

Bilateral trade between India and Sri Lanka - does factor content of trade matter?

Topic: International Trade 3

Author: Chandrima Sikdar

Co-Authors: Debesh Chakraborty

With increasing integration of countries across the world there has been stupendous rise in intermediate trade flows across boundaries and production networks in trade patterns have assumed a pivotal role. These have often led to the idea that concept of comparative advantage are possibly not relevant for trade policy anymore. Trade patterns are argued to be no longer determined by resource endowment and factor content of trade of respective countries. Rather they are dictated by trade policies and pattern of technology transfer. This paper addresses this question: to what extent is factor content still reflected in trade patterns. To do this it considers bilateral trade between the two countries of India and Sri Lanka. These two south Asian countries had very strong economic ties between them and there are in place a number of cooperation arrangements between them. Though trade flow has increased between them over the years, but there have been concerns from both researchers as also policy makers that many of these arrangements have not been as successful as they should have been. Thus, the paper attempts to study if the trade pattern between these two economies could be explained by their resource endowment and their factor content or is it the trade policies of the countries towards one another which explain it.