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TITLE: INDIA - SRI LANKA BILATERAL TRADE - A GENERAL EQUILIBRIUM APPROACH

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ABSTRACT:

The Indo-Sri Lanka Free Trade Agreement (ISFTA) was signed between the government of India and the government of Sri Lanka in December 1998 and came into operation in March 2000. It is now ten years since this FTA has been signed and during this period the bilateral trade between these economies has reached new heights and dimensions. India is now Sri Lanka's highest source of imports and third highest export destination. Given the importance of Sri Lanka as a trading partner of India the present paper proposes a theoretical framework which provides a general equilibrium determination of the commodity pattern of trade between the two economies which helps to isolate their pattern of comparative advantage. The empirical implementation of the model considers trade in thirty three sectors comparable in the input-output tables of the economies. The study isolates the gains from free trade accruing to either economy. The paper also explores the pattern of bilateral trade when each economy has a choice to produce goods by utilizing its own or the other country's technology. The sources of comparative advantages of the economies in different lines of production are pointed out. The gains from this trading arrangement are also isolated.