Thailand and The World Economy
P-ISSN: 2630-0931
E-ISSN: 2651-0529
Homepage : https://www.tci-thaijo.org/index.php/TER
Vol. 40, No.2, May - August 2022 **Page [52-72]**

Trade Protection Measures Implemented by Sri Lanka During the Past Three Decades

Sumedha Ponnamperuma
School of Management, GD Goenka University, India

Sonal Katyal
School of Management, GD Goenka University, India

*Sanjay Kumar Mangla **
Department of Economics, Maharaja Agrasen Institute of Management Studies, India

Received 14 September 2021, Received in revised form 14 March 2022, Accepted 15 March 2022, Available online 2 May 2022

Abstract

This paper tries to identify the trade protection measures implemented by Sri Lanka from independence to date. Special emphasis is given to the period from 1995 to 2019, since the WTO was created on 1 January 1995 , and member countries started to operate according to binding rules and regulations implemented by the WTO since then. Sri Lanka has taken many actions to liberalize trade since 1977, and the same has accelerated since 1995 due to binding commitments undertaken by the country. According to the trade statistics, it has been noticed that Sri Lanka's exports, imports, and trade gap have increased. The trade gap widened after 1995. It shows that trade protection measures have not had any impact on controlling overall imports into the country.

Keywords: Trade policy, Tariff measures, Para-tariff, Sri Lanka
JEL Classifications: F13, O24, N75

***Corresponding author:** Maharaja Agrasen Chowk, Sector 22, Rohini, New Delhi, Delhi 110086, India Email: SAM211285@gmail.com

┼ This paper was presented in 6th International Conference on 'Drivers of Global Economic Recovery' organized by Maharaja Agrasen Institute of Management Studies (MAIMS), Delhi (India) in partnership with the Faculty of Economics, Thammasat University, Thailand, and Waljat College of Applied Sciences, Oman on April 23, 2021.

1. Introduction

Trade protection measures are used to control imports. There are many objectives of using trade protection measures when controlling imports. Controlling unnecessary imports, protecting domestic industries, and collecting government revenue through indirect taxes are the main reasons for those measures. These measures have been categorized into three i.e., tariff measures, para-tariff measures, and non-tariff measures. Sri Lanka has used these measures time and again in different variations and volumes. The political and economic situations of the country have directly impacted the trade protection measures implemented by them from time to time. This study has tried to identify the trade protection measures implemented by Sri Lanka from independence to date. For the convenience of the study, it has been divided into three eras, i.e., from 1948 until 1977, from 1978 to 1994, and from 1995 to 2019, considering the changes in the political situation and simultaneous changes in economic policies subsequently. From time to time, there are many trade protection measures implemented according to different objectives and purposes. A special emphasis has been given to the customs tariff structure, para tariffs, and non-tariff measures from 1995 to 2019, and the recent trends in all these measures and the way forward. Hence, the study has tried to identify the impact of trade protection measures implemented from 1995 to 2019 by considering the import and export statistics from 1995 to 2019.

2. Literature review

Narampanawa (2005) conducted research on trade liberalization and poverty in Sri Lanka using a computable general equilibrium model. He found that trade liberalization of manufacturing industries tends to increase economic growth and reduce absolute poverty in the urban low-income household group and the estate low-income household group in the short run. Moreover, he found that the rural low-income household group shows a comparatively little improvement compared to the other groups. The reason for the low improvement of the low-income household group is the reduction in government transfers following government revenue loss due to tariff cuts, particularly import tariffs on manufactured products which seem to be the causal factor that reduces the potential benefits accruing to the low-income households. In terms of relative poverty or inequality, overall results suggest that trade reforms may widen the income gap between the rich and the poor, thus promoting relative poverty. The researcher used the main element of trade protection, which is tariffs' effect on poverty, which is one of the economic development measures of a country. His findings are important in view of the impact of tariffs as a measure of revenue generation for the country.

Tennakoon (2004) conducted research on the trade liberalization policy options of Sri Lanka. The objective of the study was to present a quantitative assessment of a broad range of trade liberalization policy options for Sri Lanka by using the Global Trade Analysis Project (GTAP) multi – country, multi-sector applied (or computable) general equilibrium (AGE/CGE) model to empirically assess the broad range of trade liberalization options for Sri Lanka. It mentioned that during the era in which the country used inward oriented development strategy based on import substitution industrialization, both tariff and non-tariff barriers were widely used to protect domestic activities. It found that Sri Lanka does not maintain any non-tariff barriers for economic reasons. Sri Lanka's current trade policy regime is far more restrictive than her commitments to the WTO. As a result, the increase in imports will obviously have an adverse impact on the competitiveness of some domestic industries and hence export sales. Therefore, it has emphasized the importance of a safeguard mechanism to reduce injury to weak industries that might occur during the implementation period and to secure the time needed for restructuring.

Ekanayake (1997) used a computable general equilibrium model to investigate the effects of trade policy reforms on resource allocation and welfare. The researcher carried out simulations to assess the effects of three major policy reforms, (i) devaluation of the Sri Lankan rupee, (ii) a partial or complete elimination of export duties, and (iii) a devaluation-cum-removal of export duties. The objective of the study was to develop an analytical framework to investigate the effects of the Sri Lankan trade policy reforms implemented in 1977 on resource allocation and welfare in a general equilibrium planning context. The researcher highlighted the negative and positive impacts of the reduction and removal of export duties. Devaluation-cum-export duty reduction has resulted in promoting exports and discouraging imports. It increases welfare as a whole, but adverse impact on the estate sector, which accounts for the largest gain in the urban sector. Domestic prices of goods are increasing. In addition to that, government revenue and expenditure also increase. The researcher has identified non-tradable sectors as electricity, construction, trade and transport sectors lose due to the devaluation. Most of the tradable sectors that have lost from the change are import substitution sectors producing basic intermediate and capital goods, since those sectors are generally protected by a low exchange rate policy. This research did not examine the impact of the currency devaluation as a trade protection measure. The researcher considered it combined with the elimination of export duties.

Rafeek and Samaratunga (2000) examined the impact of trade liberalization on the rice sector of Sri Lanka. In their paper, they considered the impact of trade intervention policies by focusing on the rice sector of Sri Lanka using nominal and effective protection rates. They highlighted the positive protection for producers at the expense of consumers. The authors stated that government policies on the rice sector are imposed for social, political, and economic reasons. Moreover, they mentioned that liberalization would result in decreases in cultivated area and yield. Decrease in supply and the concurrent increase in demand and a sudden increase in import bills could be expected. It was emphasized that an increase in the import bill will have an adverse effect on the trade balance. They focused only on the rice sector and the impact of trade liberalization on the rice sector. However, the importance and some impacts of protection measures were highlighted in this paper.

