Trends of Indo-Sri Lanka agricultural trade in the context of liberalization

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Abstract

The Uruguay Round Agreement on Agriculture (AoA) signed in 1994 by many countries in the world, including India and Sri Lanka was a major instrument in liberalization of agricultural trade during the last decade. Further, India and Sri Lanka signed the South Asian Preferential Trading Agreement (SAPTA) in 1993 to enhance the regional trade with the hope of South Asian Free Trade Agreement (SAFTA) in future. The Indo-Sri Free Trade Agreement (ISLFTA) was signed in 1998 to boost the bilateral trade between India and Sri Lanka. Despite the impacts of above agreements, in 2004, Comprehensive Economic Partnership Agreement (CEPA) was signed and there was a debate about possible impacts. This paper discusses the trends of agricultural trade between India and Sri Lanka after ISLFTA in 1998 in order to find out the possible impacts on both countries.

The analysis is mainly based on secondary data of external trade published by the Director General of Foreign Trade (DGFT) of India, Department of Customs of Sri Lanka and Food and Agriculture Organization (FAO) and supplemented by costs of production data published in Sri Lanka and India. The compound growth rates (CGR), variability indices (1-R2), Resource Cost Ratios (RCR), Agricultural Tradability Indices, Michel Porter's competitive models and Constant Market Share models were used as analytical tools of competitiveness for trade of agricultural commodities in both countries.

Results of the analysis revealed that India's total exports to Sri Lanka have increased at a faster rate compared to Sri Lanka's export to India after 1998. However, the share of agricultural commodities in the export basket of India to Sri Lanka is declining in the same period. Moreover, indicators revealed that Indian agricultural commodities are not competitive in Sri Lanka's market and India's share of Sri Lanka's imports of many agricultural commodities is less than 1% throughout the period. Although, Sri Lanka indicates the competitiveness in pepper, cloves, cinnamon and tea exports, still Sri Lanka could acquire only less than 2% of the share of those commodities.

The study concludes that the impact of bilateral, regional and global trade agreements is trivial in agricultural trade flows between India and Sri Lanka. Therefore, vertical and horizontal integration of production process and trade of agricultural products particularly tea and spices would be beneficial to enhance the bargaining power of both countries in the world market as the products of two countries are supplementary rather than competitive.

Keywords: Bilateral trade, CMS model, Agricultural trade