

Free Trade Agreements and Trade Expansion: Rhetoric and Reality

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Abstract

The government of Sri Lanka has embraced free trade agreements (FTAs) as a key focus of the national trade and development strategy. This paper examines the rationale of this policy choice by analysing the trade outcomes of Sri Lanka's FTAs with India and Pakistan and the expected gains from the FTA with Singapore. The analysis is informed by the existing body of knowledge on the role of FTAs as an alternative to multilateral and unilateral liberalisation. There is strong evidence that trade gains from FTAs has been vastly exaggerated by the proponents in the Sri Lankan trade policy debate. FTAs are essentially preferential trade deals the actual trade effect of which is conditioned by the commodity coverage normally dictated by political considerations and lobby group pressure, and the 'rules of origin' relating to the eligibility for the tariff concessions offered. Even then, potential trade gains depend crucially on supply-side reforms needed to improve the country's capability to reap gains from market opening and compatibility of its trade patterns with the partner countries. The failure of the process of multilateral trade liberation under the WTO does not, therefore, make a valid case for a country giving priority to FTAs. The more effective and time-honoured alternative is to undertake its own (unilateral) trade reforms needed for effectively integrating the country in the global economy combined with appropriate supply-side reforms.

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