Weerahewa (2006) examined the economy-wide impacts of various policy packages on rice and related markets, which consist of liberal as well as protectionist elements. A general equilibrium model has been developed for the Sri Lankan economy. According to the analysis, the removal of the import tariff on rice, along with removal of import tariffs on fertilizer and/or subsidy payments on other agricultural sectors, could improve economic efficiency and household welfare across provinces. Import bans on rice and global liberalization of rice that increases the import price not only reduce overall efficiency of the economy, but also reduce household welfare even in some of the poorer agriculture provinces. It was emphasized that liberalization of paddy and rice markets could improve economic efficiency without having bad distributional outcomes, and, therefore, the continuation of protectionist policies is neither necessary nor efficient in the present era.

Navarathne (1991) used a simple general equilibrium model to measure the incidence of protection. The study focused on the relative price effects of protection through the equilibrium conditions of the nontraded goods market. The incidence of protection was measured via the concepts of incidence parameters, true protection rates, and income transfers resulting from protection. It found that a high proportion of all trade interventions operate as an implicit export tax, and that true protection rates to both import – competing and exporting sectors are far below the nominal rates of assistance being provided to them. The income loss was calculated as 4% of the GDP. The researcher emphasized that the incidence of protection falls mostly on the exporters of the country. The model was applied to three sectors, such as exportables, importables, and home goods (non-tradables) and shows how the protection of one sector leads to the disprotection of the other sectors. It found that true tariff and true subsidy rates were well below the nominal rates of assistance being provided to import-competing and exporting sectors. The final impact of all these interventions was to impose a substantial implicit export tax. The net effect of protection in general was to induce resources into import-substitution activities and away from exportable activities. Import protection imposes heavy costs on the exportable sector, resulting in lower returns for the resources employed and a relative contraction of this sector. All groups other than exporters gain from protection, at least in the short run. The researcher estimated that import competing firms, consumers, and taxpayers receive substantial gains of about 4% of the GDP. Finally, he stated that since the real income is fixed, the gain comes at the expense of exporters.

Pursell and Ahsan (2011) commented that in 1977, Sri Lanka was the first of the South Asian countries to decisively move away from the protectionist import-substitution trade policies that for many years had damaged the country's economic efficiency and hobbled its economic growth. Furthermore, they commented that protectionist pressures began to build in 2001when relatively open trade policies of the past were explicitly and systematically reversed. By 2009, Sri Lanka's tariff policies were just as protective as they had been prior to 1977, mainly through the proliferation of a variety of para tariffs. The researchers have described, quantified, and analyzed the above-mentioned developments. The paper commented that the protective measures damaged Sri Lanka's future economic growth, and it resulted in subversion of the preferential trade agreements.

Athukorala (2012) examined the WTO Trade Policy Review of 2010 and made the comment that an outward oriented policy regime can yield a superior development outcome compared to a closed economy regime, which Sri Lanka practiced until 1977. The researcher highlighted the positive outcome of the trade policy followed by the country from 1977 to 2010, which is mainly a rapid growth of exports, and it was consistent with labour incentive export production for the labour abundant economy of the country. The researcher commented that trade policy after three decades from 1977 was again focused on protective measures (reverting to dirigisme) and the WTO Trade Policy Review of 2010 had failed to make any comments on that.

Kaminski and Ng (2013) measured Sri Lanka's level of openness by the trade in goods and services. They found that there was a strong increase in protection measures during 1987 – 1995, which stagnated during 1996 – 2004, and declined during 2005 – 2010 due to import substitution. They argued that this situation occurred due to the dual condition of the economy and high growth of protectionism in the 2000s. The researchers pointed out that the dual economic situation occurred as a result of the legacy of unfinished structural reforms of a socialist economic regime. It pointed out that the lack of stability in trade policy combined with expanding protectionism at that time and the state's micromanagement of investment did not create an institutional/policy setting conducive to the rapidly evolving composition of exports and their fast growth. Finally, they commented that the situation will cause a reduction or reverse in the economic growth of the country.

Considering findings of various studies as mentioned above, it is necessary to examine the trade protection measures implemented by Sri Lanka during the last three decades so as to get a more clear picture of country's trade policy

3. Trade Protection measures of Sri Lanka

Information on trade protection measures implemented by Sri Lanka in time to time was taken from the Central Bank Reports from 1952 to 2019, and Trade Policy Reviews of the WTO from 1994 to 2016. The present study analyses the trade protection measures implemented by Sri Lanka in time to time and finally examine the impact of trade protection measures according to the import and export data of the country.

3.1 General Overview:

When we pay our attention to the trade protective measures of Sri Lanka, they should be divided into three eras for the convenience of the study, considering the political and economic policies implemented from time to time. A special feature is that the political and economic policies are linked to each other.

I. From 1948 to 1977.
II. From 1978 to 1994.
III. From 1995 to 2019.

I. From 1948 to 1977.

When Sri Lanka was awarded the dominion status, the political situation was stable and the government followed the policy of a liberal market economy during the early stages of the period. The country followed a free trade policy during the immediate post-independence period until the late 1950s. There were only a few taxes on imports and exports for the purpose of revenue generation, and those were applied to a wide range of goods. The average import duty rate was less than 25%. Non-essential items were taxed at relatively higher rates, while essential goods, raw materials, and investment goods were subject to low import duties. The situation continued until the late 1950s, when the country was experiencing a large trade surplus due to the commodity boom.
The situation started changing in the late 1950s. There was a growing balance of payment deficit in the late 1950s. The exchange rate was fixed. The government was of the view that import controls and import substitutions were the appropriate solution to overcome the hard economic conditions.

The successive governments that came to power between 1960 – 1977 had to follow different development strategies due to the declining economic situation. The main challenge of the government is to overcome the economic downward trend. By 1960, Sri Lanka's economy was experiencing adverse terms of trade, slow export growth and substantial welfare expenditures. In addition to that, the external reserve position had been in a hazardous situation. The government was focused on inward-oriented policies.

The trade account began to run a deficit after 1956, and there was the emergence of a balance-of-payment problem. 1956 could be highlighted as the beginning of the inward oriented era. The development policy was focused on the development of import substitution industries and the expansion of domestic agriculture with the objective of becoming self-sufficient in rice (the main food crop) and other essential commodities with the view of reducing imports.

There was a growing tendency to use import duties as a protective tool in the late 1950s. During the 1957/58 fiscal year, the government took measures to protect selected local industries by increasing import duties on certain consumer goods (Ekanayake

1997). On the other hand, the government lowered duties on capital equipment and industrial raw materials to encourage and facilitate domestic industries.

