Poverty impacts of agricultural trade liberalisation in Sri Lanka: A CGE analysis

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Abstract

Opponents of free trade believe that more open trade exacerbates poverty in developing economies, particularly in agriculture. In contrast, advocates of trade liberalization often argue that economy-wide gains from trade liberalization make people better off. Although the links between trade and poverty are complex and much-debated many researchers, including trade and development economists, and policy makers believe that trade liberalization plays a vital role in poverty reduction in developing nations like Sri Lanka.

This study examines potential poverty changes through various income strata of households under selected agricultural trade liberalisation scenarios in the Sri Lankan context. First, the poverty headcount in each population stratum was calculated, along with poverty elasticities using Household Income and Expenditure Survey (HIES) 2006/7 data. Secondly, these data were calibrated with the Global Trade Analysis Project (GTAP) database (version 8.1). Finally, we used poverty measures and AIDADS calculations[17] to build a GTAP-POV framework for Sri Lanka. Poverty changes for multilateral and unilateral liberalisation scenarios are analysed for seven household strata in Sri Lanka using the GTAP-POV framework. In addition, we model the impact of an Indo-Sri Lankan Free Trade Agreement (ISFTA), as an important example of a bilateral trade agreement.

Although Sri Lanka has a very detailed and constantly updated poverty profile, very limited attempts have been made to study poverty within different income strata. Observing poverty changes using poverty elasticities over seven specific income strata is a new dimension for the Sri Lankan poverty profile, which can be used generate insights into the impacts of trade policy changes on poverty. Our GTAP-POV modelling and analysis suggests that multilateral trade liberalisation reduces poverty most effectively and that agricultural trade liberalisation is a very important component of this. However, even if multilateral liberalisation is not possible, unilateral reductions in tariffs by Sri Lanka may also lead to substantial levels of poverty reduction, again with agricultural liberalisation being a particularly important component. However, bilateral trade agreements such as ISFTA are likely to have much smaller impacts on poverty reduction for Sri Lanka.

Keywords: Poverty, GTAP_POV framework, Agricultural trade liberalisation, Sri Lanka

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