SRI LANKA'S MERCHANDISE TRADE, 2000–2025: STRUCTURAL PERSISTENCE, CRISIS ADJUSTMENT AND STRATEGIC REPOSITIONING TO 2030

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Abstract

This paper examines how Sri Lanka's merchandise exports and imports evolved between 2000 and 2025 and what the record implies for the country's positioning to 2030. It uses annual trade series from the Central Bank of Sri Lanka, product, market and services data from the Export Development Board and Sri Lanka Customs, and policy documents on market access and export strategy. The analysis is descriptive. It computes growth rates, export–import coverage ratios and period averages for five sub-periods, decomposes changes in the trade balance, derives the income elasticities of imports implied by Thirlwall's rule, and calculates the growth needed to reach the national export target. Over 25 years, merchandise exports grew at a compound rate of 3.7 per cent a year against 4.4 per cent for imports, and cumulative trade deficits reached about USD 150 billion. Coverage of imports by exports fell from 80.6 per cent in 2001 to 50.9 per cent in 2012, rose during the 2022 crisis as imports contracted, and stood at 63.2 per cent in 2025. The export basket remains concentrated in apparel, tea and coconut products. Reaching the target of USD 36 billion in total exports by 2030 requires growth of about 15.8 per cent a year; a merchandise-only check gives 15.6 per cent, roughly 2.5 times the 2025 rate. The paper proposes a five-pillar repositioning agenda: deepen, diversify, integrate, secure and manage.

Keywords: Sri Lanka, international trade, export diversification, trade deficit, balance-of-payments constraint, GSP+

1. INTRODUCTION

Sri Lanka was among the first South Asian economies to liberalise trade, and the reforms that began in 1977 turned a plantation economy built on tea, rubber and coconut into one in which manufactured exports, above all apparel, became the main earner of foreign exchange [1]. That early start did not last. By the time the civil conflict ended in 2009, export growth had already slowed, and the post-war boom in infrastructure and consumption was financed by imports and foreign borrowing rather than by a broader export base [2, 3]. Exports of goods and services fell from about 39 per cent of gross domestic product (GDP) in 2000 to 15.5 per cent in 2020 and were under 20 per cent in 2024 [4]. The sovereign default and foreign-exchange crisis of 2022 exposed the cost of that drift.

The years since the crisis have produced a mixed picture. Total exports of goods and services, as estimated by the Export Development Board (EDB), reached a record USD 17.25 billion in 2025 [5], yet the merchandise trade deficit widened to USD 7.9 billion as imports, especially vehicles, returned after several years of restriction [6]. The external environment has also become unusually volatile. The United States (US) imposed and then revised reciprocal tariffs on Sri Lankan goods in 2025–2026; the European Union (EU) adopted a new Generalised Scheme of Preferences (GSP) regulation that requires Sri Lanka to reapply for GSP+ from 2027; and Cyclone Ditwah in late 2025 added a climate shock to an economy still repairing its balance sheet [7, 8, 9]. In June 2026 the Government launched the National Export Development Plan (NEDP) 2026–2030, which aims to raise total exports to USD 36 billion by 2030 [10, 11].

Much of the existing literature on Sri Lankan trade either predates the 2022 crisis or treats exports and imports separately. Studies have documented the narrowness of the export basket [2, 12, 13], the strategic repositioning of the apparel industry after the end of the Multi-Fibre Arrangement [14] and the potential of regional markets [15]. Fewer have set the full 25-year record of both sides of the trade account against the targets and market-access changes that will shape the rest of this decade. This paper addresses that gap.

The study has three objectives: (i) to trace the long-run trajectory of Sri Lanka's merchandise exports, imports and trade balance from 2000 to 2025; (ii) to describe the structural features of the export and import baskets that are associated with the persistent deficit; and (iii) to assess what reaching the 2030 export target would require in a changed global trading environment. Because the design is descriptive, the paper documents patterns and associations and does not test causal relationships. Section 2 reviews the literature and policy context, Section 3 describes the data and methods, Section 4 presents the results and discussion, Section 5 sets out a strategic repositioning agenda and Section 6 concludes.

2. LITERATURE AND POLICY CONTEXT

2.1. Trade, structural change and the balance-of-payments constraint

Two strands of theory frame the analysis. The first holds that a country's long-run growth is limited by the rate at which its exports can grow relative to its demand for imports. Thirlwall's balance-of-payments-constrained growth model shows that, where capital flows cannot indefinitely finance deficits, sustainable growth approximates the ratio of export growth to the income elasticity of demand for imports [16]. An economy whose imports respond strongly to income growth while its exports grow slowly will repeatedly approach an external ceiling, a pattern that closely resembles Sri Lanka's post-2009 cycle.

The second strand concerns what a country exports. Hausmann, Hwang and Rodrik show that countries exporting goods typically produced by richer economies tend to grow faster [17], and Hidalgo and Hausmann link growth prospects to the accumulation of productive capabilities reflected in the diversity and complexity of exports [18]. Imbs and Wacziarg find that economies diversify production as incomes rise over a long range before re-specialising [19]. Global value chain research adds that firms upgrade by moving into higher-value functions and by connecting to lead firms in buyer-driven or producer-driven chains [20]. Together, these strands suggest that the composition and connectedness of exports matter as much as their volume.

2.2. Evidence on Sri Lanka

Athukorala attributes Sri Lanka's early export success to liberalisation, foreign direct investment (FDI) and global production sharing, and argues that civil strife and inconsistent macroeconomic policy held back a stronger performance [1]. His later work stresses lost opportunities in network trade such as electronics and machinery components [3]. The Harvard Center for International Development growth diagnostic, applying the framework of Hausmann, Rodrik and Velasco [21], concluded that growth was constrained by weak exports from new sectors and that Sri Lanka had seen almost no diversification of exports over the preceding 25 years [2]. Verité Research argued that the problem lay less in the degree of concentration than in its composition, namely the particular products and markets on which Sri Lanka relies [12]. More recent evidence from the Advocata Institute finds that textiles and garments, tea and rubber still account for about 60 per cent of merchandise exports and that about half are shipped to the US, the EU and the United Kingdom [13].

Regional opportunity is a recurring theme. The Asian Development Bank (ADB) estimates that Sri Lanka has about USD 6 billion of unrealised export potential, equivalent to raising exports by roughly 47 per cent, of which USD 808 million a year lies in India alone [15]. Apparel accounts for the largest single opportunity, at USD 1.9 billion [15].

2.3. The 2025–2027 policy environment

Three changes in market access define the near-term context. First, the US announced a 44 per cent reciprocal tariff on Sri Lankan goods in April 2025, lowered it to 30 per cent in July and to 20 per cent from August 2025 [7, 22, 23]. The Institute of Policy Studies (IPS) estimated that at 20 per cent, apparel would face a combined tariff of 36.8 per cent, that apparel exports to the US could fall by about 12 per cent, and that total export losses could reach USD 634 million [24]. After the US Supreme Court struck down tariffs imposed under the International Emergency Economic Powers Act in February 2026, Sri Lankan goods became subject to a temporary 10 per cent tariff, and the IPS estimated that the effective rate on exports to the US fell from around 31 per cent to 21.6 per cent [25]. In June 2026, however, Sri Lanka was placed in the higher 12.5 per cent tier of a proposed new US duty linked to the enforcement of forced-labour import bans, while several competing apparel exporters were proposed for 10 per cent [25]. Second, the EU's revised GSP regulation applies from January 2027 to December 2036; existing GSP+ beneficiaries, including Sri Lanka, keep their preferences until the end of 2028 but must reapply under stricter conditions on human rights, labour, environment and governance [8, 26]. Third, Sri Lanka submitted a letter of intent to join the Regional Comprehensive Economic Partnership (RCEP) in June 2023, and in November 2025 the Cabinet approved completion of the initial accession questionnaire [27]. This builds on the free trade agreement (FTA) with Thailand signed in February 2024 [28].