The central bank imposed selective credit controls to reduce imports of non-essential goods such as automobiles, alcohol, cosmetics, etc., and this was followed by the imposition of high duties on some selected products such as tobacco, petroleum, watches, and textiles.

The 1960 budget increased duties on a number of items such as cars, petroleum, liquor, and tobacco. In 1961, the government completely banned 49 luxury items and imposed quantitative restrictions through licenses for luxury imports. Exchange control regulations were also introduced. Essential and non-essential imports were categorized with theview of discouraging the import of non-essential items. Customs duties on motor cars, petrol, liquor, and tobacco were increased. Import tariffs were gradually increased as a whole, and more items were brought under tariffs. The import tariff structure was highly differentiated, ranging from 10% to 500%. A 5% percent surcharge on all imports, except ,food , was imposed in 1961. Later, the import of items such as motor cars, watches, clocks, radios, and high-priced textiles was banned. An overvalued fixed exchange rate was maintained with stringent controls on imports and other foreign payments through exchange controls.

By 1962, all imports except food , petroleum, fertilizer, and pharmaceuticals were subject to quantitative restrictions.

In 1963, the government established the foreign exchange budget committee. The committee was established at the Ministry of Finance with the objective of allocating scarce foreign exchange on the basis of national priorities. (Kappagoda 1967/Peebles 2006). The function of the committee was to match import expenditure with export earnings. There were no restrictions on the allocation of funds for the essential items such as food, petroleum and other fuels, fertilizers, medical drugs, and all imports of government departments and public corporations. The country's influence in determining the import pattern of the country increased rapidly with the intensification of import controls by extending individual licensing and utilizing quotas during 1963 and 1964.

The government that was in power from 1965 to 1970 tried to partially open the economy by reducing controls.

In 1968, a foreign exchange entitlement certificate scheme was introduced to allow limited imports. According to that, exporters of non-traditional items were permitted to import certain specified imports and some other remittances. Imports were divided into two categories, i.e., essential, and non-essential. Non-essential imports were subject to an additional margin over the official exchange rate on the c.i.f. (cost, insurance and freight) value. Non-traditional exports were entitled to receive the higher foreign exchange entitlement certificate rate, while traditional exports were paid at the official exchange rate.

Non-essential imports were liberalized and brought under a system of open general license. Essential items were kept at a zero rate while liquor, tobacco, and luxury vehicles, etc. were at a maximum rate of 300%. These changes were accompanied by a partial relaxation of import restrictions.

It has been observed that 1970 – 1977 era was the most stringent trade restrictions ever to be introduced in Sri Lanka (CBSL, 1998). The government became to power in 1970 followed socialist oriented policies and restored further controls an import substitution industrial strategy.

The existing open general license system was abandoned in May 1970, and all imports were brought under an individual licensing scheme. The fixed dual exchange rate system was continued throughout the period. The tariff structure ranged from 10% to 500%. There were more than 19 tariff bands. Public manufacturing enterprises and public services enterprises were given exclusive access to import of construction material, spare parts, and capital goods (Helleiner, 1994). 6000 products were under the price control measures. In addition to those, quantitative restrictions were also introduced. The objective of the government was to encourage domestic producers to manufacture import substitution products. A number of concessions were provided to protect domestic manufactures from foreign competition.

The government that came to power in 1977 changed the inward oriented and strict economic policy. An outward oriented economic policy (open economic policy) was introduced at the end of 1977.

With effect from 16th November 1977, most of the quantitative restrictions were removed and replaced by a new tariff system. The new government was of the view that the main tool for controlling imports should be tariff measures. The new tariff system had a duty structure of six bands, ranging from 0% for essential consumer goods to 500% for luxury goods.

Following is the tariff structure introduced in 1977.

i.	Essential commodities	- 0%.
ii.	Raw materials, spare parts and machinery	- 5%
iii.	Intermediate goods	- 12.5% to 25%
iv.	Goods that are neither essential nor luxury	- 50%
v.	Goods being produced domestically	- 100%
vi.	Luxury goods	- 500%

However, with effect from 16th November 1977, the list of items on import license was drastically reduced, and 281 items were subject to specific import licensing considering the national security, health, environment, public morals, and protection of local farmers. The majority of the items were placed under the open general licensing for statistical purpose. Weapons, explosives, poisonous compounds, nuclear or radio transmitting devices, vehicles, jewels, minerals, fuels and oils, pharmaceutical products, textiles, yarn and fabrics, and tobacco were the categories that were under license control.

The new structure introduced five basic tariff bands ranging from 5% to 100%. The lowest rates of duty were applied to imports of raw materials which were not available locally. Higher duties were imposed on the substitutes of the products manufactured domestically. A higher band of 500% was imposed on a few luxury goods. Another main feature of the reforms was the abolishing of the monopoly on state enterprises on imports of a number of key commodities.

II. From 1978 to 1993

From 1980, a 10% cess on highly dutiable imports was imposed to fund the activities of the Sri Lanka Export Development Board, which was established in 1979 to develop exports.

The existing Tariff Reform Commission was transformed into the Presidential Tariff Commission (PTC) in November 1980. It was established to evaluate the tariff structure on the principle of effective protection and to propose reforms. The commission's role was to take account of import taxes on both final output and inputs when proposing reforms. (Helleiner, 1994) The objective of the establishment of the tariff commission was to modify the tariff structure from time to time with the view of protecting selected local industries, thus focusing on the economic and social priorities of the government. The following are the objectives of the Presidential Tariff Commission.

- Encourage the local industry through some form of protection.
- Meet both the revenue requirements of the government and consumer interests.
- Safeguard employment.

By 1980, the government was facing a heavy current account deficit and balance of payment problems. Inflation was also increasing. Hence, a 10% levy was imposed on all products with a 50% customs duty or higher with the view of protecting import substitution industries. The number of items under license control was reduced to 204 in 1980. The categories under the licence control were fertilizer, primary plastic raw material, and newsprint. However, matches and plywood tea chest panels, which were outside of the licence control, were included into the list at the same time.

In 1981, import duties on tobacco, liquor, and electric kettles were increased, since they were considered non-essential items. In addition to that, customs duties on asbestos, emulsion paints, galvanized articles, and roofing tiles were increased. The customs duties ranged from 5% to 500%. The same ranges were continued until 1983. A turnover tax on all imports was introduced in 1981, other than infant milk food, fertilizer, crude oil, and goods and materials imported for export manufacturing. The objective was to keep the turnover tax component of the imported goods and identical locally-made goods at the same level.

In 1982, duties on certain items which were already at high rates, including carpets, toothpaste, cosmetics, batteries, paints, and tyres were further increased withthe view of strengthening the existing protection. The newsprint, which was outside of the licence control, was brought under the licensing requirement.

In 1983, iron, steel, cement, and machinery imports were brought under licence control.

