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BUSINESS

# Import Controls in Sri Lanka – Political preference and incentive distortions

July 14, 2023 1:00 am • 0 comment



Dr Asanka Wijesinghe- Chathurrdhika Yogaraja- Nilupulee Rathnayake

Sri Lanka implemented strict import controls to address the economic crisis and foreign exchange constraints.

The policy goal behind import controls remains unclear, with conflicting statements suggesting a potential shift towards protectionism and import substitution.

In analysing the impact of these restrictions, a new IPS study highlights the need for a strategic approach to trade policy that considers long-term growth prospects, export sector development, and the well-being of the population.

Battling an unprecedented economic crisis that overlapped the Covid-19 pandemic, Sri Lanka resorted to strict import controls since early 2020. These measures gradually encompassed 31% of total imports by September 2022, with the intention of reducing foreign exchange leakages on 'non-essential' imports.

However, the effectiveness and implications of these stringent regulations have raised questions. A new publication by the Institute of Policy Studies of Sri Lanka (IPS) delve into the effects of these controls on the country's trade policy and economic landscape.

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conducive to import substitution, reversing the gains from structural transformation. Moreover, the study highlights the potential ramifications for the country's nutritional security as the continuous imposition of import controls on food products may have severe consequences.

The study recommends a gradual phase-out of import controls, starting with intermediate and essential nutritious food items. It emphasises the importance of removing import controls on consumer goods, including food, to encourage resource allocation towards export-oriented industries and alleviate domestic price inflation. The removal of import controls on consumer goods will also mitigate the burden on low-income urban and suburban households, safeguarding their nutritional security.

The research underscores the need for the government of Sri Lanka to prioritise the removal of import restrictions on consumer goods and focus on expanding the growth of the export sector. By doing so, the country can address the balance of payment crisis, foster innovation, and enable participation in global value chains.

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