3. DATA AND METHODS

3.1. Data sources and terminology

The study uses secondary data from official Sri Lankan sources, supplemented by multilateral statistics and policy documents. Annual merchandise exports (free on board, FOB) and imports (cost, insurance and freight, CIF) for 2000–2025 were compiled from the Central Bank of Sri Lanka (CBSL) Annual Reports, the Annual Economic Review (AER) 2025 and the CBSL external sector releases, which draw on Sri Lanka Customs records [6, 29, 30]. Product, market and services detail comes from the EDB [5, 31]. Year-to-date data for January–September 2026 come from the CBSL External Sector Bulletin [32]. GDP in current US dollars was taken from the World Bank for 2000–2020 and from the CBSL for 2025 [30, 33]. Table 1 summarises the variables and their sources.

Two terms are used consistently throughout. Merchandise exports and merchandise imports refer to goods only, on the CBSL/Customs basis. Total exports refers to the EDB measure of goods plus selected services (ICT/BPM, logistics and transport, and other services). The EDB services estimate is narrower than services exports in the balance of payments (BoP), which also include travel (tourism) receipts. Section 4.4 reconciles the two sources for 2025.

Variable	Definition	Source
Merchandise exports	Annual export earnings, USD million (FOB), 2000–2025p	CBSL Annual Reports; AER 2025 [29, 30]
Merchandise imports	Annual import expenditure, USD million (CIF), 2000–2025p	CBSL Annual Reports; AER 2025 [29, 30]
Trade balance	Merchandise exports minus imports, USD million	Computed
Coverage ratio	Merchandise exports as a percentage of imports	Computed
Total exports	Goods plus selected services (EDB definition), 2023–2025p	EDB, Sri Lanka Customs [5]
Export and import composition	Product groups; consumer, intermediate and investment goods	EDB; CBSL [5, 30, 32]
GDP	Current US dollars, 2000–2025p	World Bank; CBSL [30, 33]
Policy variables	Tariffs, preferences, targets	NEDP, EU, IPS, ISAS [7, 10, 24, 26]

Table 1. Variables, definitions and data sources

Note: p = provisional. All values in current US dollars.

3.2. Treatment of provisional data and revisions

All figures for 2025 and for January–September 2026 are provisional and are marked 'p' in tables and figures. The 2025 annual values are taken from the AER 2025, released on 20 April 2026 [30], and the 2026 values from the September 2026 External Sector Bulletin [32]. Where the CBSL revised a value for an earlier year in a later publication, the most recent published figure was used. Revisions between data vintages are small relative to the trends analysed here. For example, merchandise exports for 2010 are USD 8,626 million in the CBSL series and USD 8,602 million in UNCTAD data [34], a gap of 0.3 per cent that changes the 2005–2010 growth rate by less than 0.1 percentage points. Any revisions to the provisional 2025 and 2026 figures published after this manuscript was prepared will be incorporated and flagged at the proof stage.

3.3. Analytical methods

The analysis is descriptive and diagnostic. The 25-year series was divided into five equal sub-periods (2000–2005, 2005–2010, 2010–2015, 2015–2020 and 2020–2025) that broadly correspond to the conflict years, the end of the war, the post-war investment boom, the pre-crisis slowdown, and the pandemic, crisis and recovery. For each, the compound annual growth rate (CAGR) of exports and imports was calculated as in Equation (1), where V is the value in the first year (b) or final year (e) and n is the number of years.

$$CAGR = (Ve / Vb)1/n - 1 \qquad (1)$$

The export–import coverage ratio, which shows how far export earnings pay for the import bill, was calculated each year as in Equation (2), where X is merchandise exports and M is merchandise imports.

$$Ct = (Xt / Mt) \times 100 \qquad (2)$$

Changes in the trade balance over each sub-period were decomposed as in Equation (3), where gX and gM are the cumulative growth rates of exports and imports over the period and the subscript 0 denotes the first year. The first term, the growth-differential effect, measures the contribution of exports growing faster or slower than imports. The second, the scale effect, measures how much the existing gap widens or narrows when both flows grow at the import rate. The identity holds exactly. For January–September 2024–2026, changes were further split by product category to show composition effects.

$$\Delta TB = (gX - gM)\, X0 + gM\, (X0 - M0) \qquad (3)$$

Following Thirlwall [16], the income elasticity of imports implied by observed growth was calculated as $\pi = gM / gY$, where gY is GDP growth, and the balance-of-payments-consistent growth rate as $yB = gX / \pi$. Because trade is measured in current dollars, GDP is also measured in current dollars, so these are nominal, dollar-denominated approximations rather than econometric estimates of volume elasticities.

Finally, the annual growth needed to move from the 2025 level of exports to the NEDP target in 2030 was obtained by solving Equation (1) for the required rate. This was done for total exports (EDB basis) and, as a robustness check, for merchandise exports alone (CBSL basis) against the NEDP's merchandise sub-target.

4. RESULTS AND DISCUSSION

4.1. A widening gap: long-run trends, 2000–2025

Figure 1 shows the central pattern. Merchandise exports rose from USD 5.5 billion in 2000 to USD 13.6 billion in 2025p, an increase of about 2.5 times. Merchandise imports rose from USD 7.3 billion to USD 21.5 billion, an increase of about 2.9 times [6, 29]. Over the full period exports grew at a compound rate of 3.7 per cent a year and imports at 4.4 per cent. The trade account was in deficit in every year, and the deficits sum to roughly USD 150 billion.

