

Abstract

International trade has become most essential phenomena in present day world with the high riding economies in states, international trading is playing a very vital role in each states export, import markets thus creating healthy Balance of Payment. Due to verity of potential in production of each states, they need to export surplus and import the shortfall. Due to this very reason international trading has become a key factor in each states economy.

Free trade agreements, custom unions, common markets and economic unions are some types of major agreements between countries and regions. More than 50 per cent of global trade is conducted through free trade agreements. The Agreement on Technical Barriers to Trade (the TBT Agreement-World Trade Organization 1995) contains several provisions related to transparency. Free trade agreements between countries are one of the end results of the globalisation. There are Association Agreements (AE), Economic Partnership Agreements (EPA) and bilateral free trade agreements. Bilateral free trade agreements concluded with South Africa, Mexico, and Chile. Neutralizing potential trade diversion, forging strategic links with countries experiencing rapid economic growth, and enforcement of international trade rules are the commercial motivations for free trade agreements. The EU has been significant user of free trade agreements. NAFTA is a free trade agreement with some labour and environmental agreements as well.

Regional trade agreements have been, and will likely remain, an important tool for trade liberalization. While theory is sceptic about regional trade agreements, most empirical studies find that trade creation dominates trade diversion. Not all regional trade agreements are created equal. Accordingly, the regional integration created through free trade agreements is creating homogenous markets.

However historically, the SAARC member countries have not been trading among themselves to any significant extent. The low complementarity of products of the region's economies, as well as the trade policy regimes followed by South Asian countries, has acted as inhibiting factors. SAARC trade has seen only a marginal increase to 4.4% by 1999 and remains one of the lowest among regional grouping in the world.

Main courses for the non performance of trading activities in the region have occurred due to bilateral trade imbalance in the region. The low volume of intra-SAARC trade is a reflection on the fact that much of the trade of South Asian economies is with developed countries. The industrial economies of the EU, USA and Japan together accounted for considerable percentage with this South Asian countries. Compared to the volume what actually trading under SAFTA agreement the volume what the SAARC countries performed with the other regional countries is much higher.

The inevitable conclusion that can be drawn from this research assessment of current trade flows is that to-date, SAFTA has a had no significant in changing the existing trade pattern of Sri Lanka vis-à-vis its South Asian partner. The limited progress so far has been due to various reasons, including inherent limitation of the SAFTA agreement and also failure in achieving the goals agreed in the several rounds of negotiations conducted so far.