

**Download the latest issue**

All our journalism, to download on any device

Also never miss an issue, download the app

GET IT ON Google Play

Download on the App Store

ECHELON

## Sri Lanka import controls and their impact

Wednesday March 17, 2021 15:09



ECONOMYNEXT – Sri Lanka's import controls have created shortages and inflated prices giving profits to some domestic producers from farmers to others who have always hidden behind import protection to target consumers.

Though a few producers benefit, restricting trade has other negative fallouts.

Asanka Wijesinghe, a research economist at Colombo based Institute of Policy Studies of Sri Lanka looks at the impact on the domestic economy as well as broader international trade relations.

### Beyond Turmeric: How Import Controls are Impacting Sri Lanka's Economy

Raw turmeric roots on the shelves of roadside vendors is a frequent sight nowadays. Thanks to the import controls, turmeric now fetches a higher price domestically; prices having soared by as much as 275% from [Rs. 80 per kilo](#) to [Rs. 300 per kilo](#).

The turmeric shortage, reports of adulterated turmeric powder, the ceiling price, black-market sales, and sensational stories of busting smuggling attempts are the manifestations of the impact of import controls.

[i](#) [x](#)

## Export Your Products

### International Buyer Directory

Create a Free Supplier Profile and Start Offering Your Products & Commodities.

[go4worldbusiness.com](http://go4worldbusiness.com)

OPEN

The recent waves of import restrictions imposed by the Sri Lankan government have different justifications such as boosting domestic production and avoiding re-exporting substandard products and foreign exchange leakage. However, protectionism has costs. The significant costs are: 1) possibility of tariff retaliation by the trading partners; 2) impact on

domestic manufacturing for exporting; and 3) resource misallocation.

These costs will have a severe impact on the recovery of the COVID-19 affected economy. In this article, the costs of protectionist trade policies and opportunities available for a faster post-COVID economic recovery are discussed.

i x

## Export Your Products

### International Buyer Directory

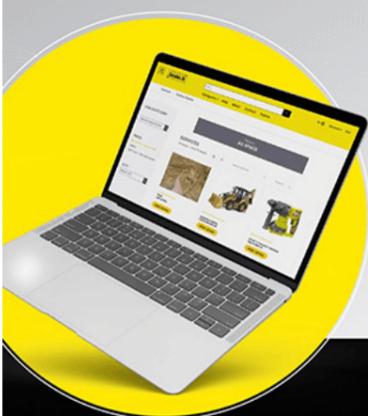
Create a Free Supplier Profile and Start Offering Your Products & Commodities.

[go4worldbusiness.com](http://go4worldbusiness.com)

OPEN

### Possibility of Trade Retaliation by Trading Partners

i x



**NEW LOOK**

**NEW SITE**

**NEW FEATURES**

**COMING SOON!** 

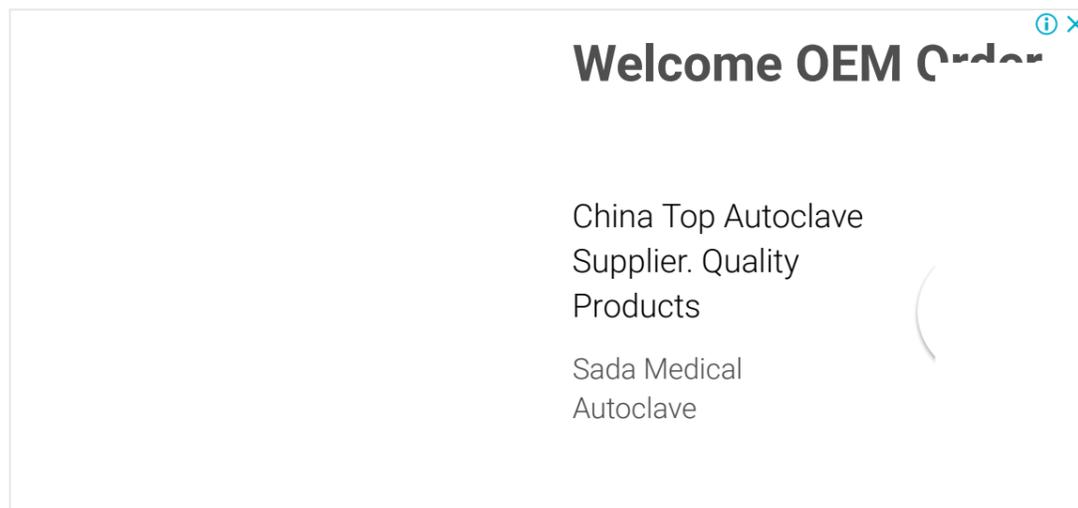
The economic literature documents the [political](#) and [economic](#) cost of the China-US trade war thoroughly. China's targeted agricultural tariffs, which were in retaliation to Trump's unilateral tariffs, cost the Republican party the [2018 House election](#).

