

Regional Economic Integration and its Impact on Sri Lanka's Commodity Exports

H.A.B.W Hettiarachchi¹

One of the major developments after completion of the Uruguay round in 1995 has been the remarkable acceleration in the formation of regional trade agreements and bilateral trade agreements. Currently, the total number of regional trade agreements in force is about 459, and several potential new ones are currently being negotiated. As agreed upon by South Asian Association for Regional Co-operation (SAARC) members, The South Asian Preferential Trade Agreement (SAPTA) was signed with effect from 1995 to improve intra-regional trade in the region. As well as The Indo-Sri Lanka Free Trade Agreement (ISLFTA), which was signed in 1998 and implemented with effect from March 2000 as a bilateral trade agreement to promote intra-regional trade in SAARC. During the last 18 years, the direction and magnitude of Sri Lanka's trade have been changed with regard to commodities and countries. The objective of this study is to identify the trade determinants of Sri Lanka's exports and assess the impact of Regional Trade Agreements (RTAs) on exports using extended gravity model of trade. The study was based on panel data analysis containing 31 major trade partner countries for 18 years, from 1999 to 2016. The estimated coefficients show that the gravity model is useful in explaining the determinants of Sri Lanka's trade. The distance to trade partner country is highly significant implying higher the distance lower the trade, and Sri Lanka's bilateral trade is positively affected by the economic size of the partner country, GDP per capita, population of partner country, trade openness, and depreciation of exchange rate. Further, the regional trade agreement (SAARC) dummy is statistically significant and takes the negative sign. Bilateral Trade Agreements (BTA) dummy is also statistically significant and bears the expected positive sign indicating that bilateral trade agreements promote Sri Lanka's exports to partner country. The study results reveal that the time-invariant factors are also significant to determine Sri Lanka's exports.

Keywords: *South Asian Association for Regional Co-operation (SAARC), Regional Trade Agreements (RTAs), Bilateral Trade Agreements (BTA), Gravity Model*

JEL Classification: *C23, F10, F14, F15*

¹ *Graduate School of International Relations, International University of Japan, Japan*
buddhika@iuj.ac.jp