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Impact of Multilateral and Bilateral Trade Agreements on the Sri Lankan Economy

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Abstract

External trade is not a new phenomenon for the people of Sri Lanka. Its history goes back more than thousand years, but it is believed that the modern form organized exports-imports trade based on comparative advantages began under British colonial rule in the 19th century. Sri Lanka's commitments in the realm of multilateral trade go back a long time within our relationship with the GATT/WTO. Sri Lanka then known, as Ceylon was one of the founder member and first signatories to the General Agreements on Tariffs and Trade entered into as far back as in 1947.

After Sri Lanka entered into the open economic system, the Government entered into a number of bilateral and multilateral Trade Agreements, such as Asia Pacific Trade Agreement (1975), South Asia Preferential Trade Agreement (1995), Indo- Lanka Free Trade Agreement (2001), Pakistan Sri Lanka Free Trade Agreement (2005) and South Asia Free Trade Area (2006). At present, the CEPA is intended to widen the existing Indo – Lanka FTA by further deepening concessions on trade in goods and services, promoting investment flows and enhancing economic cooperation.

The research's scope covered only two such agreements, namely South Asia Preferential Trade Agreement 1995 (SAPTA) [and subsequently, South Asia Free Trade Area 2005 (SAFTA)] and Indo- Lanka Free Trade Agreement 2001(ISFTA).

The Indo-Sri Lanka free trade agreement with no doubt led to the achievement of significant growth in the bilateral trade ties between India and Sri Lanka and enhancement of the competitiveness of domestic industries due to the continued tariff removal. ISFTA has provided some good opportunities for developing the investment flow and service sectors in Sri Lanka such as Tourism and hotel services, telecommunications, retail and wholesale services, energy, sea and airport services, health and education services to name a few. However, the trade balance was unfavorable to Sri Lanka right throughout the FTA. The deficit in favour of India is gradually

widening up due to the normal trade patterns between the two countries. When considering the trade growth, though Sri Lanka has obtained high growth rate than India and though the FTA has provided some scope for Sri Lanka exports to India, Sri Lanka's exports to India been skewed up with the dominance of vanaspathi & copper. Although there is a growth in Sri Lanka's export to India, Sri Lankan exporters have to face many difficulties in India and those are really discouraging then exploring the wider Indian markets.

The South Asia Preferential Trade Agreement (SAPTA) followed by the South Asia Free Trade Agreement (SAFTA) are yet another path toward trade liberalization, welfare gains, and economic growth for the country. According to this research analysis, there are various reasons for the poor performance of the SAPTA. With the trade liberalization-taking place across the world on account of multilateral trade negotiations, concessions offered under SAPTA became trifling, meager and less attractive. Studies have shown that the SAPTA process contributed very little in stimulating intra-regional trade. Trade imbalance between India and Sri Lanka has been one of the most contentious issues in the regional process.

Nevertheless, SAPTA/SAFTA trade agreements provide a great opportunity to develop Sri Lanka's external trade and investments. Sri Lanka exporters will have a greater access to much bigger markets.