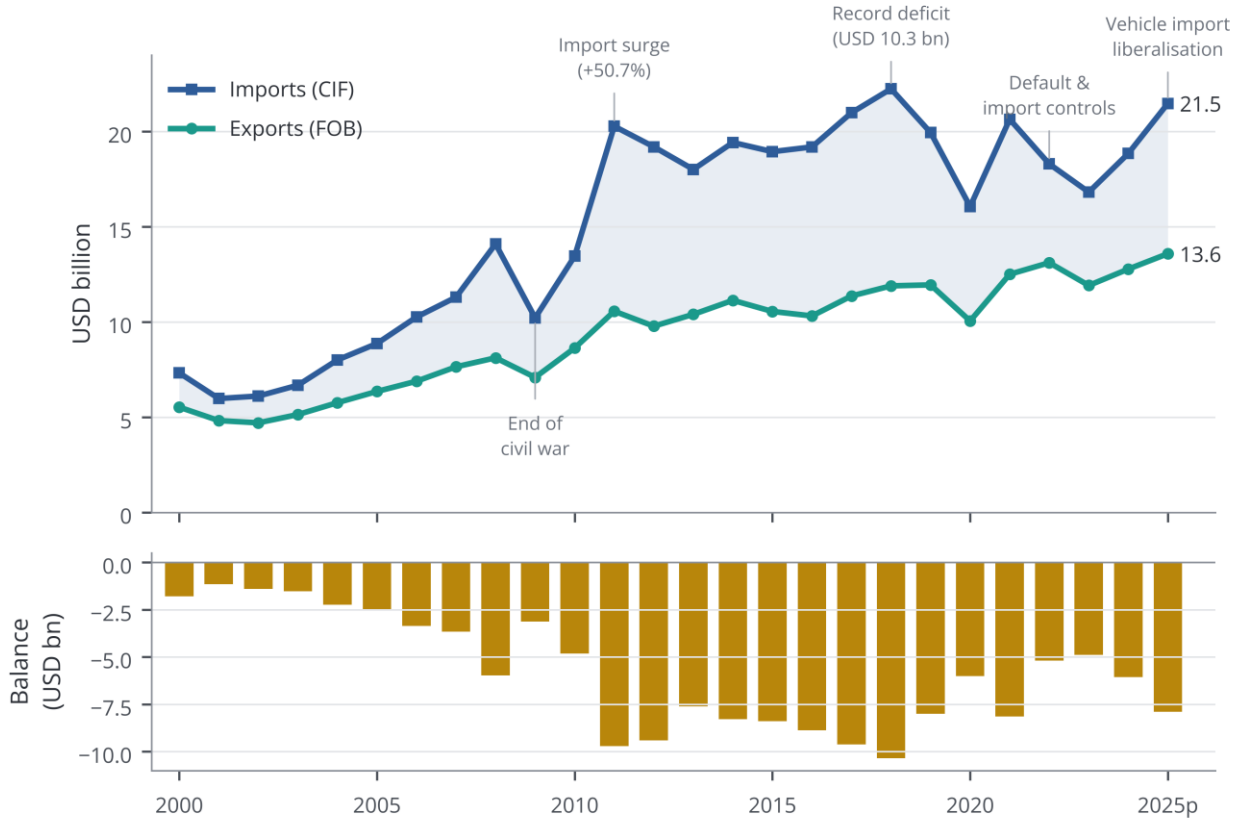

Figure 1. Merchandise exports, imports and trade balance of Sri Lanka, 2000–2025p (USD billion). Note: p = provisional; annotations mark contemporaneous events and do not imply causation. Source: Author's compilation from CBSL Annual Reports, AER 2025 and External Sector Performance (Dec. 2025) [6, 29, 30]

The trajectory falls into four phases. Before 2009 both flows grew modestly, and the gap stayed below USD 4 billion except during the 2008 commodity-price spike. The end of the war in 2009 was followed by an import surge. Imports rose by about 51 per cent in 2011 alone, a rise that coincided with higher spending on fuel, investment goods and government infrastructure financed largely by foreign loans, and the deficit reached USD 9.7 billion [29]. Exports, by contrast, moved within a narrow USD 10–12 billion band for a decade, and the deficit peaked at USD 10.3 billion in 2018. The third phase, from 2019 to 2023, was one of forced adjustment. Import spending fell during the period of import controls, the pandemic and the 2022 foreign-exchange shortage, and the 2022 deficit of USD 5.2 billion was the lowest since 2010 [29]. That improvement coincided with import compression rather than with faster export growth.

The fourth phase began in 2024. Merchandise exports reached USD 12.8 billion in 2024 and a record USD 13.6 billion in 2025p, but imports grew faster, by 12.1 per cent in 2024 and 14 per cent in 2025p [6]. After restrictions were removed in January 2025, spending on vehicle imports rose to USD 2.0 billion in the year [30]. The CBSL reports that the rise in imports, particularly vehicles, made China Sri Lanka's largest trading partner in 2025, with total trade of about USD 5.5 billion against USD 5.4 billion with India [35].

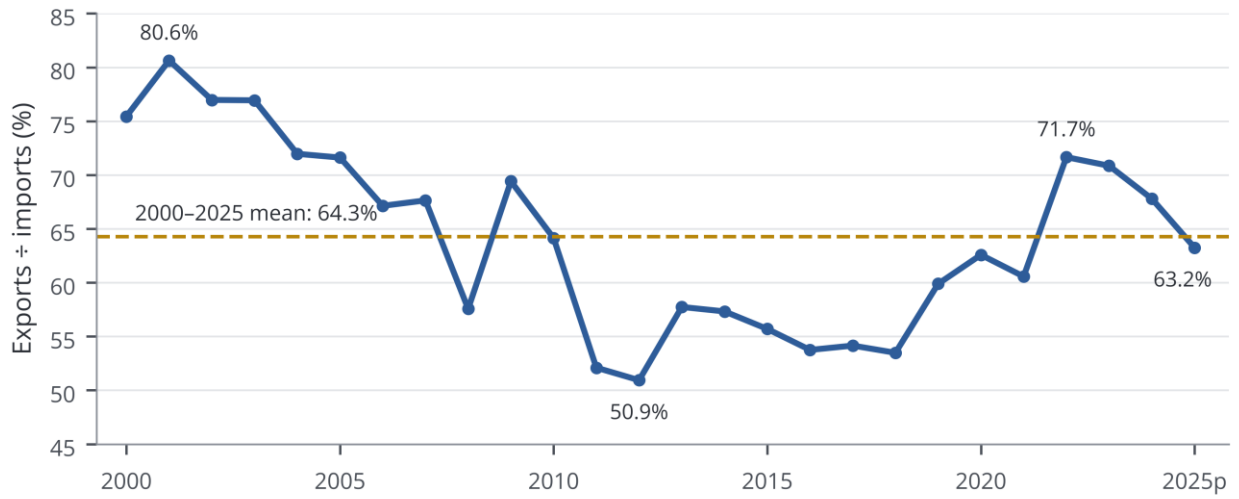

Figure 2. Export–import coverage ratio, 2000–2025p (merchandise exports as % of merchandise imports). Note: p = provisional. Source: Author's calculations from CBSL data [6, 29]

The coverage ratio in Figure 2 makes the structural shift clearer. Merchandise exports covered 80.6 per cent of the import bill in 2001 but only 50.9 per cent in 2012, the lowest point in the series. The ratio stayed in the 53–58 per cent range until 2018 and reached 71.7 per cent in 2022, a rise that came from falling imports. As imports recovered, the ratio returned to 63.2 per cent in 2025p, slightly below the 25-year mean of 64.3 per cent. This pattern is consistent with Thirlwall's account [16] of an economy in which demand for imports rises quickly with income while exports grow slowly, so that periods of faster domestic growth coincide with a widening gap. Section 4.7 examines this more formally.

