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## INDO-LANKA FREE TRADE AGREEMENT (FTA) AND THE ENVIRONMENTAL EFFECTS: THE CASE OF LAND DEGRADATION IN SRI LANKA

**WG Somaratne**

Hector Kobbekaduwa Agrarian Research and Training Institute, Colombo 07

Sri Lanka has implemented far-reaching trade policy reforms to improve international competitiveness of its agricultural and industrial products and trade-in services and to attract foreign direct investment (FDI) during the last two decades since the introduction of the Indo-Lanka Free Trade Agreement (FTA), there has been growing concern on its environmental impacts on non-plantation agriculture.

This paper analyzes the FTA-induced likely environmental impacts. In particular land degradation -induced on site effects such as loss of agricultural production and off-site effects such as reduction in downstream irrigated agricultural production and hydro-power generation and increasing cost of flushing downstream reservoirs, operation and maintenance cost of upland road network, and cost of health hazards. In this analysis an appropriately modified computable general equilibrium (CGE) model of the Sri Lankan economy is used.

Results show that trade policy framework of FTA in non-plantation agriculture (i.e. imposing tariff on non-plantation agriculture) does not result in likely benign on-site and off-site environmental on-site and off-site environmental effects. It is suggested that FTA have effects that are harmful to long-term sustainability of non-plantation agriculture in Sri Lanka.