In 1984, higher duties were imposed on products such as full cream milk powder, rice, sugar, and sanitary with the view of protecting domestic industries.

In 1985, a six-band tariff structure was introduced, and the maximum nominal tariff rate was reduced from 100% to 60%. It had 17 bands when it was in operation. Later, it was reduced to a four-band tariff structure of 50%, 35%, 20%, and 10% and implemented in the same year.

The tariff structure in 1985 was as follows:

i) Essential goods	- 0%.
ii) Raw materials	- 5%
iii) Intermediate band (9 rates)	-10% to 50%
iv) Revenue band	- 60%
v) Protective band (four rates)	-75% to 150%
vi) Prohibitive band	- 250%

Certain items that had been taken off from the licensing requirement was again brought under the specific import licensing to protect the domestic producers. Strict quantitative controls were continued until 1985 to protect the domestic industry. Import of dried chilies, potatoes, onions, tomatoes, garlic, milk foods, rice, salted & dried fish etc. were under the licence control to protect the local producers.

In 1988, the following four band tariff structure was introduced.

a) Raw material and capital goods	- 5%.
b) Intermediate inputs (including semi – finished products)	- 15%.
c) Chemicals required as inputs to industry	- 35%.
d) Finished goods	- 50%.

In 1989, the tariffs were increased on liquor, dried fish, cigarettes, cement, and motor cars. In addition to that, certain sports equipment, such as billiard tables and pin tables, were brought under the licencing control. The import surcharge on agricultural products was imposed in the same year. This is an additional temporary surcharge on import duty for revenue purposes.

In 1990, the import of motorcycles, autocycles, three-wheeler vans, and auto trishaws older than three years was brought into the import licencing requirement.

There were no changes in import regulations in 1991, and the same regulations in 1990 was continued.

In 1992, seeds and other potatoes were brought under licence control to maintain phytosanitary standards. In addition to that, paddy, rice, and some chemical products were also brought under licensing control.

In April 1993, the specific tariffs on textiles were converted into an ad-valorem duty of 100%. That same amount was reduced to 50% in November of the same year. Exercise books, footwear, umbrellas, refrigerators, freezers, and water pumps were continuously subject to tariff protection (either specific duty or ad-valorem duty, whichever was higher) were brought into the four-band tariff system.

III. From 1994 to 2019

The year 1994 could be considered a historical year in the context of trade protection measures since all members of the General Agreement on Trade and Tariff (GATT) joined the World Trade Organization (WTO). Therefore, the WTO members were compelled to make certain commitments on trade liberalization according to the WTO rules. The WTO members started to follow the rule-based trading system in a systematic and broader manner.

It has been noticed that Sri Lanka has used several measures to regulate imports into her territory. It is required to consider the tariffs, para-tariffs and non-tariff measures separately from 1995 onwards.

3.2 Tariff measures

The Trade Policy Review (TPR) of the WTO secretariat has commented that tariffs have the strongest overall impact on market access, relative prices, and resource allocation.

It has been observed that the government of Sri Lanka has used tariffs to fulfil the following two objectives.

1.Trade protection purpose.

2.Revenue generation purpose.

In 1994, the three-band tariff system that was imposed in 1993 continued. According to the directives given by the WTO, it was planning to reduce the tariff bands to a single rate by 1997 or 1998. However, it did not materialize due to revenue consideration and political pressure from protected industries. As an example, tariffs on motor vehicles ranged from 50% to 100% depending on the engine size. Some items were subject to alternate duties (advalorem and specific). Cigarettes were subject to a specific rate of Sri Lankan Rupees (SLRS) 1,370.00 (US$ 26.73) per kilogram or 250% ad valorem tariff, whichever was higher. In early 1995, the unweighted tariff average of all 6,050 products stood at 20%. Moreover, the WTO Trade Policy Review of 1995 made a comment that the government used tariffs as a source of revenue and to protect selected industries. The rise in the average rate reflects an increase in the rates on all main industrial categories, particularly electrical machinery, transport equipment, wood, pulp and paper, and footwear. The overall objective of the government was to improve the economic activity by lowering the tariff rates with the view of generating more employment and making industries more competitive (Trade policy review – Report by the Government, 1995).

In 1995, a new tariff system was introduced with six bands ranging from 0% - 500%. Essential goods were kept at 0%, while luxury goods were charged up to 500%. It was reduced to a three-band tariff system (10%, 20%, and 35%) in 1996 and continued in 1997. The same was continued up to 1998 with changes in rates, and the same was followed in 1999 with 35% tariff protection for agricultural products. However, tobacco, liquor, crude oil, and some categories of motor vehicles were kept outside the three-band system due to revenue concerns.

The applicable tariff in 1998 comprised 11 rates. Since 1998, the simple average tariff on agricultural goods has decreased from 27.6% to 21.3%. However, the average tariff on agricultural goods remains substantially higher than on manufactured goods. Tobacco, beverages, and spirits were given the highest protection. Tobacco is the only agricultural subsector in which protection has increased substantially from 1998 to 2003, from 148.6% to 152.8%. Protection for live animals and dairy was slightly increased, but protection has declined in most agricultural sectors. Non-agricultural products were protected by an average tariff of 9.3% in 1988, 7.2% in 2001, 7.9% in 2003, and 9.1% in 2009. Manufactured goods such as leather, rubber, footwear and travel goods, wood, pulp, paper, and furniture have benefitted from the average rate of protection.

In 2000, a two-band tariff structure of 10% and 25% was introduced and continued in 2001 as well. A few agricultural products were kept at a rate of 35%. Rice, big onions, green gram, and cowpea was at the level of 35% on a temporary measure to allow the domestic agriculture sector to adjust to a lower tariff regime over the medium term. Industrial raw material and machinery investment goods were kept at 5% with the view of encouraging investments . Cement was kept at 10% to encourage local value addition. The duty on maize, which was exempted earlier, was kept at 5% and later increased to 10%. Potatoes, sugar, tobacco, and liquor were kept at specific rates outside of the two-band tariff system.

However, the Central Bank Report 2001 made a comment that "The existing simplified liberal and less protective tariff policy regime was disturbed by ad hoc policy decisions taken to protect domestic agricultural products and a few industries in 2001." The simplicity of the tariff structure was disturbed by the introduction of surcharges and the grant of duty waivers on certain products in 2001. The average applied MFN rate in 2001 was 9.2%. The applied rate in 2001 was 10 rates ranging from 0% - 250%.

Sri Lanka applied tariffs to 6,225 tariff lines at the 8-digit level in 2003, which ranged from 0% to 250%, which comprised 11 rates. The majority of the products bore applied tariffs of 0-5%, 5%-10%, and 20% - 25%. The duty-free lines in 2001 were 36.2%, and the same was reduced to 10% in 2003. There were 2,188 duty-free items in 2001, and those were reduced to 625 in 2003, with the objective of collecting more revenue. In 2003, some changes to tariffs were made.