4.2. Growth by period

Table 2 and Figure 3 break the record into five-year periods. Exports outgrew imports in only one of the five, 2020–2025p, and then by a narrow margin. The widest gaps were in 2005–2010 and 2010–2015, when import growth exceeded export growth by about 2.4 and 3.0 percentage points a year. Between 2015 and 2020 both flows contracted, imports more sharply. The average annual deficit more than quadrupled, from USD 1.8 billion in 2000–2005 to USD 8.5 billion in 2015–2020, before easing to USD 6.4 billion in 2020–2025p**.**

Period	Export CAGR (%)	Import CAGR (%)	Avg. exports (USD bn)	Avg. imports (USD bn)	Avg. balance (USD bn)	Avg. coverage (%)
2000–2005	2.8	3.9	5.38	7.16	-1.78	75.6
2005–2010	6.3	8.7	7.45	11.36	-3.91	66.2
2010–2015	4.1	7.1	10.17	18.21	-8.04	56.3
2015–2020	-1.0	-3.2	11.02	19.55	-8.54	56.6
2020–2025p	6.2	6.0	12.32	18.68	-6.37	66.1
2000–2025p	3.7	4.4	9.32	15.10	-5.77	64.3

Table 2. Merchandise trade indicators by sub-period, 2000–2025p

Note: p = provisional. Averages are simple means of annual values within each period, including both end-years.
Source: Author's calculations from CBSL data [29, 30]

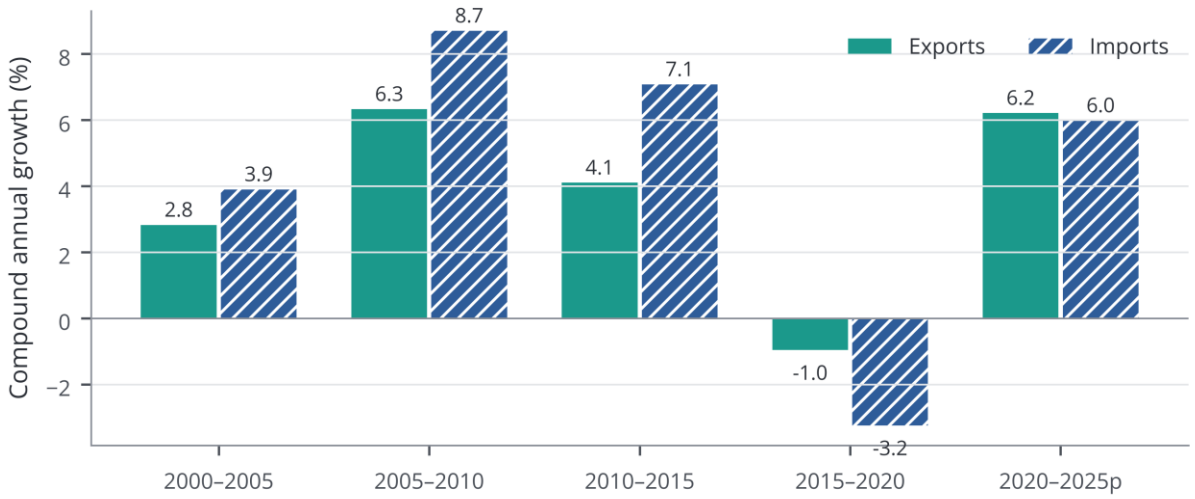

Figure 3. Compound annual growth of merchandise exports and imports by sub-period (%). Note: p = provisional. Source: Author's calculations from CBSL data [29, 30]

Two observations follow. First, the 6.2 per cent export growth of 2020–2025p is measured from a low 2020 base; measured from 2019, merchandise exports grew by about 2.2 per cent a year. Second, the post-war decade shows that an investment boom unaccompanied by a matching expansion of tradable capacity can leave an economy with a larger import bill and the same export base, which is the constraint the growth diagnostic identified [2].

4.3. Decomposing changes in the trade balance

Table 3 and Figure 4 apply Equation (3). In every period in which the deficit widened, the scale effect was at least as large as the growth-differential effect. In 2000–2005, 2005–2010 and 2010–2015, both effects were negative: imports grew faster than exports, and the gap that already existed grew with them. The 2020–2025p period is the most revealing. Exports grew slightly faster than imports, so the growth-differential effect was positive at USD 0.1 billion. The deficit nevertheless widened by USD 1.9 billion, because a USD 6.0 billion gap in 2020 expanded as imports grew by 34 per cent over the period. Even in 2015–2020, the only period in which the balance improved, more than half of the improvement came from the scale effect, which in that period reflects import contraction rather than export gains.

Period	Change in exports	Change in imports	Growth-differential effect	Scale effect	Change in balance
2000–2005	825	1,543	−339	−379	−718
2005–2010	2,279	4,588	−1,007	−1,302	−2,309
2010–2015	1,920	5,484	−1,597	−1,967	−3,564
2015–2020	−499	−2,880	1,105	1,276	2,381
2020–2025p	3,532	5,415	143	−2,026	−1,883
2024–2025p	807	2,629	−975	−847	−1,822
2000–2025p	8,057	14,150	−2,617	−3,476	−6,093

Table 3. Decomposition of changes in the merchandise trade balance by sub-period (USD million)

Note: p = provisional. Growth-differential effect = (gX − gM)·X0; scale effect = gM·(X0 − M0), where g is cumulative growth over the period. The two effects sum to the change in balance. Source: Author's calculations from CBSL data [29, 30]

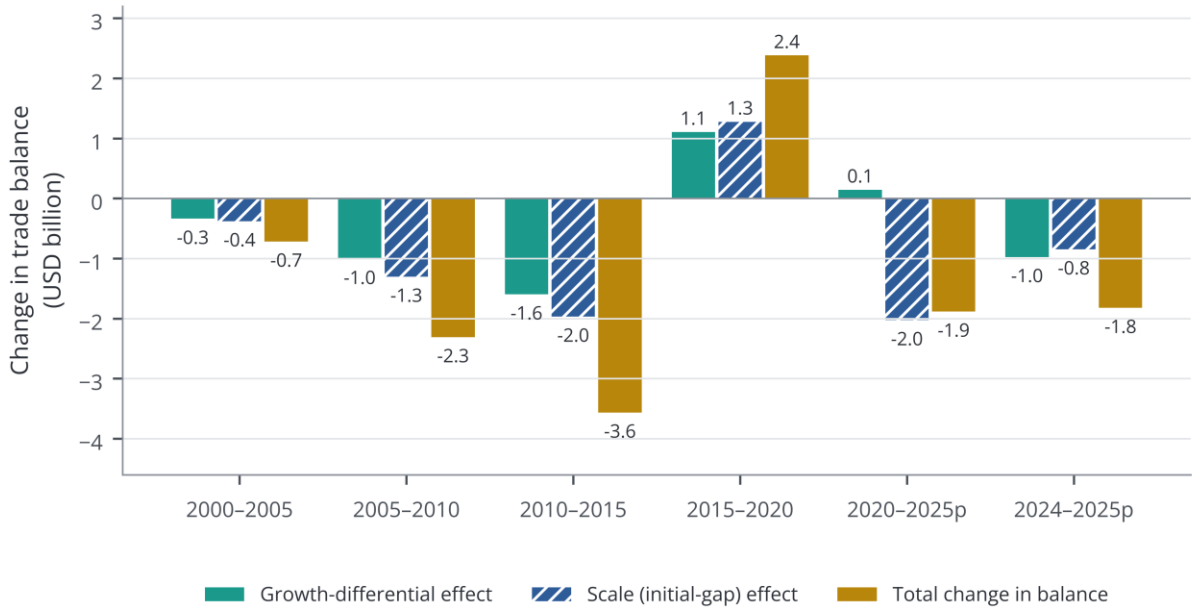

Figure 4. Decomposition of changes in the merchandise trade balance into growth-differential and scale effects, by sub-period (USD billion). Note: p = provisional. Source: Author's calculations from CBSL data [29, 30]

The arithmetic has a direct implication. With a coverage ratio of about 63 per cent, merchandise exports must grow about 1.6 times as fast as imports simply to keep the deficit from widening in dollar terms. In none of the four sub-periods in which trade expanded did exports reach that relative pace; the highest ratio was about 1.04, in 2020–2025p. The only improvement, in 2015–2020, came when both flows contracted.