ADVERTISEMENT

From a mercantilist point of view, countries like to export but are reluctant to import.

But trade is no longer a one-way street. The EU, [in a statement on Sri Lanka's new import controls](#), points out that "a prolonged import ban is not in line with World Trade Organization regulations."

Returning to the turmeric story, Sri Lanka's primary turmeric import source was India. In 2017, 97% (USD7 million) of Sri Lanka's turmeric imports came from India. [Media reports](#) show that Indian farmers and merchants have raised concerns over Sri Lanka's turmeric ban.



While these concerns have no immediate damage on the country's exports, Sri Lanka should still be cautious to avoid the Trump administration's blunder of getting into a series of tariff battles with crucial trade partners.

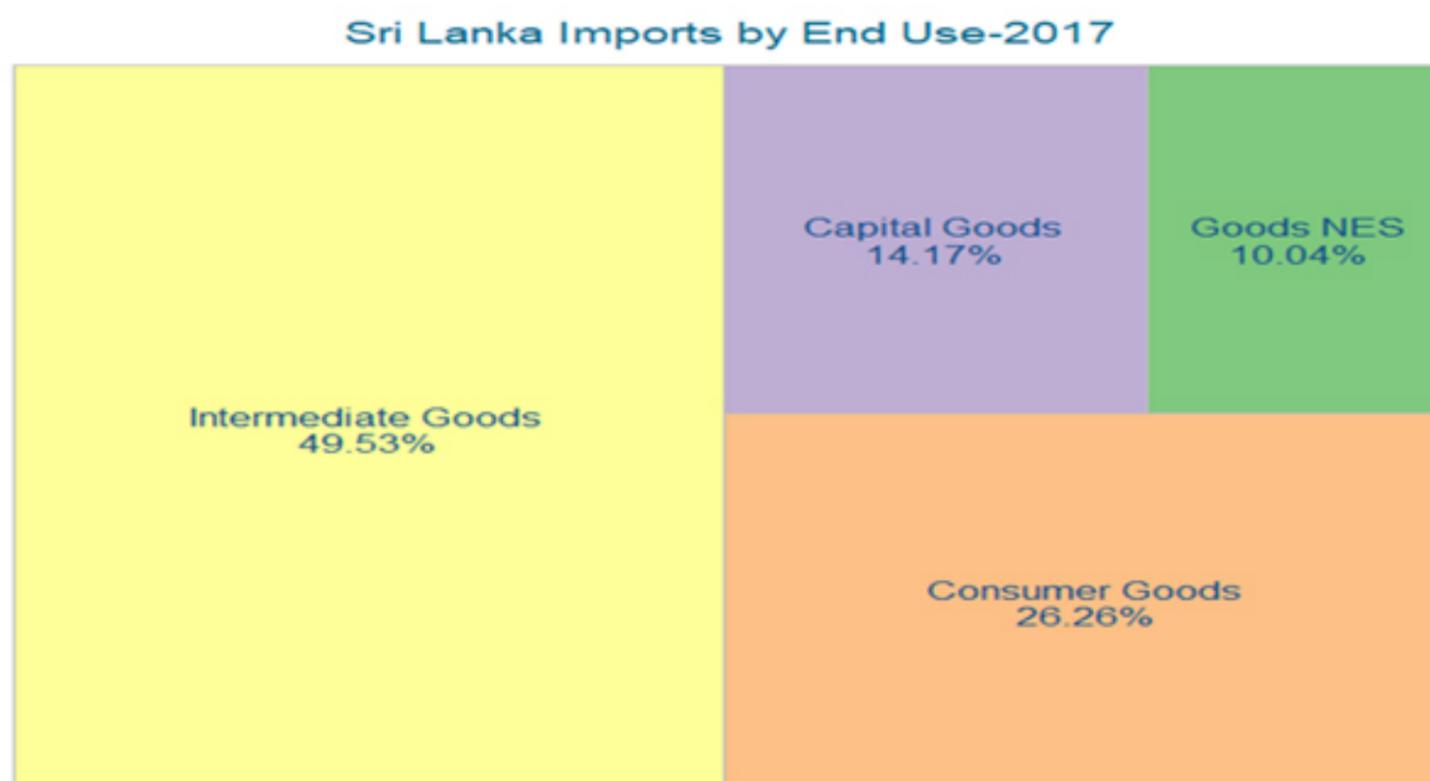
### Impact on Domestic Manufacturing

Nowadays, the vertically linked manufacturing process through global value chains (GVCs) is the norm. Manufacturing in Sri Lanka is no exception. Around 49% of Sri Lanka's imports are intermediate goods, and 14% are capital goods (Figure 1).

Import controls disrupt the input supply and may harm the export performance of industries that use foreign raw materials. One significant China-US trade war harm was on the US [manufacturing sector](#). Comparably, Sri Lanka's import controls in April 2020 seriously hurt the sectors which used imported [raw materials](#).

It is, however, commendable that the government [relaxed some of the import controls in June](#) to ensure an uninterrupted supply of raw materials.

