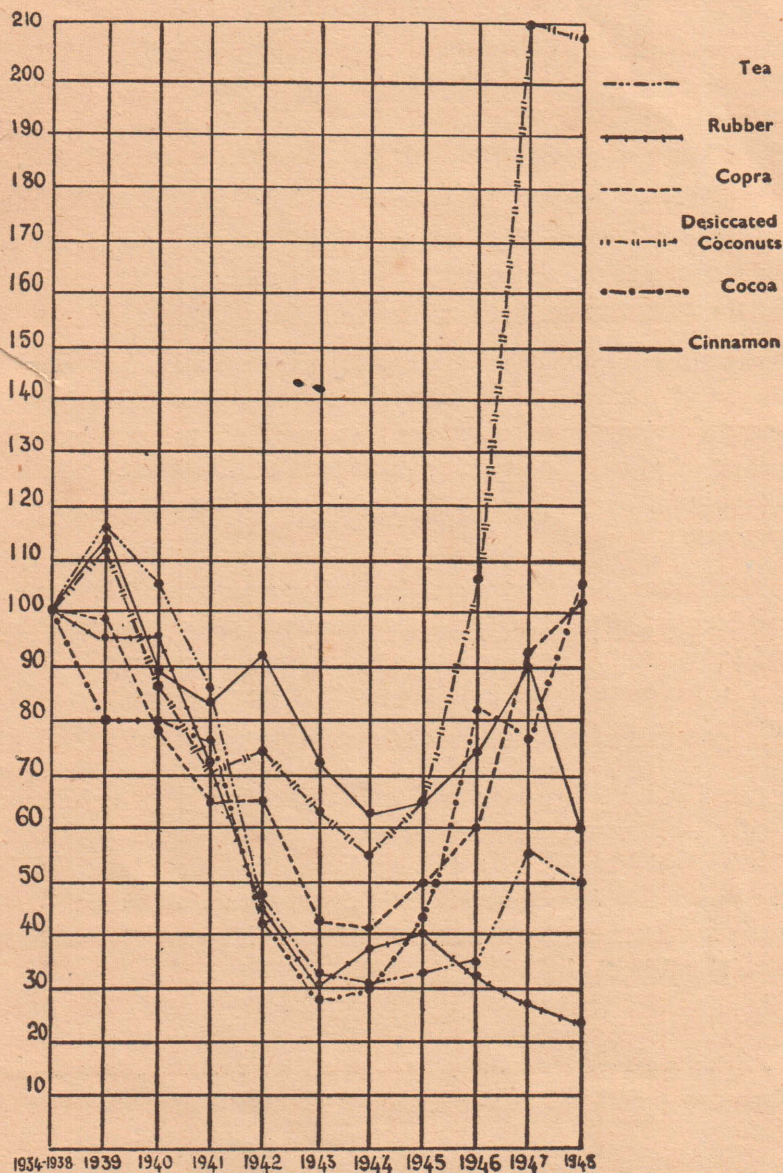
CEYLON'S COCOA EXPORTS

Graph Showing F.O.B. Price
Rupees per Cwt.



Graph showing the Index of Purchasing Power of each of certain Export Commodities in terms of Rice Imports.

Base 1934-1938=100



DESICCATED COCONUT

During the ten months ended October, 1948, Ceylon has shipped 220,538 cwts. for the value of Rs. 23,652,000 at an average f.o.b. price of about Rs. 1.07 per pound compared with the sale for the corresponding period of 1947 of 208,716 cwts. for Rs. 19,427,000 at an average f.o.b. price of about 93 cents a pound. In other words there has been an increase of about 10 per cent. in quantity sold, 22 per cent. in value received and 15 per cent. in price obtained.

It is too soon to make any generalisation in respect of the other commodities as the minimum fair price system has not been in force for any appreciable period.

Experience has however shown that price regulation has been of distinct advantage to the producer, to the commodities and to Ceylon. There has been a re-orientation of Overseas Trade policy to secure a badly wanted stabilisation of prices at remunerative levels. Whether the re-orientation can last when world conditions change may be problematic.

This raises the thorny question of governmental Intervention in Overseas Trade. Often this intervention is described as "Interference". Broadly speaking, hitherto the Overseas Trade of Ceylon has been viewed from the point of view of advantage solely to producer in regard to exports and from the point of view of advantage solely to consumer in regard to imports. It is often forgotten that the four parties to a trade transaction in an agricultural product—cultivator, carrier, consumer and country—are all important. The national interest in a trading transaction, the advantages or disadvantages which may accrue to the country as against the individual (there is not always that identity of interest as is commonly assumed) seem to have been ignored in the past.

CINNAMON

Ceylon's export commodity through all her recorded history—her cinnamon—will illustrate this aspect of the question further. Owing

to war-time controls and freight difficulties the course of Cinnamon trade had changed. Some time after hostilities ceased cinnamon was, under pressure of the trade, allowed a free market. Prices shot up immediately only to slump sharply soon after. It was stated that *Cassia* was in plentiful supply and was displacing Ceylon's cinnamon. In other words the fall in price was ascribed to a cheap substitute. In order to give relief to the industry the Government of Ceylon decided to remove the cess of 20 cents a pound which had been imposed for certain reasons. It was hoped the removal would accrue to the benefit of the producer. But letters came pouring in from the importers in one of the buying countries that the removal should accrue in part, if not in whole, to the benefit of the buyers abroad. Investigation into this unexpected result, whereby the f.o.b. price realised by Ceylon for her cinnamon was even lower than before, disclosed the existence of a ring of buyers who used *Cassia* merely as a blind. The fixing of minimum fair prices at which the commodity could be sold abroad elicited threats from one side and created fears and heart burnings in the other, with partial paralysis of the trade. But the paralysis did not last long. A very necessary expedient to secure Ceylon a fair price had been resorted to with advantage. For most of Ceylon's export products the doctrine *Caveat Emptor* does not apply: it is a case of *Caveat Venditor* as far as the Ceylon producer, certainly in cinnamon, is concerned.