Table 4 extends the decomposition to product categories for January–September 2024–2026p. Between 2024 and 2025, the change in the balance was dominated by consumer-goods imports, which rose by USD 1.36 billion in the period in which vehicle imports resumed, while intermediate-goods imports fell slightly. Between 2025 and 2026, the pattern changed: intermediate-goods imports, which include fuel, rose by USD 1.84 billion and accounted for two-thirds of the USD 2.7 billion deterioration. On the export side, industrial exports contributed nearly all the gain in 2025–2026, while agricultural exports were broadly flat [32].

Component	2024→2025p	2025p→2026p	2024→2026p
Exports: industrial	+412	+544	+956
Exports: agricultural	+288	−7	+281
Exports: mineral	−3	+1	−2
Imports: intermediate (incl. fuel)	−173	+1,839	+1,666
Imports: consumer (incl. vehicles)	+1,359	+669	+2,028
Imports: investment and other	+485	+769	+1,254
Change in trade balance	−974	−2,739	−3,713

Table 4. Contributions of product categories to the change in the merchandise trade balance, January–September (USD million)

Note: p = provisional. A positive export change or a negative import change improves the balance. Source: Author's calculations from CBSL External Sector Bulletin [32]

4.4. A concentrated export basket and a rising services share

Before turning to composition, the two official sources need to be reconciled (Table 5). For 2025p the EDB reports merchandise exports of USD 13,579.38 million, compiled from Customs data with estimates for gems, jewellery and petroleum products [5, 36]. This matches the CBSL figure of USD 13,579 million [6]. The two sources therefore agree on goods. The difference lies entirely in services. The EDB's total of USD 17.25 billion adds an estimated USD 3.76 billion of services exports, covering ICT/BPM, logistics and transport, and other services [5]. Services exports in the BoP are broader because they include travel receipts; UNCTAD estimates Sri Lanka's BoP services exports at about USD 6.9 billion in 2024 [34]. In this paper, every figure labelled 'merchandise' uses the CBSL series, and every figure labelled 'total exports' uses the EDB series. BoP services data are not combined with either.

Component	Value	Source and coverage
Merchandise exports, CBSL	13,579	CBSL; Customs basis, FOB [6]
Merchandise exports, EDB	13,579	EDB; Customs plus estimates for gems, jewellery and petroleum [36]
Services exports, EDB estimate	3,760	EDB; ICT/BPM 1,640, logistics and transport 1,850, other 270 [5]
Total exports, EDB (goods + services)	17,252	EDB [5]
Memo: services exports, BoP basis (2024)	c. 6,900	UNCTAD estimate; includes travel (tourism) [34]

Table 5. Reconciliation of 2025p export figures across official sources (USD million)

Note: p = provisional. EDB merchandise exports are USD 13,579.38 million, rounded. BoP services exports for 2025 had not been published by the CBSL in a form comparable to the EDB categories when this manuscript was prepared.

Figure 5 shows the composition of the USD 17.25 billion total (EDB basis). Apparel and textiles earned USD 4.91 billion, tea USD 1.51 billion and coconut and coconut-based products USD 1.20 billion, together about 56 per cent of merchandise exports [5]. Tea's share of merchandise exports was about 11 per cent in 2025p against roughly 13 per cent in 2000, when tea exports were worth about USD 700 million [29], which shows how little the basket has changed. The US took about 23 per cent of merchandise exports, worth USD 3.0 billion [5].

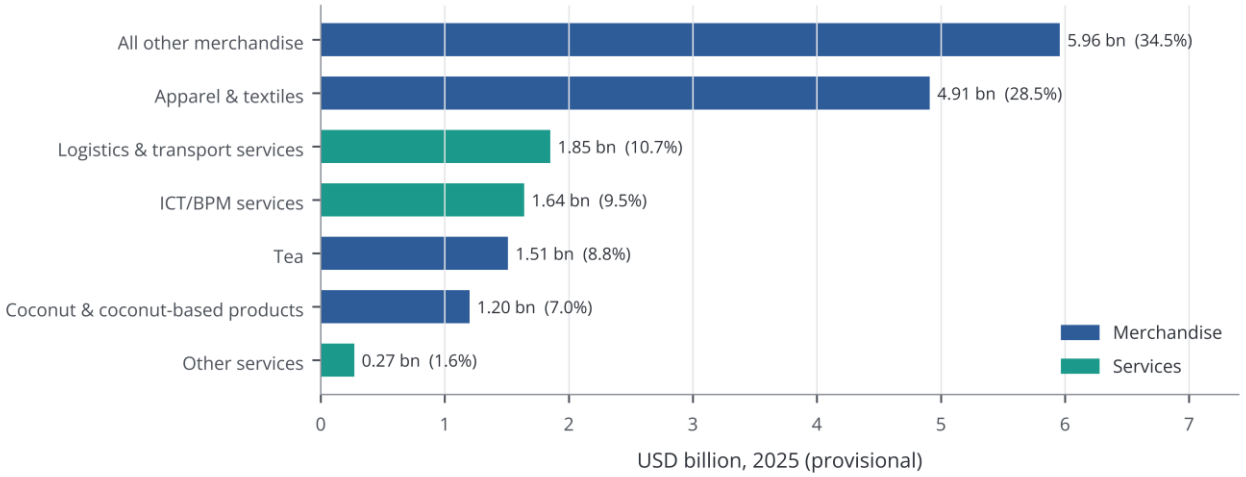

Figure 5. Composition of Sri Lanka's total exports of goods and services (EDB basis), 2025p (USD billion and % of total). Note: p = provisional; services are EDB estimates and exclude travel receipts. Source: Author's compilation from EDB and Sri Lanka Customs data [5]

There are, however, signs of change at the margins. Coconut-based exports grew by 42.7 per cent in 2025p and crossed USD 1 billion for the first time, led by value-added products such as coconut oil, cream and milk [5]. EDB-estimated services exports of USD 3.76 billion account for about 22 per cent of total exports on the EDB basis [5]. In January–September 2026p, electrical and electronic component exports rose by 61 per cent, while apparel fell by 5.7 per cent and tea by 6.8 per cent [31, 32]. The CBSL and EDB year-to-date merchandise totals agree to within USD 10 million (USD 10,754 million and USD 10.76 billion respectively) [31, 32]. These shifts are small in absolute terms, but they point in the direction the literature recommends: towards more complex manufactures, value-added agriculture and knowledge services [17, 18].

4.5. The import side: intermediate dependence and consumption rebound

All import figures in this subsection are from the CBSL. In 2025p, intermediate goods made up 55.2 per cent of merchandise imports, consumer goods 25.7 per cent and investment goods 19.1 per cent [30]. Fuel averaged about a fifth of the import bill over the past decade [30]. Because the apparel industry imports much of its fabric and accessories, part of the import bill is the counterpart of export earnings. Import restriction is therefore likely to have limited scope to improve the balance without affecting exports.

