

Poverty impacts of agricultural trade liberalisation in Sri Lanka

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Abstract

There remains controversy over whether trade liberalisation in general, and agricultural trade liberalisation in particular, leads to poverty reduction in developing countries. Since the impacts of agricultural trade liberalisation differ according to the characteristics of the country and specific groups of people within that country, country-specific studies are imperative. It is both important and timely to investigate the poverty impact of agricultural trade liberalisation in Sri Lanka, a country that began opening its economy three decades ago and has reduced poverty tremendously, despite a civil war lasting nearly three decades.

This study focused primarily on changes in poverty due to agricultural trade liberalisation in Sri Lanka. Analysis was undertaken in three main areas. Firstly, it investigated poverty determinants and their behaviour over sectors and over expenditure deciles in Sri Lanka since the second wave of economic liberalisation, and found that remittances (both local and foreign) have been a leading factor in poverty reduction in Sri Lanka over the last two decades. Thus, secondly, an attempt was made to capture the economic impact of rural-to-urban labour migration and the use of remittances within agricultural communities in Sri Lanka. Finally, the poverty impact of future agricultural trade liberalisation in Sri Lanka was assessed within a global computable general equilibrium (CGE) modelling framework using the Global Trade Analysis Project (GTAP) model and database, augmented with poverty data for Sri Lanka (GTAP-POV). In addition, policies contributing to poverty reduction in Sri Lanka were analysed.

The results of the econometric analysis using household survey data indicated that education and remittances were the primary factors which reduced poverty in Sri Lanka over the last two decades. Significant variations were identified regarding the direction and magnitude of the poverty determinants in Sri Lanka irrespective of the sector. The local remittance variable was tested as a poverty determinant for the first time in the Sri Lankan context and found to be significant in poverty reduction in the rural and estate sectors in particular. The poverty decomposition result indicated that the redistribution component has dominated the growth component of the change in poverty in Sri Lanka over the last two decades.

This study also examined the economic impact of rural-to-urban labour migration and remittances using a sample survey data collected from Gampaha District, where the majority of the factories are located in Sri Lanka. It specifically investigated the “in-kind” variable as a determinant of remittances and confirmed a positive and significant impact. Individual migrants’ average income gains from migration varied between 4,000 and 9,000 rupees per month and migrants who shifted from agricultural sector jobs to factory jobs had the highest income gain in rural-to-urban migration. Individual income gain in the urban sector is rewarded by level of education and work experience, in contrast to rural sector earnings.

Analysis using the GTAP-POV model indicated that agricultural trade liberalisation in Sri Lanka reduces poverty much more significantly in each population stratum under multilateral and unilateral trade liberalisations, than is the case with bilateral trade liberalisation. Poverty elasticities were derived and applied for all household strata in Sri Lanka in the GTAP-POV framework. It was estimated that more than one million individuals would escape from extreme poverty in the rural diversified stratum under the scenario of full trade liberalisation of the agricultural sector, as well as around four million individuals would move above the US\$2/day poverty line. Rural labour stratum and diversified urban stratum also show a significant level of poverty reduction under the agricultural trade liberalisation.

The analysis of poverty-focused policies in Sri Lanka indicated that poverty was initiated in the colonial period with the importation of Indian Tamil labour for the plantations. Welfare policies focused on the poor since independence have aimed at compensation of consumption expenditure rather than having an investment focus. Sri Lanka needs investment-focused poverty policies with welfare-focused compensation policies to achieve systematic poverty alleviation.