In 2004, the tariff structure had five bands; 2.5%, 5%, 10%, 15%, and 25%. The average applied MFN rate in 2004 was 9.8%. The Trade Policy Review 2004 of the WTO secretariat made a comment that there was a clear pattern of escalation in certain industries, with higher tariffs on processed items than on semi-processed goods and raw materials. According to that, higher levels of protection for goods and raw materials were given than for semi processed goods. Wood and furniture , and textile industry were the examples of the situation. In 1998, the average applied rate of the first stage of wood and furniture item processing was 8.5%, while semi processed products were 5%, and the finished products were 26.5%. The average applied tariff in the textile and leather sectors also followed the same pattern. The applied rate of the first stage of the product was 6.5%, while the semi processed was 2.5%, and the average applied rate of the fully processed was 13%. A similar pattern was followed in 2003, too. This pattern promoted the development of a manufacturing sector that concentrated on the processing of parts and components.

In 2005, the tariff structure was changed to four bands, such as 2.5%, 6%, 15% and 28% and continued up to 2014. The lowest tariff was imposed on basic raw materials. A medium level tariff was imposed on intermediate goods, and high tariffs were imposed on finished products, such as palm oil, electrical fans, and electrical parts with the view of protecting domestic producers. In addition to that, the duty waivers on rice, wheat grain, and wheat flour were withdrawn to protect domestic farmers.

In 2007, a single specific customs duty rates were introduced on ten selected food items, instead of surcharges on imports, VAT (Value Added Tax), SRL (Social Responsibility Levy), cess, PAL (Port and Airport Development Levy), and other charges were applicable to those at customs.

The duty-free tariff lines in 2009 were 44.4%. In 2009, there were only nine applied tariff rates, i.e., 0%, 5%, 6%, 15%, 16%, 30%, 75%, 100% , and 250%. The 100% to 250% were applied to very few products, such as cigarettes and tobacco. 23.1% of the tariff lines were subject to a tariff of 15%, and 21.3% were subject to a 30%. Most of the 30% was applied to agriculture and food products, consumer goods, chemicals, and other intermediate goods manufactured domestically.

In 2010, tariff rates of the four-band customs duty structure were changed to 0%, 5%, 15%, and 30% with the view of supporting local industries to increase production for export and local markets. The 2.5% customs duty of the earlier four-band system, which was mostly applied on importation of raw materials and machinery, was abolished, and these items were placed in the zero band. Intermediate and finished goods were placed on the middle and higher levels, respectively. In general, most basic raw materials were duty free, semi processed raw materials were subject to a rate of 5%, intermediate products to a rate of15%, and many finished products to a rate of 30%. It is evident that the tariffs were higher for processed goods than for semi-manufactured goods or raw materials. This is due to the development of manufacturing activities, mainly textiles and clothing, and furniture industry.

In 2013, some changes to the applicable rates were made. The 5% customs duty band of the previous tariff structure, which was mostly applied to imported raw materials, and machinery, was abolished and most of those items were placed in the zero-tariff band, while few items were placed in the 7.5% tariff band. Out of 6,577 products, 3,379 were placed at zero duty . 30% of the products were reduced to 25%, which were finished goods.

The new tariff structure was as follows.

Essential inputs not manufactured locally	- 0%
Raw material and semi-raw material	- 7.5%
Intermediate goods	- 15%
End user products	- 25%

In 2016, the three-band tariff structure (0%, 15%, and 30%) was introduced, and the same was continued until 2019. The applied MFN tariff in Sri Lanka consists of ad valorem rates, specific rates, and alternates. The tariff varies between 0% and 1,225% (including ad valorem equivalents of non-ad valorem rates). Over 96% of the tariff is applied on an ad valorem basis, with 3.6% of lines subject to specific rates (compares with 3.9% in 2010).

Table 1: Major Changes in the Tariff Systems 1993 – 2020

Year	Tariff system	Tariff rates
1993	Four bands	10%, 20%, 35%, 45%
1996	Three bands	10%, 20%, 35%
1998	Three bands	5%, 10%, 30%
2000	Two bands	10%, 25%
2002	Seven bands	2%, 5%, 10%, 12%, 15%, 20%, 35%
2003	Six bands	2.5%, 5%, 10%, 15%, 20%, 25%
2004	Five bands	2.5%, 5%, 10%, 15%, 25%
2005	Four bands	2.5%, 6%, 15%, 28%
2010	Four bands	0%, 5%, 15%, 30%
2013	Four bands	0%, 7.5%, 15%, 25%
2015	Three bands	0%, 15%, 30%

Source: Various Studies as mentioned above

3.3 Other duties (para – tariffs) and charges

Excise tax

The excise tax was imposed for revenue generation purposes and also to discourage imports. This was imposed on non-essential and luxury items, and applied to specific luxury products comprising 261 items. Excise duty is imposed up to 200%. The excise tax was imposed mainly on tobacco products, liquor, and motor vehicles with slight changes from time to time on other products such as aerated water, certain electrical goods, i.e., air-conditioners, refrigerators, washing machines, televisions, TV-antennas, fuel, inefficient motor vehicles, and hybrid motor vehicles.

Surcharge on imports

An import surcharge has been levied to give reasonable protection to agricultural commodities as an instrument of emergency trade protection. The surcharge was imposed in 1989. In 1994, the surcharge was introduced for seventeen products. Initially, the rate was 5% and increased to 40% in 2001, and later reduced to 20% in 2002, and to 10% in 2004. In 2005, a 10% import surcharge was imposed on all imported goods except certain food items such as milk and cream, potatoes, lentils, rice, sugar, infant food, etc., and this also continued in 2006 . The same was increased to 15% in 2008 and was imposed on most of the imports except certain basic goods. The surcharge was eliminated in 2010 and was replaced by a lower rate of special commodity levy.

Stamp duty

In the year 1995, a stamp duty of 2% of import duty of the value was charged as reported in the Letter of Credit. The stamp duty was abolished in 2002, and the same was replaced by the Port and Airport Development Levy (PAL) of 1%.

Port and Airport Development Levy (PAL)

The Port and Airport Development Levy is a tax imposed on imports for revenue purposes with effect from 2002. This levy is calculated on the cost of insurance and freight value of all imports. The PAL was charged in a range between 0.75% and 7.5%, with fluctuations from time to time.

Social Development Levy

This is a surcharge on customs duty imposed in 2007 which is10%. In 2009, surcharges on import of rice, potatoes, red onion, garlic, sugar, and chilies were replaced by a lower special commodity levy.

