

THE IMPACT OF TRADE LIBERALISATION ON DOMESTIC AGRICULTURE IN SRI LANKA

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This paper examines the process of trade liberalization in Sri Lanka since 1978 paying particular attention to recent measures taken under the SAPTA and Indo-Sri Lanka Free Trade Agreement. The first part traces trade liberalization measures and their impact on domestic agriculture. Domestic agriculture had been a protected area of the Sri Lankan economy, even after trade liberalization measures were introduced. Trade liberalization during this early reform period did not attempt to eliminate the protective barriers. In this context the study identifies both positive and negative contributions to agriculture resulting from limited trade liberalization measures. However, with increased emphasis on free trade in recent years, the trend appears to have been reversed. The second part of the paper attempts to identify some of the salient features of this decline. The government objective has been to increase agricultural productivity, improve farm incomes and ensure continued supply of food at a reasonable price to the consumers. This was to be achieved through reduced state intervention and increased private sector participation. International trade policy has not been supportive or consistent with these objectives. Liberalization of imports of agriculture commodities in 1996 and frequent changes in protective tariffs in an *ad hoc* manner have caused considerable damage to domestic agriculture. The unpredictable nature of the tariff policy created uncertainty in the market and decision-making difficult for both producers and importers, thus discouraging investment in agriculture. Lack of coordination between import requirements and seasonal variation in domestic production has generated excess supply in the market, thereby reducing domestic prices to unprofitable levels. The reduced or stagnant production of paddy and other crops is largely a result of this policy. The main objective of SAPTA and Indo-Sri Lanka Free Trade Agreement have been to promote economic development through expansion of trade in the region and particularly between the two countries. This was to be achieved through elimination of tariff and promotion of free trade and investment. The present analysis indicates that import substitution in domestic agriculture is discouraged further under this agreement. Even if India removes all tariff barriers to Sri Lankan exports, our capacity to produce a variety of agricultural goods demanded by India at competitive prices is extremely limited. On the import competing side the negative impacts are predictable and have already become visible even under the current tariff levels. The disparities in the cost of production of agricultural commodities in Sri Lanka and India, largely due to differences in yield levels, input subsidies and wage costs, would export Sri Lankan agriculture to severe and unfair competition.