

Local Foreign Categories

**Regulatory Pharmacist** (<http://www.observerjobs.lk/jd28995/regulatory-pharmacist>) Jul 11, 2021  
[View \(http://www.observerjobs.lk/jd28995/regulatory-pharmacist\)](http://www.observerjobs.lk/jd28995/regulatory-pharmacist)

**Mechanical Foreman** (<http://www.observerjobs.lk/jd29009/mechanical-foreman>) Jul 11, 2021  
[View \(http://www.observerjobs.lk/jd29009/mechanical-foreman\)](http://www.observerjobs.lk/jd29009/mechanical-foreman)

**Assistant Pharmaceutical Assessor** Jul 11, 2021

Copyright © 2021 Observer JOBS™ (<http://www.observerjobs.lk>). All rights reserved.

 **The GSP+ Conundrum**  
02 Jul 03:00 PM Zoom

 රුපියලට මොකද වෙන්නේ ?  
02 Jul 07:00 PM Facebook Live

 **FinTech in Sri Lanka**  
06 Jul 03:30 PM Zoom

 **Labour demand & supply on labour requirement of chamber members**  
08 Jul 03:30 PM Zoom

 **Geoffrey Bawa Archives - Session 3**  
08 Jul 06:00 PM Zoom, YouTube

## Trade in the pandemic era: a one-year assessment

 0

(/facebook)

(/twitter) (/email)

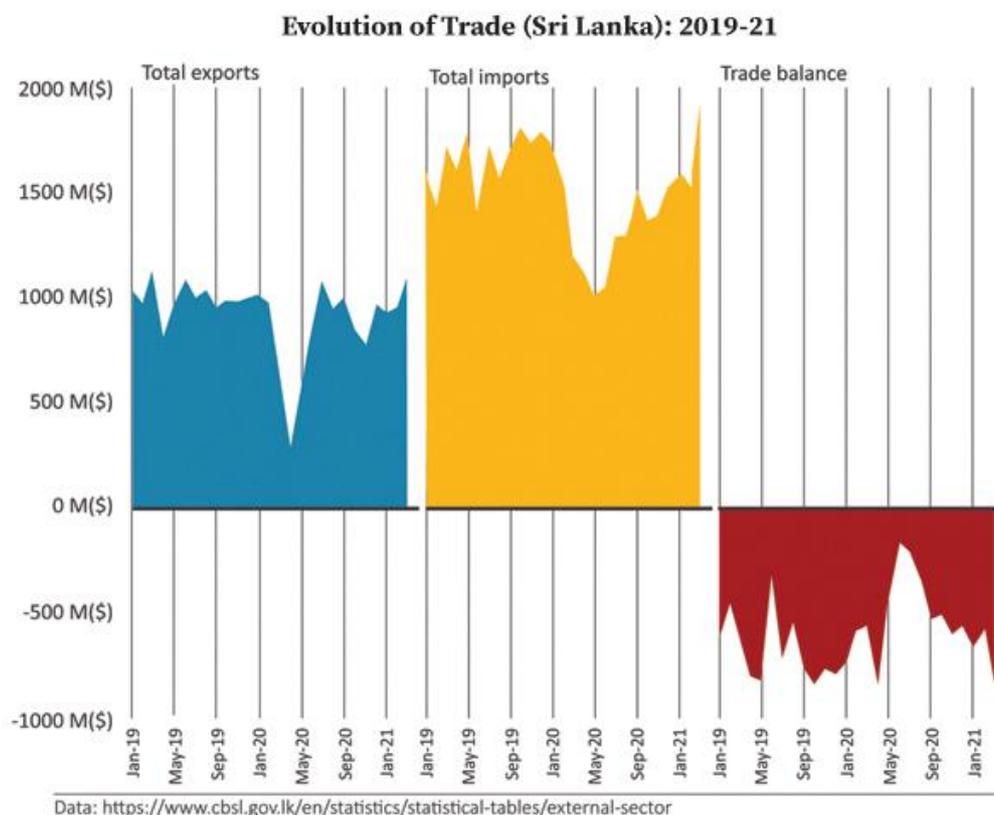
(/facebook\_messenger)

(/whatsapp) (/viber)

**BY DR. ASANKA WIJESINGHE** (/AUTHORS/DR-ASANKA-WIJESINGHE)

Business (/business)

20 June, 2021



Many countries, including Sri Lanka, started practicing mobility restrictions from March last year. As a result, in parallel to the slowdown of global merchandise production, trade volume also contracted from the second quarter of 2020. However, the World Trade Organization (WTO) estimates that the realised trade contraction in 2020 was just 5.3% contrary to the April 2020 forecast of a sharp contraction by between 13% and 32%.

