

**IMPACTS OF TRADE LIBERALIZATION ON  
ECONOMIC GROWTH AND TRADE  
BALANCE OF SRI LANKA**



By

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## ABSTRACT

Trade liberalization, movement towards free trade through the reduction of tariff and nontariff barriers (NTBs), is a major driving force behind globalization. In the last three decades, trade liberalization increasingly evolved with the expectation of rapid economic development in Sri Lanka. However, the effects of trade liberalization on particularly growth and balance of trade in Sri Lanka have become uneven. This research aimed to examine the relationship between the trade liberalization, economic growth and trade balance in Sri Lanka. The study is mainly based on secondary data and data were collected on a specific time interval before and after the liberalization of international trade in Sri Lanka. In identifying impacts of trade liberalization, the study used time period from 1960 to 2007. The variables identified in the main objective of the study are tested hypothetically. Therefore quantitative analytical methods are applied to make accurate and reliable conclusions. The study encompassed five decades which belong to two trade regimes, pre and post liberalization period, in Sri Lanka. Findings of the present study confirm a positive significant relationship between trade liberalization and economic growth of Sri Lanka. Like other developing countries in the world, Sri Lanka also has much depended its economic growth on investment and intermediate goods imports. The study examined the structural changes of growth of trade balance during two trade regimes and found that during the two periods, pre trade liberalization period and post liberalization period, structural changes have been occurred in trade balance of Sri Lanka. Further, it proved that during the trade liberalization period the country's trade balance has been improved.