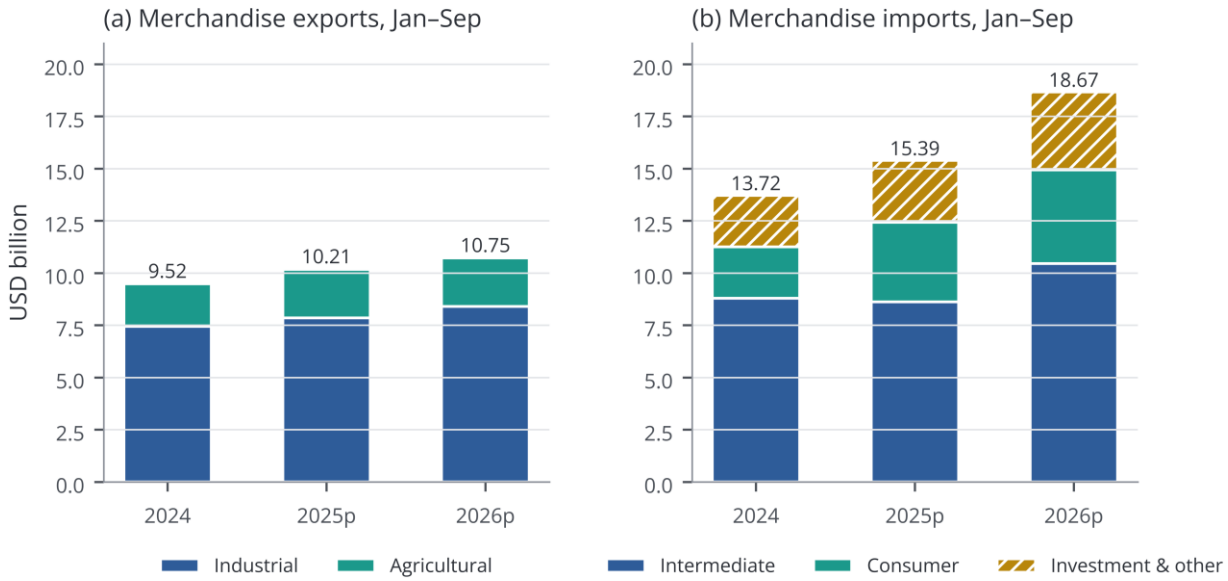

Figure 6. Merchandise exports and imports by category, January–September 2024–2026p (USD billion). Note: p = provisional. Source: CBSL External Sector Bulletin [32]

Figure 6 shows how the post-crisis rebound has unfolded. Between January–September 2024 and the same period of 2026p, merchandise exports rose by 13 per cent, from USD 9.52 billion to USD 10.75 billion, while merchandise imports rose by 36 per cent, from USD 13.72 billion to USD 18.67 billion. Consumer-goods imports, which include vehicles, increased by 83 per cent [32]. Import spending in January–September 2026p was 21 per cent higher than a year earlier. The CBSL expects the merchandise trade deficit to widen further in 2026 with higher fuel and import costs linked to the conflict in the Middle East, and has warned that the 45 per cent of remittances originating in the Gulf could be at risk if the conflict disrupts labour markets [37].

The deficit has so far been financed without strain. The current account recorded a surplus of USD 1.7 billion in 2025p, supported by record workers' remittances of USD 8.0 billion and a services surplus of USD 3.7 billion [6]. However, relying on remittances and tourism to pay for a growing goods deficit leaves the external position exposed to shocks beyond Sri Lanka's control, such as a disruption in Gulf labour markets.

4.6. Market access under strain

Table 6 summarises the main market-access risks and openings. The common thread is that Sri Lanka's largest markets, the US, the EU and the United Kingdom, which together take about half of its merchandise exports [13], are all changing the terms on which they buy. EU figures are reported in euros on an EU-import (CIF) basis and are not directly comparable with the CBSL's FOB export series. The EU's assessment notes that Sri Lanka gained an estimated EUR 139 million in tariff exemptions under GSP+ in 2024, equivalent to about 5 per cent of its exports to the EU [38], while EU imports from Sri Lanka declined from EUR 3.2 billion in 2022 to EUR 2.6 billion in 2024 [26]. Only 59 per cent of Sri Lankan exports eligible for GSP+ entered the EU at preferential rates in 2024 [8], and the apparel industry has said that Sri Lanka uses only around half of the available concessions [39]. Both figures point to difficulties in meeting rules of origin.

Market / regime	Recent development	Implication for Sri Lanka
United States	44% tariff announced Apr. 2025; 30% July; 20% from Aug. 2025; temporary 10% after Feb. 2026 court ruling; proposed 12.5% forced-labour duty tier, June 2026 [7, 22, 23, 25]	Largest single market (about 23% of goods); apparel most exposed; persistent policy uncertainty
European Union (GSP+)	New regulation 2027–2036; current preferences to end-2028; reapplication under stricter conditions [8, 26]	Loss of duty-free access would affect apparel and fisheries; utilisation needs to rise now
India	Largest unrealised potential of any market, USD 808 million a year [15]	Use of the India–Sri Lanka FTA (ISFTA) for spices, jewellery, apparel and tea; services links
RCEP / ASEAN	Letter of intent June 2023; Cabinet approval of accession questionnaire Nov. 2025; Thailand FTA Feb. 2024 [27, 28]	Access to Asian manufacturing value chains; requires deeper tariff liberalisation
China	Largest trading partner in 2025, mainly through imports [35]	Large bilateral deficit; scope for FDI-linked exports

Table 6. Market-access risks and opportunities for Sri Lankan exports, 2025–2028

The US episode shows how quickly concentration becomes vulnerability. The IPS estimate that apparel exports to the US could fall by about 12 per cent under a 20 per cent tariff [24] implies losses that recent gains in coconut or electronics could not easily offset. The same episode also showed that relative rates matter as much as headline rates. Sri Lankan stakeholders welcomed the 20 per cent rate in comparison with the rates applied to Vietnam and Bangladesh [24], whereas the proposed 2026 forced-labour duty would place Sri Lanka above several competitors [25].

4.7. Implied income elasticities: a Thirlwall-consistent reading

Table 7 reports the income elasticities of imports and the balance-of-payments-consistent growth rates implied by the observed data. Over 2000–2025p, dollar GDP grew at 7.8 per cent a year, which implies a dollar income elasticity of imports of about 0.56 and a balance-of-payments-consistent growth rate of about 6.5 per cent. Actual dollar growth therefore exceeded the rate consistent with merchandise-trade balance by about 1.3 percentage points a year. The difference corresponds to the persistent goods deficit, which remittances, services receipts and external borrowing financed [6].

