

The Impact of ISFTA on Exporters in Sri Lanka

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The Indo-Sri Lanka Free Trade Agreement, most commonly known as ISFTA, is a trade agreement between India and Sri Lanka. It was signed into effect on December 28th, 1998 and entered into force with effect from 1st March 2000, facilitating duty free concessions to a wide variety of merchandises traded between the two countries. Even though, it was started with the hopes of improving the economy of the member states as well as promoting growth and job creation, critics claim that it has created undesirable situations and had some hefty consequences. The objective of this study is to examine the impact of Indo-Sri Lanka Free Trade Agreement, on Sri Lankan exporters. It determines the impact of the FTA on prices, trade volumes, production, consumption and welfare in exporters' terms. It further highlights the importance of non-tariff, regulatory issues between the agreements. This study examines trade creation and trade diversion effects in the ISFTA using the standard gravity model of bilateral trade flows. The estimation of the gravity equation was carried out using the OLS analysis. In order to ascertain the overall trade creation and trade diversion effects, explanatory variables such as GDP, distance and dummy variables were incorporated into the estimation equation to explain bilateral trade flows and exports respectively. The results of the analysis revealed that, the total trade indicates that FTA brings about trade diversion and that trade creation effect is limited. Besides, the results of the analysis, disaggregated trade data show different patterns among different products while trade diversion effect for many products. Eventually it highlights the ways which, the role played by BOI can be re-visited and restructure, to make the agreement beneficial for Sri Lanka and increase Sri Lankan exports to India.

Keywords: CEPA; Economic Integrations; ISFTA; Non-tariff Barriers