

## **An Analysis of the Determinants of Sri Lanka's Trade Balance with Major Trading Partners**

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Sri Lanka has had a trade deficit for over two decades, and it is critical to determine which factors contribute significantly to the current deficit. The majority of the existing studies attempting to explore the determinants of the trade balance has mostly focused on Sri Lanka's overall trade balance. Consideration of the country's bilateral trade balances with its key trading partners would give a fresh perspective to the available research. Therefore, this study attempted to explore the determinants of the Sri Lankan trade balance with its major trading partners. The study employed four independent variables namely, relative gross domestic product, relative gross national income per capita, real exchange rate and import-weighted distance while taking the bilateral trade balance as the dependent variable. The panel data regression model has been employed by using the secondary data of five major export destinations and five major import origins of Sri Lanka for the period from 1999 - 2017. The results indicated that the relative gross domestic product and import-weighted distance have a negative significant impact on the trade balance while relative gross national income per capita has a positive significant impact on the trade balance. However, it was revealed that the real exchange rate does not have a significant impact on the trade balance in Sri Lanka. Therefore, an import curtailing policy minimizing transportation cost together with an export-led growth strategy is recommended to improve the trade balance in Sri Lanka.

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