Special Commodity Levy (SCL)

The Special Commodity Levy (SCL) was initially introduced in 2007 for eleven categories of essential food items with the view of replacing different applicable duties and taxes, such as VAT, PAL, SRL, and other charges applicable at customs. SCL is a composite levy, and no other tax, duty, levy, cess, or other charge imposed in terms of any other laws specified as applicable in respect of the commodities specified in any such order. Items subject to a special commodity levy included sugar, canned fish, chickpeas, potatoes, onions, vegetable oil, margarine, dairy products, and fruits. It has been observed that from time to time, SCL has been replaced by customs duty on certain products, and again, SCL has been imposed when there is a low customs duty or zero duty on the same products. SCL has mainly been used as a protective measure as an alternative duty when there is a lower customs duty imposed on those products. On the other hand, the same mechanism has been used to reduce the price pressure by replacing the high customs duty by the lower rate of SCL.

Cess

The cess was charged at up to 10% of import duties, and it was applied to motor vehicles, alcoholic beverages, ,tobacco, and tobacco products (TPR/1995 sec). Later, this was levied on all imports into Sri Lanka, and the rate of the tax levied varies by product type. The cess varied from 5% to 35%, and specific rates from SLRS 6.00 (US$ 0.05), SLRS 350.00 (US$ 2.40), and SLRS 2,000.00 (US$ 13.73) on certain products from time to time.

Nation Building Tax

Nation building tax is imposed with effect from 1 February, 2009. Companies that have a quarterly turnover of more than US$ 5,800.00 were charged a Nation building tax of 2% on their imports, and later it was increased to 3%.

Export Development Board (EDB) Levy

In 1980, a cess of 10% was imposed to discourage the import of non-essential items to protect local farmers and manufacturers ,and to channel funds for research and development of export oriented products of the Sri Lanka Export Development Board. Imports which were subject to duties of 50% or more were required to pay this duty. The tax is applied on the c.i.f value and ranges from 1% to 35%. In 2004 and 2005, this levy was expanded to cover more items.

Value Added Tax (VAT)

In 2016, imports of cigarettes, liquor, light weight electrical and electronic goods, perfumes, coal, and telecommunication equipment were subject to VAT.

3.4 Sanitary and phytosanitary requirements

Regulations under the food act.

According to the act that regulates and controls the manufacture, import sale and distribution of food, food imported to Sri Lanka are regulated by the Food Act No.26 of 1980..

Under the Sri Lanka Standard Institution Act No.06 of 1984, the Sri Lanka Standards Institution operates a general hazard analysis critical control point certification scheme to ensure food safety.

Regulations under the plant protection act.

Plant imports are governed by the Plant Protection Act No.35 of 1999. Regulations in this act are in relation to plant quarantine activities. Plant imports need to be accompanied by a permit issued by the Director General Agriculture or the Additional Director of the Plant Quarantine Service. In addition, consignments must also be accompanied by a phytosanitary certificate issued within 14 days prior to shipment on International Safe Transit Association Certificate, a declaration stating that the consignment is free of soil, certain pests and seed treatment, and a certificate of origin. Non-approved vegetable seeds are not allowed to be imported into Sri Lanka. The import of fresh fruits and vegetables for human consumption must be accompanied by a certificate from the plant protection authority of the country of origin stating that the fruit has been in cold storage for more than two weeks. Certificates from countries having an incidence of fruit flies are not accepted. The consignment is subject to inspection by a Plant Quarantine officer.

The importation of certain plants is prohibited except for research purposes. Imports of soil and living modified organisms are also prohibited. Imports of animals and animal products are only permitted from countries officially cleared as "HPHI Provisional Free Status" by the OIE.

Regulations under the Animal disease act.

The importation of any animal, animal product, veterinary drug, veterinary biological product, animal semen, or embryo is governed by the Animal Disease Act No. 59 of 1992.

Under the act, a special permit issued by the controller of imports and exports based on the recommendation of the Director General of the Department of Animal Production and Health in the relevant line Ministry is required for the import of any animal, animal product, veterinary drug, veterinary biological product, animal semen, or embryo. A certificate from the chief veterinary officer of the country of origin stating that the product is free from any infective substance likely to cause disease in animals as well as zoontic diseases is required for the issuance of a permit for the import of animal products. For live animals, a certificate is required from the chief veterinary surgeon or an authorized veterinary surgeon of the country of origin. The certificate must set out the country of origin of the animal that the animal is and has been free from disease and has not been in contact with diseased animals for the three months prior to its exportation, that the place of origin of the animal has been free from disease for 3 – 12 months (depending on the type of animal) prior to the date of the departure of the vessel carrying the animal from the port of exit, and that the animal has been immunized against the specified diseases. Imports of meat or meat products must be accompanied by a certificate issued by a competent authority in the country of origin warranting that they are fit for human consumption and free from any infective substance likely to cause disease in animals. Animal products to be imported into Sri Lanka must be slaughtered and processed in establishments registered with the veterinary authority in the country of origin.

A safety certificate from the chief veterinary officer (or a veterinary surgeon authorized by him/her) in the country of origin is required for the importation of veterinary drugs or veterinary biological products. Furthermore, animal imports are subject to a minimum quarantine requirement of 30 days.

3.5 Other measures

Measures imposed through banking regulations

To discourage the excessive importation of high-value and fuel-inefficient motor vehicles, a deposit of 100% margin of deposit was introduced when opening import letters of credit .

To control the import of non-essential items, a regulation was imposed in 2006. Several items were brought to a requirement of a 50% margin of deposit when opening letters of credit and releasing documents on DA terms.

Import licensing

The import licensing system in Sri Lanka is governed by the Import and Exports Control Act no.01 of 1969 and subsequent amendments. There is no automatic licensing in Sri Lanka. Non-automatic licensing is primarily for the purpose of safeguarding environmental, public security, and public health interests. The list of items under licencing requirements is changing from time to time. This was done to strike a balance between the goals of protecting domestic growers and meeting local demand in order to lower the cost of living. The situations of onions, rice and rice products, and maize are the examples for the situation. At the end of 1996, 223 items out of a total of about 6000 items at 6 digit H.S.code level remained under licence control (CBSL Report 1996). About 300 items of a total about 6000 items at 6-digit H.S. level remained under import licence at the end of 1997 (CBSL report 1997). About 300 items out of about 6000 items at the 6 digit level of the H.S.Code remained under import licence at the end of 1998 (CBSL report 1998). About 300 items out of about 6000 items at the 6-digit level of the H.S.Code remained under import licence at the end of 1999 (CBSL report 1999). 329 items at the 6-digit level of H.S.Code remained under the import control act in 2000 (CBSL report 2000). 300 items at 6-digit level of H.S.Code remained under import control in 2001(CBSL report 2000). The total number of items to under import control act at six-digit level was 353 items (CBSL report 2002). The total number of items under import controls act at six-digit level of the H.S. code was increased to 376 in 2003 (CBSL report 2003). In 2004, the total number of items under licence control was 546 items at 6-digit level (CBSL report 2004).

