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## **Services trade liberalization: Opportunities and challenges for Sri Lanka**

This paper examines the opportunities and challenges faced by Sri Lanka in the pursuit of liberalization of trade in services. Sri Lanka's Gross Domestic Product (GDP) grew by an impressive 8.0 per cent in 2010 over a relatively low growth of 3.5 per cent in 2009, thus moving on to a high growth path. This was the highest growth rate reported during the past three decades. The growth potential of the country has improved immensely with the end of the three decade long conflict, increased investor confidence, major infrastructure development drive raising production capacity of the country and recovery in the global economy.

The service sector continues to be the driving force of economic growth in Sri Lanka accounting for 59 per cent of total GDP, 43 percent of employment and recording a notable growth of 8.0 per cent in 2010. Trade liberalization, private sector participation and increased competition have contributed to the expansion of the service sector. With the expansion of economic activity and recovery of the global economy, trade in services recorded a significantly higher surplus during 2010. The services account, mainly consisting of transportation, travel, communications, computer and information, construction and insurance services registered a surplus of US dollars 698 million during 2010. All sub-sectors of the services account performed remarkably well during the year, showing the country's potential to achieve a steady growth in coming years.

Since the service sector represents the fastest growing sector of the economy, it is important to identify strategic opportunities and key challenges that may arise from service trade liberalization. The modernization of the service sector with necessary domestic policy reform is essential to improving the economy's productivity and thus its international competitiveness.

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