Period	Export growth gX	Import growth gM	GDP growth gY (USD)	Implied elasticity π	BoP-consistent growth yB	Gap gY − yB (pp)
2000–2005	2.8	3.9	8.0	0.49	5.8	2.2
2005–2010	6.3	8.7	19.2	0.45	13.9	5.2
2010–2015	4.1	7.1	7.7	0.92	4.5	3.3
2015–2020	−1.0	−3.2	−0.2	n.m.	n.m.	n.m.
2020–2025p	6.2	6.0	5.2	1.14	5.4	−0.2
2000–2025p	3.7	4.4	7.8	0.56	6.5	1.3

Table 7. Growth rates and implied income elasticities of imports, Thirlwall-consistent reading (% per year)

Note: p = provisional; n.m. = not meaningful (GDP growth near zero). gY is current-dollar GDP growth; π = gM/gY; yB = gX/π. GDP for 2005–2010 is affected by the rebasing of national accounts and exchange-rate movements. Source: Author's calculations from CBSL and World Bank data [29, 30, 33]

The sub-periods show the same pattern. The gap between actual and balance-of-payments-consistent growth was largest in 2005–2010 (5.2 percentage points) and 2010–2015 (3.3 points). In 2010–2015 the implied elasticity rose to about 0.92, so imports moved almost one-for-one with dollar income during the post-war boom. In 2020–2025p the implied elasticity was about 1.1 and actual growth was close to the balance-of-payments-consistent rate. This suggests that the recovery has so far stayed within the external constraint, but only at modest growth. These results should be read with caution. They use current-dollar values in which exchange-rate movements and price changes are mixed with volumes, so they are approximations rather than estimates of structural elasticities. A volume-based estimate is left for future work (Section 6).

4.8. The 2030 target in perspective

The NEDP 2026–2030 targets USD 36 billion of total exports by 2030, made up of USD 28 billion in goods and more than USD 8 billion in services, and aims to raise exports to 14–15 per cent of GDP [10, 11]. It identifies eight priority sectors, including digital services, electronics, boatbuilding and processed foods [10]. Figure 7 and Table 8 compare the growth the target implies with recent and long-run performance, both for total exports and, as a robustness check, for merchandise exports alone.

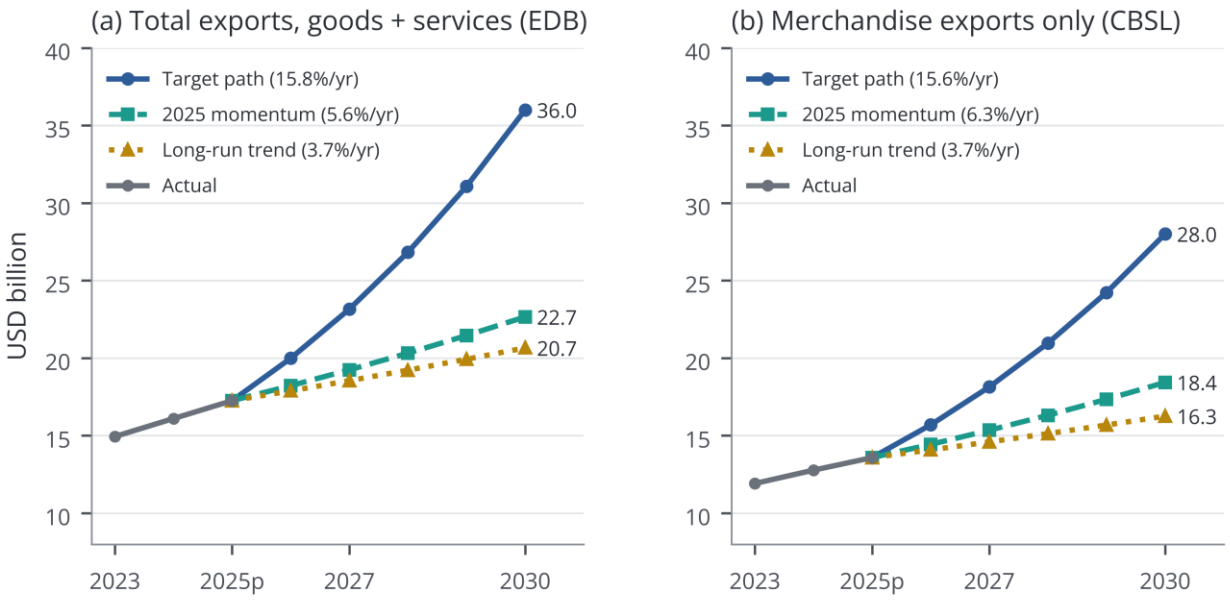

Figure 7. Paths to 2030: (a) total exports of goods and services, EDB basis; (b) merchandise exports only, CBSL basis (USD billion). Note: p = provisional. Source: Author's projections based on EDB and CBSL data and NEDP targets [5, 10, 11, 30]

Measure (source)	2025p (USD bn)	2030 target (USD bn)	Required growth (%/yr)	Value in 2030 at 2025p growth rate (USD bn)
Total exports (EDB)	17.25	36.0	15.8	22.7 (at 5.6%)
Merchandise exports (CBSL)	13.58	28.0	15.6	18.4 (at 6.3%)
Services exports (EDB)	3.76	8.0	16.3	–
Memo: merchandise at long-run rate	13.58	–	–	16.3 (at 3.7%)

Table 8. Required versus observed growth to the 2030 NEDP targets

Note: p = provisional. Required growth is derived from Equation (1). Source: Author's calculations from EDB and CBSL data and NEDP targets [5, 6, 11]

The results are robust to the choice of measure. Starting from USD 17.25 billion in 2025p, total exports must grow by about 15.8 per cent a year to reach USD 36 billion by 2030. Merchandise exports alone must grow by about 15.6 per cent a year, from USD 13.58 billion to USD 28 billion, and EDB-estimated services by about 16.3 per cent. At the 6.3 per cent merchandise growth achieved in 2025p, goods exports would reach about USD 18.4 billion in 2030; at the long-run rate of 3.7 per cent, about USD 16.3 billion. The first nine months of 2026p point to merchandise growth of roughly 5 per cent [31], while the EDB's interim target of USD 18.2 billion for 2025 was missed [5]. The previous National Export Strategy aimed for USD 28 billion of total exports by 2022 [40], a target also missed by a wide margin.

This does not make the target pointless, because ambitious targets can concentrate institutional effort. It does show, under either measure, that incremental growth in existing products cannot close the gap. A path anywhere near 15 per cent a year would require new export activities at scale, most plausibly export-oriented FDI in electronics, components and processed food, together with a step change in services exports. This reading is consistent with the growth diagnostic [2] and with Athukorala's argument that an existing manufacturing base is not a prerequisite for diversification when investment policy attracts firms in global production networks [1]

5. POSITIONING SRI LANKA FOR THE FUTURE

The evidence points to a repositioning strategy built on five mutually reinforcing pillars, summarised in Figure 8 and Table 9. The decomposition in Section 4.3 sets its premise: Sri Lanka needs exports to grow substantially faster than imports, and it needs each dollar of import spending to be more productive, while reducing its exposure to preference erosion and external shocks.