### Sri Lanka Imports by End Use-2017



*Author's calculations using COMTRADE, data on BEC-2017*

*Note: WITS database shows that 38.19% of imports are intermediate goods while 21.04% of imports are capital goods. Consumer goods represent 30.85% of imports. Hence, a more conservative calculation also shows that intermediate and capital goods share of total imports is around 60%.*

### Resource Misallocation

Economic theory dictates that a country should produce and eventually specialise in products for which the country has a relative productivity advantage (production patterns correlate with predictions from [Ricardo's comparative advantage theory](#)). Import controls distort production and induce the allocation of scarce resources (land, water, and labour resources that have high-valued alternative uses) to relatively unproductive sectors.

Sri Lanka imported around 75% of the turmeric requirement, and 97% of imports came from India. The [Revealed Comparative Advantage \(RCA\)](#) index for turmeric shows that India has a superior export performance (Table 1).

[i](#) [x](#)

## Four Seasons Dubai JB & DIFC

Regardless Of Which Location You Choose Enjoy Exceptional Four Seasons Service. Book Today

Sri Lanka traded turmeric following the “revealed comparative advantage” logic, but the import controls distorted it. The prospect of exporting domestic turmeric is not promising. India dominates the global turmeric market currently and has a cost advantage. It is doubtful if Sri Lanka can grab a sizeable chunk of world trade through protectionism. However, now the resources are diverted to the protected sector, and domestic consumers pay an exorbitant price.