Currently, import licences are required for only a few specified items due to health and security reasons. These products include fire arms and ammunition, drugs and pharmaceutical products, precious metals, alcohol, toxic and hazardous chemicals, pesticides, meats, and fresh produce.

According to the Import and Export Control Act No.01 of 1969, the upper limit of advance payment for imports was US$ 3,000.00. The limit was enhanced to US$ 7,500.00 in 1998.

Import inspection certification

In 2005, an import inspection certification system was introduced to discourage the import of substandard vehicles into the country.

Controls by the Central Bank of Sri Lanka

Exchange Control Act was enacted in 1953 to give powers to the Central Bank of Sri Lanka to control foreign exchange. The scope of the act is to make provisions for conferring powers and imposing duties on gold, currency, payments, securities, debt, the import-export transfer, and settlement of property to authorize the Central Bank to administer the provisions aforesaid and to provide for matters connected therewith.

In October 2008, the Central Bank of Sri Lanka introduced limits on forward contracts for the sale and purchase of foreign exchange. The objective is to prevent payments on import bills to curb the pressure exerted on the exchange rate and the balance of payments by the expansion of money and credit aggregates. The bank imposed a 100% deposit requirement on letters of credit for the import of non-essential items such as confectionery, chocolates, personal care products, electrical items, tableware, apparel, footwear, lighting products, and watches. Moreover, the 100% deposit requirement of opening of the letters of credit on the import of motor vehicles was increased to 200%. The above restrictions imposed in 2008 were removed in 2009.

3.6 Import restrictions and prohibitions

For health, safety, security, environmental and moral reasons, Sri Lanka imposes import restrictions on a range of products. These include appliances for discharging gas, crackers that contain explosives, firearms, toy pistols, counterfeited coins, fish grain, and other articles unfit for human consumption; meat (fresh or frozen) derived from any warm- blooded animal, if it consists of offal, scraps, trimmings, and other pieces in such a condition as to afford insufficient means of identification with a definite part of a carcass or from which certain glands have been removed, road vehicles and agricultural and construction machinery more than ten years old, guns designed to be disguised, weapons, ammunition, explosives, vehicles, and equipment capable of being used by the armed forces, except by license from the Ministry of Defence, jewelry or articles made out of ivory, and some medicaments and chemicals. The import of articles and books that are deemed obscene or that may offend religious beliefs, and narcotic drugs are prohibited.

The import of coconut, tea, rice, and cocoa planting material from all sources is prohibited under the plant protection ordinance. The import of sweet potato tubers from Africa is also prohibited under the same provisions.The import of live animals for human consumption is prohibited. The import of fresh fruits and vegetables from the countries having an incidence of fruit flies is prohibited.

In 2013, the import of undenatured ethyl alcohol was prohibited. In addition to that, virgin Hydrochloro Fluoro Carbon (CFC) was restricted, and a quota system was imposed.

3.6.1 Customs valuation

Sri Lanka implemented the agreement on Customs Valuation with effect from January 2003.

Sri Lanka has taken a waiver under the Agreement on Customs Valuation with regard to the valuation of used motor vehicles when they are importing to Sri Lanka. The authorized agent gives the value to the customs, and they depreciate the value according to the number of years from the date of manufacturing. The system has been implemented to avoid the revenue loss from under invoicing.

By the year 1996, it has been observed that there is a high demand for motor spare parts due to the poor condition of the vehicles. Hence, a 5%-point reduction in the depreciation rate was introduced in 1996 on consumption of import duties and other taxes on used motor cars. The maximum depreciated f.o.b value was fixed at 30% for vehicles used in excess of 7 years, which was earlier fixed at 10% for vehicles used in excess of 9 years. In 2013, changes were made to the depreciation schedule on the import of used motor vehicles.

4. Sri Lanka's commitments under the WTO

Sri Lanka is a founding member of the GATT. Sri Lanka ratified the Marrakesh Agreement establishing the WTO on 1 June1994 and became a founding member of the WTO on 1 January1995. According to the comments made to the WTO, Sri Lanka granted MFN status to all of her trading partners.

According to the commitments made at the Uruguay Round, Sri Lanka has bund all tariffs on all agricultural products on a 50% ceiling rate. Since then, the country has bound 98% of the items included in Annex I of the Agreement of Agriculture. Agricultural items which were not bound due to the Article XXVII negotiations were bound with effect from 1 January 2004 on the rates agreed during the negotiations. In addition to that, non-agricultural items are also bound at 50%. All tariffs affecting textiles were also fully bound. Most bound rates are ad valorem There is one specific bound tariff rate, and there are 38 alternate rates. Bound tariffs range from 0% to 75%. 47% of all bound tariffs are bound at 50%, which accounts for 1.7% of the total bound rates. The average bound tariff is 34.7%, compared with an average MFN tariff of 11.5%. The average bound tariff for agricultural products is 50.3%, while the average bound rate for non-agricultural products is 22.8%. According to the commitments made during the Uruguay Round and the subsequent unilateral commitments made in 2001 (according to the guidance of the World Bank and the IMF), the average tariff level on unbound products is 7%. Sri Lanka tried to increase the range of bindings in the industrial products sector also by 50%, from 4% to 8% of products (some of these are 7% and 11% of imports, respectively).

Sri Lanka's use of non-tariff barriers is relatively limited. With the liberalization of import controls, there has been a progressive withdrawal of licensing requirements. However, as a developing country with a small and vulnerable Economy, Sri Lanka uses import licensing from time to time as a policy instrument to control domestic supply and prices. The main area of this nature is the agricultural sector, where licensing requirements are removed and imposed frequently to ensure continuous domestic supply and stable prices. In May 2003, Sri Lanka notified her rules on import licensing to the WTO. Currently, a special licensing scheme is in force which was introduced on the basis of national security, health, environment, and certain economic reasons. In 2003, four hundred and seventy-four items at the eight-digit level were subject to import licensing. In 2010, Sri Lanka applied for non-automatic import licensing requirements on 500 tariff lines covering goods including grains, chemicals, some textile products, petroleum, and motor vehicles.

Sri Lanka enacted a new legislation on customs valuation on 7 January 2003, in accordance with the Agreement on Customs Valuation. However, the legislation has granted the flexibility to deviate from the binding commitments under the customs valuation agreement when there is a requirement, in the interest of the national economy or for any other reason, allowing for the use of minimum value. As an example, motor cars are a revenue-generating category for the Sri Lankan economy. In addition to that, motor cars are a product that is required to control the environment and for other reasons. Therefore, the Government of Sri Lanka obtained a waiver from the WTO to use the minimum value when importing used cars.

