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True cost of import controls

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From April 2020 to September 2022, eight waves of import controls were enacted in Sri Lanka. These controls included temporary suspensions, bans, import control licenses, and credit-based requirements. These restrictions had a considerable effect on a number of import categories, including capital goods, intermediate goods, and consumption goods. Notably, import restrictions were waived for only 9.8% of imported food products.

A study found that a sizable amount of imports were made up of necessities including food, medicine, and raw materials, despite the Sri Lankan Government's efforts to decrease foreign exchange leakages on "non-essential" imports. This prompted inquiries as to whether import substitution served as the driving force behind these regulations.

The study discovered that import substitution may have unintentionally been encouraged by the structure of import controls. The production of food and drinks had major import obstacles, but some export-focused industries only encountered minor trade constraints. The marketability of particular food products was impacted by the emphasis on encouraging domestic agricultural production.

The significance of recent removals from the import restriction list, which show the goal of officials to gradually remove import restrictions on consumer items. They stated that this good start should be broadened, with an emphasis on food and feed products in particular. During the important phase of phase-out of import controls, it will be crucial to strike a balance between the protection of indigenous businesses and assuring the availability of essential products.

Participants in the conversation that followed included experts from academia, think tanks, government agencies, and organisations. The participants discussed the ramifications of import restrictions and emphasised the importance of having specific policy objectives. The discussion emphasised the significance of taking into account broader economic effects, such as foreign exchange reserves, the export industry, and Sri Lanka's framework for food security.

Since the government has stated various objectives at various times, it is still unclear what the purpose of the repeated rounds of regulations is. These included measures like lowering currency outflows and encouraging domestic manufacture to compete with imports. Therefore, determining how they will affect the incentive structures in the long run is essential. Interestingly, even without a protectionist intention, the implementation of import regulations may have unintentionally promoted import substitution.

The intricate nature of import control is made clear by the procedures used, which include credit-based restrictions, import licenses, suspensions, and bans. The preferences of the government for import control are determined by a number of hypotheses.

Due to Sri Lanka's strong reliance on imported capital and intermediate goods for local use and output that is export-oriented, these are more likely to be exempt from minimising negative effects on domestic production. Import restrictions raise domestic pricing, which encourages the creation of simpler consumer goods and food products for home use. The country's growth in the crucial export industry is hampered as a result of this resource diversion.

Because they affect households in cities and suburbs, reviewing import restrictions on food products is crucial. These restrictions put a strain on people, particularly those with low incomes, by increasing food prices and shortages. However, more detrimentally, the incentive structure for import-substitution maintains labour turnover and retention in the agricultural industry.

It becomes increasingly important to give the revision process top priority as Sri Lanka gradually relaxes the import restrictions put in place during the economic crisis. The lobbying of industries dependent on restricted imports and consumer and industry feedback may have an impact on the deciding criteria. According to our research, modifications appear to give priority to intermediate and exempted food products, showing a preference on policy for exempting intermediate imports.

It makes economic sense to gradually remove import restrictions on intermediate items in order to encourage innovation and permit participation in global value chains. However, modifications must also focus on consumer items, such as food.

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