Meanwhile, countries used trade policy to ensure that essential food, drugs, and medical equipment are available domestically. In addition, countries like Sri Lanka used trade policy tools to contain imports to allay pressures on the domestic currency.

This article discusses global and Sri Lankan trade during this pandemic, the impact of the pandemic and trade policy on Sri Lanka's trade and food imports, and policy options for sustained growth in trade and domestic food security.

### **Global trade recovered more rapidly than expected**

The Covid-19-induced global trade contraction renewed the dialogue on a de-globalising world order. However, new data and estimates show that global trade has rebounded to the level at the beginning of 2019. The trade volume returned to the 2017-2019 average levels by the beginning of 2021 after a sharp plunge in May-2020.

A noticeable pandemic-induced plummet in exports is visible around May-June of 2020. Reduced demand and the government's import restrictions might have caused the contraction in imports. The monthly trade data published by the Central Bank of Sri Lanka also illustrate similar trade patterns (See figure).

### **Sri Lanka's trade sector**

A basic analysis of the trend of exports shows that Sri Lanka is yet to achieve a full recovery to the 2016-2018 trend level. Crucial sectors such as textiles and tea exports are still below pre-pandemic levels. Some sectors faced subsequent plummets after the sharp drop around May 2020. The reason should be the effect of

different Covid-19 waves on global demand and domestic supply of merchandise goods. However, the recovery of textiles and agricultural exports, braving the pandemic, is assuring, and credit goes to the management and the workforce. As these sectors are the driving force of Sri Lanka's exports, it is imperative to fast-track the vaccination of the labour force to ensure sustained trade growth. With the rise of the third wave of Covid-19 in the country, the importance of a fast vaccine roll-out cannot be overemphasised.

The analysis of import patterns shows that imports are contained below the pre-pandemic level. Imports of vehicles and non-food consumer goods face larger contractions, implying the effect of import control measures. Though these categories can be classified as non-essential goods, the import controls' effect expands to crucial intermediate goods. Non-fuel intermediate goods and investment goods recovered slowly. The picking up of these imports at the beginning of this year is promising, but trade policy should encourage further growth.

### **Import controls and food security**

Global food prices are rising though the production prospects are encouraging. In Sri Lanka too, food inflation is on the rise. However, Sri Lanka continues to impose import restrictions on food items. Though the trade value of food and beverages shows that imports recovered to the pre-pandemic level, trade volume data of the top ten imported food commodities show a declining trend. Import of food items such as onions, sugar, canned fish, and dried fish are below 2017/19 averages. Special commodity levies are being imposed on food commodities periodically. In addition, the credit base requirements are supposed to delay the outflow of foreign currency, though the trade volume data show that credit basis did not affect trade volume much.

The proposed chemical fertilizer ban should be considered in the context of these restrictive trade policies. Economists predict a significant plunge in rice production if the proposed chemical fertilizer ban forces farmers to use only organic fertilizer. Therefore, a drastic food shortage can be avoided only through imports.

### **The way forward**

Contrary to the expectations of globalisation critics, global trade is recovering. Sri Lanka's imports and exports are also picking up. However, the slow recovery of non-fuel intermediate goods imports, investment goods, and the suppressed imports of essential food commodities require policymakers' attention.

The rapid export recovery to the pre-pandemic level and continual growth from that point need integration to the global market. Current import controls are inimical to such integration. Though the exchange rate crisis is a valid concern from the policymaker's perspective, the short-term remedies should not be worse than the issue. Backward and forward participation in global value chains will dampen the pressure on domestic currency in the long run. In the context of domestic food security, the government will have to re-evaluate existing import controls for two reasons. First, the third wave of Covid-19 may cause substantial income loss for informal sector workers, reducing their purchasing power. Food inflation can drag them below the poverty line. Second, the ambitious green agriculture policies may create a domestic food shortage if imports do not compensate for production losses in the interim.

*The writer is a Research Economist at the Institute of Policy Studies of Sri Lanka.*

---