PURCHASING POWER

On the import side there is a converse example. Ceylon wants fertilizers, particularly nitrogenous fertilizers, very badly, and if members of the trade are allowed to compete for certain restricted supplies from abroad under an allocation system, it is found that a commodity which can be obtained at a reasonable price has to be purchased at a high price because of rival competition of private trade.

Careful and judicious intervention by a State authority may result in the country not being mulcted to pay more than a fair price.

As long as Ceylon is unable to pay in gold for her purchases or sell her sterling securities which she may hold, she has to depend entirely on her exports with which to pay for her imports. Her imports are mainly of essentials. She has to depend for her food, clothing and housing on large scale procurements from abroad. Her food imports alone now amount in value to two-thirds of her actual imports. During the war and quite recently, owing to the situation in Burma, Ceylon was required under the international allocation scheme to obtain her supplies of rice from Egypt, Italy, Thailand and Brazil. She is called upon to pay the price demanded by these countries just as she now gets the price demanded by her for her cocoa. For the ten months ended October, 1948, she has had to spend Rs. 211 million for her rice imports out of Rs. 840 million spent for all her imports. She is unable to get freely iron and steel to push through her modern housing and building schemes and for what she can possibly get by begging and by intercession at the highest political levels, she has to pay exorbitant prices indeed. Her clothing is to some extent subject to competitive supply, even so, some of the producer countries have controlled rates, so that the problem becomes extremely complicated. Owing to International Agreement restricting even the expenditure of her dollar earnings, Ceylon is unable to obtain some of her requirements from either the cheapest markets or from the markets where they are obtainable. In a carefully adjusted economy of international trade it is necessary that Ceylon should get for her produce a reasonable equivalent in terms of imports. Ceylon's Overseas Trade since 1938 however discloses the most disturbing fact that the purchasing power of her total exports in terms of the total imports suffered progressive deterioration until quite recently. Table VI bears out this conclusion.

TABLE VI
INDICES OF EXPORTS AND IMPORTS (VOLUME AND VALUE)
AND OF TERMS OF TRADE

BASE 1934—38 = 100

Year	EXPORTS		IMPORTS		Terms of Trade
	Volume	Value	Volume	Value	
1934—38 ..	100	100	100	100	100
39 ..	103	114	104	102	112
40 ..	112	120	100	124	96
41 ..	111	133	79	151	88
42 ..	127	156	60	203	77
43 ..	124	166	68	280	59
44 ..	124	190	64	333	57
45 ..	111	204	75	337	61
46 ..	127	226	105	343	66
47 ..	118	300	127	386	78
48 1st Qr. ..	132	316	132	398	79
2nd „ ..	124	301	128	438	69
3rd „ ..	131	287	133	428	67

TABLE VII

INDEX OF PURCHASING POWER OF EACH OF CERTAIN EXPORT
COMMODITIES IN TERMS OF RICE IMPORTS

Year	Tea	Rubber	Copra	Desiccated Coconut	Cocoa	Cinnamon
1934—38 ..	100	100	100	100	100	100
39 ..	116	96	99	112	80	114
40 ..	105	96	81	88	80	88
41 ..	86	72	65	70	76	83
42 ..	49	48	65	74	43	91
43 ..	34	34	43	63	29	72
44 ..	33	38	42	55	32	63
45 ..	34	40	51	65	45	65
46 ..	35	32	59	107	82	77
47 ..	56	28	92	210	75	91
9 mths. 48 ..	51	24	103	209	107	59

It may perhaps be useful at this stage to indicate how the purchasing power of some of our important export commodities have varied since the basic period 1934—1938 in terms of our most essential item of imports, *viz.* : Rice. The graph of these figures is most illuminating, and is reproduced on the previous page.

BARTER

Perhaps a possible solution is barter. At the present moment in regard to trade between Ceylon and one other country it has been found desirable to negotiate an Agreement for trade on a barter basis. India and other countries now find it necessary to resort to this method which in its elementary form was discarded by our *Veddahs* not long ago.

CONCLUSION

Nature has endowed Ceylon lavishly. Her products, commodity for commodity, are of the best. Ceylon tea is rightly regarded as the best tea, so much so that the distributors in Switzerland are known to label their packets "Best Ceylon Tea (Darjeeling Brand)". Ceylon cocoa has richness, colour, flavour and fat content unsurpassed by cocoa produced in other countries. Ceylon coconut oil enjoys a reputation which is the envy of other coconut oil and is regarded as unquestionably superior to that produced by the Philippines and Malaya. Ceylon cinnamon has pride of place and is the only variety prescribed in Western Pharmacopoeia. Ceylon Desiccated Coconut continues to be regarded as quite excellent in look and taste. Soil and climatic conditions of Ceylon have made her products pleasing to the whole world. Ceylon's natural and cultural beauty is contributing to another important item in her Overseas Trade—Ceylon Tourism. Arrangements are being made to compute its volume and value.

Independent Ceylon cannot but hope most earnestly that all those who are engaged in the promotion of her Overseas Trade will secure such values for all her commodities as will enable her National Income to be maximised and her Nationals to enjoy the Benefits of Decent Living Standards.

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