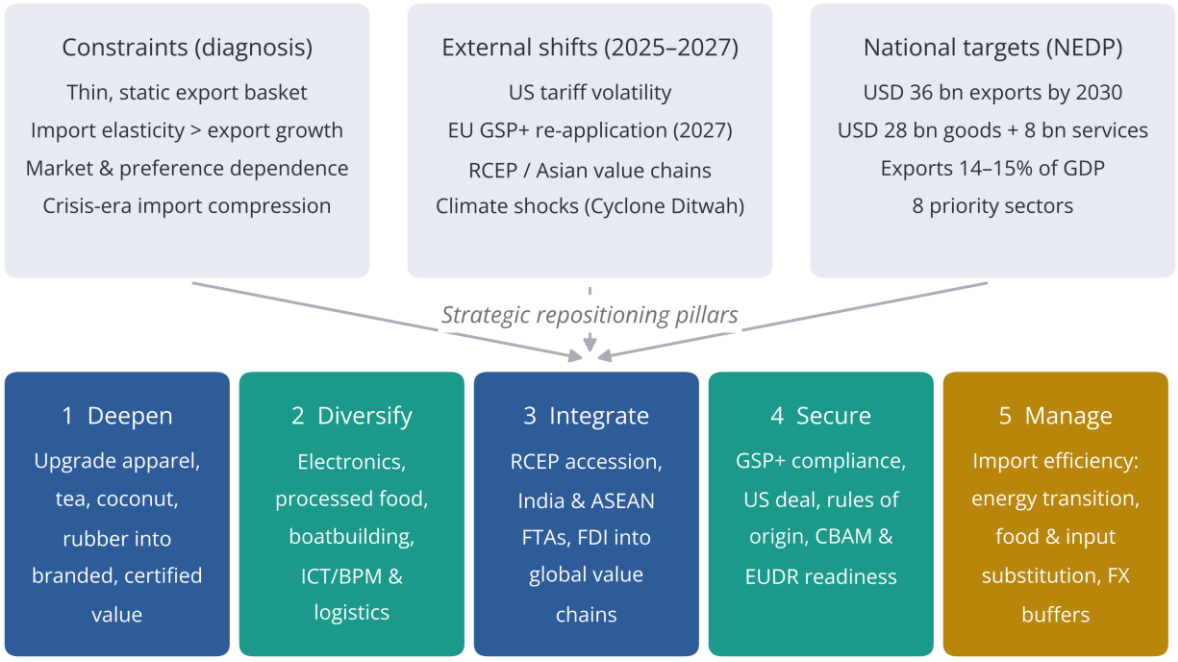

Figure 8. A five-pillar framework for repositioning Sri Lanka's trade to 2030. Source: Author's elaboration

Deepen. The established sectors will provide most export earnings for the rest of the decade, so upgrading them is the fastest route to higher value. In apparel, this means continuing the shift into design, fabric development and sustainability credentials that the industry began after the end of quotas [14]. In tea and coconut, it means branded, packaged and certified products. The 42.7 per cent growth of coconut exports in 2025p [5] suggests that value-added processing can respond quickly to demand.

Diversify. New sectors must close the gap between trend and target. Electronics, the fastest-growing merchandise line in 2026p [32], depends on anchor investors and reliable logistics; ICT/BPM depends on skills, digital infrastructure and a predictable regulatory environment. The NEDP's eight priority sectors [10] provide a list, but the experience of the National Export Strategy [40, 41] suggests that implementation capacity, rather than strategy design, is the binding constraint.

Integrate. Regional integration offers access to the value chains where demand is growing. Completing RCEP accession [27], making full use of the Thailand FTA [28] and capturing the estimated USD 808 million of unrealised potential in India [15] would reduce reliance on Western markets. Integration also means attracting FDI. China is now Sri Lanka's largest trading partner [35], and turning that import relationship into investment in export production should be a priority.

Secure. Existing market access must not be lost. The GSP+ reapplication requires credible progress on labour rights, human rights and governance, which the EU now assesses on implementation rather than formal commitment [8, 26]. Low-cost, high-return measures include raising GSP+ utilisation from its 2024 level of 59 per cent through better rules-of-origin compliance [8], securing a stable trade arrangement with the US that addresses the proposed forced-labour duty tier [25], and preparing exporters for EU sustainability rules on deforestation and carbon border adjustment.

Manage. Import policy should aim at efficiency rather than compression. Since fuel accounts for about a fifth of the import bill [30], investment in renewable energy and public transport would reduce the economy's import intensity.

Climate resilience belongs in this pillar too. Cyclone Ditwah caused an estimated USD 4.1 billion of damage [9], and disasters of this kind raise reconstruction imports and disrupt export supply at the same time.

Pillar	Priority actions	Lead institutions	Indicator to track
Deepen	Product and process upgrading in apparel, tea, coconut and rubber; certification and branding	EDB, industry bodies, Tea Board	Unit values; share of value-added exports
Diversify	FDI facilitation in electronics and processed food; ICT/BPM skills pipeline	BOI, EDB, ICT Agency, universities	Share of non-traditional exports; services exports
Integrate	RCEP accession; India and ASEAN market development	Ministry of Trade, foreign missions	Exports to Asia; FTA utilisation rate
Secure	GSP+ compliance plan; US trade framework; EU sustainability readiness	Ministry of Foreign Affairs, EDB, Labour Dept.	GSP+ utilisation; tariff margins vs competitors
Manage	Energy transition; efficient import logistics; climate-proof supply chains	Ministry of Energy, CBSL, Disaster Management Centre	Fuel import share; coverage ratio; ratio of export to import growth

Table 9. Strategic repositioning agenda: priority actions and indicators to 2030

6. CONCLUSIONS

This paper has traced Sri Lanka's merchandise trade from 2000 to 2025 and assessed the country's positioning for 2030. Five findings stand out. First, over the long run imports grew faster than exports, at 4.4 per cent against 3.7 per cent a year, so cumulative deficits reached about USD 150 billion and the coverage ratio has not returned to its early-2000s level. Second, improvements in the balance have coincided with import compression during crises rather than with faster export growth, and the balance deteriorated again once restrictions were lifted in 2025. Third, the decomposition shows that the existing gap alone widens the deficit whenever imports grow. Exports must grow about 1.6 times as fast as imports just to hold the balance steady, and they did not reach that pace in any sub-period in which trade expanded. Fourth, the Thirlwall-consistent reading suggests that dollar growth has exceeded the balance-of-payments-consistent rate by about 1.3 percentage points a year since 2000, with the excess financed outside the goods account. Fifth, the export basket remains concentrated in apparel, tea and coconut and in a small number of Western markets, although value-added agriculture, electronics and services show early signs of change. The NEDP target requires growth of about 15.6–15.8 per cent a year, whether measured on total or merchandise exports, and expanding existing products cannot meet it on its own.

The implications are that Sri Lanka's trade strategy should treat diversification and integration as the core of the agenda rather than as complements to apparel, secure its EU and US market access in the next two years, and manage import demand through energy and efficiency policies rather than controls. The five-pillar framework proposed here offers one way of organising that agenda and its indicators.

The study has limitations. Its design is descriptive, so it identifies associations rather than causal effects. The elasticities in Section 4.7 are current-dollar approximations rather than econometric estimates, and the analysis does not separate price from volume effects, which matter for tea and fuel. Figures for 2025 and 2026 are provisional and may be revised. EDB services estimates differ in coverage from BoP data, and category-level import data were available only for 2024–2026, which limits the composition analysis to recent years. Future research could estimate a volume-based balance-of-payments-constrained growth model for Sri Lanka, use firm-level customs records to trace the emergence of new export products, and model the output and employment effects of RCEP accession and of retaining or losing GSP+.

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