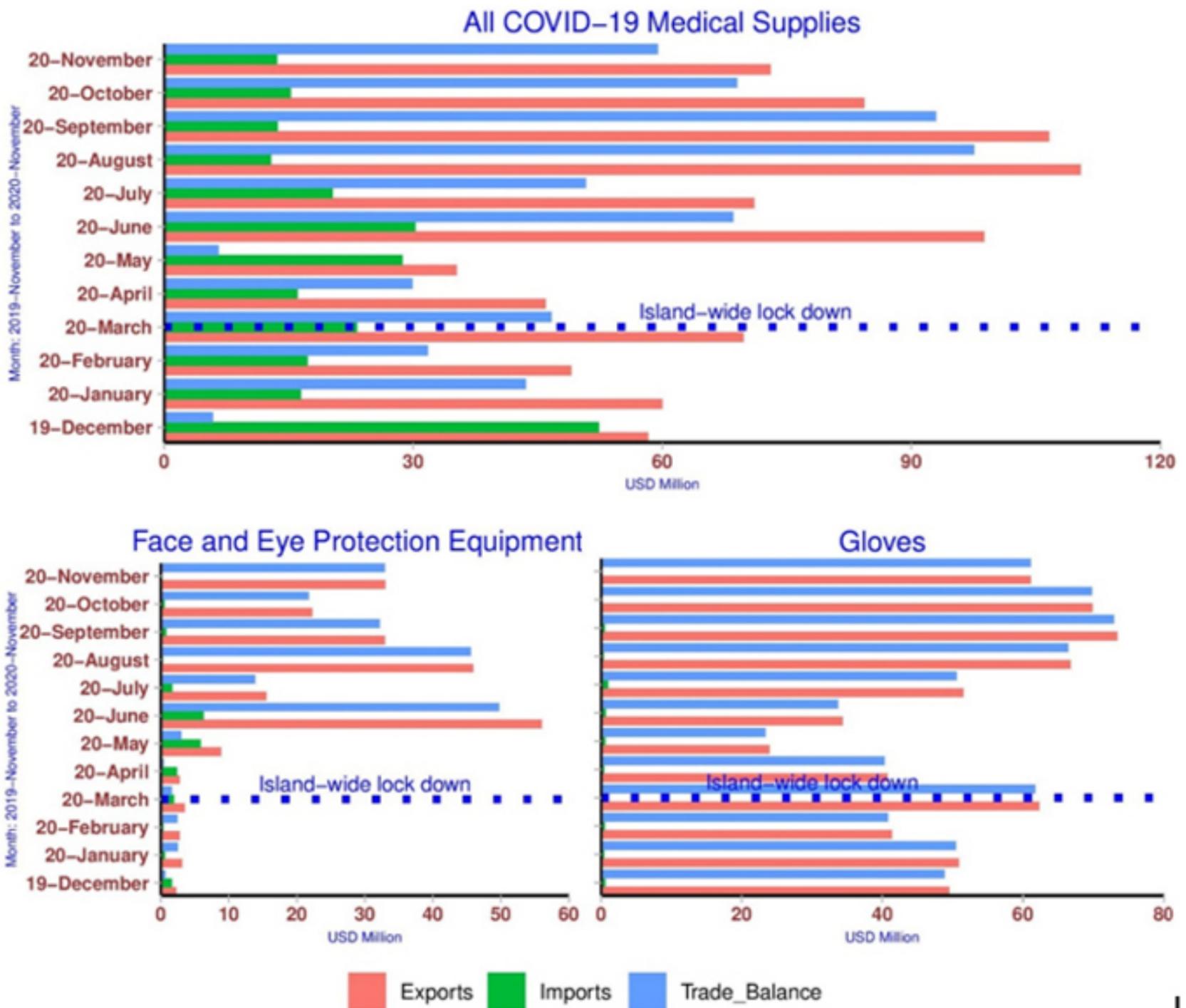
### Turmeric Trade Indicators for Sri Lanka and India -2017

Country	RCA	Market share of world turmeric export	Unit value (US dollar/ton)
Sri Lanka	3.68	0.25%	5878
India	39.40	66.39%	1686

*Source: Author's calculation using Trade Map data-2017*

*Figure 2: Trade Indicators for COVID-19 Medical Supplies Exported by Sri Lanka*

## Trade Indicators for COVID-19 Medical Supplies



Data source: COMTRADE

### A Way Forward

Historically, the government resorted to import controls when there was a [balance of payment crisis](#). The current import controls have the same [underlying rationale](#).

However, the trade deficit's temporary shrinkage may not be sustainable if there is no increase in exports. To increase exports, Sri Lanka needs to remove hurdles on input supply, remove distortionary tariffs, exploit market opportunities under the rule-based free trade system, and in the long run, improve the country's GVC participation.

[i](#) [x](#)

### Four Seasons Dubai JB & DIFC

Regardless Of Which Location You Choose Enjoy Exceptional Four Seasons Service. Book Today