EXCHANGE RATE ON TRADING OF COIR PRODUCTS OF SRI LANKA

P.H.D Pinnaduwa[1], S.N. Dissanayake[1], and N. Jayalath[2]

[1]Department of Agricultural Systems, Faculty of Agriculture, Rajarata University of Sri Lanka, Anuradhapura, Sri Lanka.
[2]Coconut Research Institute, Lunuwila, Sri Lanka.

Coconut is an export-oriented industry, which secured Rs 94,773 million export earnings in 2018. Among many versatile coconut-based products exported, coir fiber and coir fiber finished products contribute significantly for foreign exchange earnings and it was as high as 32% in the last year. Even though, this contribution is substantial, Sri Lanka has lost its place as the world largest coir fiber exporter in the international market. To be competitive in the global coir trade, where new producers are emerging, identification of factors affecting coir trade is imperative.This study applied Gravity model of trade to estimate empirically the factors affecting exports of coir fiber and coir fiber finished products with special reference to the impact of exchange rate. In the model, the quantity of coir exports was used as the dependent variable. The independent variables included in the model consists of traditional gravity variables, i.e. Gross Domestic Product, population, geographical distance, and country specific variables such as exchange rate, presence of regional trading agreements, colonial relationships, and common language. Data extracted from Sri Lanka and its major exporting destinations accounting for 10 countries in total, for the period 2008-2017 were used for the analysis. The results of the Gravity model estimation showed that coefficients of common gravity variables bear expected signs and statistically significant. Results indicate that exchange rate is not a significant determinant of coir fiber exports of Sri Lanka. One of the reasons behind this phenomenon may be the perennial nature of the coconut where changes in supply response is not possible in the short-run.

Keywords: Exchange rate, Coir products, Gravity model, Exports