Sri Lanka is committed to following the terms of the agreement in pre-shipment inspection in accordance with the final act of the Uruguay Round negotiations. Sri Lanka is committed to accepting pre-shipment inspection activities carried out by the nominated and agreed institution in the exporting country upon verification of certain elements of the products carried out by the exporting country.

According to the provisions of the Agreement on Technical Barriers to Trade, Sri Lanka has notified 103 trade related technical regulations to the WTO. According to the commitments under the Agreement on Sanitary and Phyto Sanitary Measures, Sri Lanka has made 18 notifications to the WTO by 2010. Sri Lanka accepted the Agreement on Trade Facilitation in 2010.

Regional integration and other unilateral arrangements

Sri Lanka is a member of some regional trade agreements such as Asia- Pacific Trade Agreement (APTA), South Asian Free Trade Area (SAFTA), South Asian Preferential Trade Agreement (SAPTA), SAARC Agreement on Trade in Services (SATIS) and bilateral commitments such as Indo- Sri Lanka Free Trade Agreement and Pakistan- Sri Lanka Free Trade Agreement and Global System of Trade Preferences ,and it is also a beneficiary country of unilateral preferential regimes, such as many GSP schemes; mainly EU GSP scheme, and US GSP scheme.

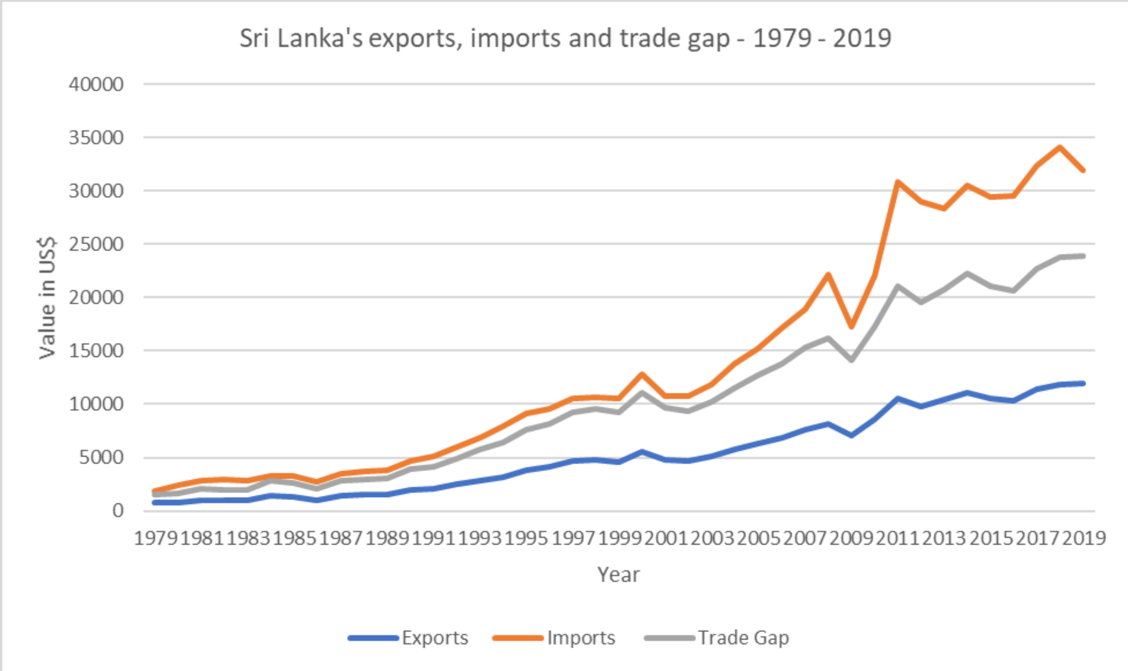
Table 2: Trade Gap between Sri Lanka's Import- Export (1979-2019)

Year	Total Exports in US$	Total Imports in US$	Trade gap in US$
1979	759	1,121	- 362
1980	818	1,576	-758
1981	1,024	1,780	-756
1982	1,006	1,969	-963
1983	998	1,811	-813
1984	1,432	1,823	-391
1985	1,311	1,956	-645
1988	1,477	2,240	-763
1989	1,547	2,227	-680
1990	1,984	2,686	-702
1992	2,461	3,505	-1,044
1993	2,864	4,011	-1,147
1994	3,209	4,767	-1,558
1996	4,095	5,439	-1,344
1998	4,798	5,890	-1,092
2000	5,522	7,320	-1,798
2002	4,699	6,106	-1,407
2003	5,133	6,672	-1,539
2005	6,347	8,863	-2,516
2010	8,626	13,451	-4,825
2013	10,394	18,003	-7,609
2015	10,546	18,935	-8,388

Source: UNCTAD Database

Sri Lanka started to follow an outward oriented economic policy at the end of 1977. According to the above Table 1 and Graph 1, it has been observed that Sri Lanka's imports and exports have both increased drastically. Moreover, the trend has shown a sharp increase, with some fluctuations since1994. In addition to that, it should be noticed that the trade gap has widened, especially after 1994.

Figure 1: Sri Lanka's Imports and Trade Gap (1979-2019)



Source: UNCTAD Database

5. Findings

Trade protection measures in Sri Lanka should be divided into three eras. The first era was from 1948 to 1977. Controls were at a minimum level during the early stages after independence. Tariffs are used as the main tool of import control with the objective of revenue generation. Subsequently, the government did not have any option but to introduce high tariffs and non-tariff measures to discourage imports to overcome the severe balance of payment problems. The period between 1970 to 1977 could be highlighted as the period with the most stringent import protection. All import control measures were drastically relaxed from 1978, since the country started to follow open economic policies. The main measure to control imports is considered as tariffs. Use of nontariff measures was discouraged and drastically reduced to a minimum level. More organized and transparent import control measures were introduced in 1994, after the creation of the World Trade Organization (WTO). Use of non-tariff measures was further discouraged and reduced to a negligible level. Tariffs were reduced and bound according to the guidance of the WTO. It has been observed that usage of para-tariffs to cover the reduced tariff protection rate has been increased since 1994 to date.

Sri Lanka has not followed the import substation policy since 1977. The government has completely focused on development exports. Hence, some permissible support for export development was implemented through cess. These funds, namely Export Development Cess, were spent for the functions of the Sri Lanka Export Development Board.

According to the trade statistics, it has been observed that Sri Lanka's exports, imports, and the trade gap have increased after the country started following outward oriented economic policies. The situation has shown a sharp increase since 1995.

6. Conclusion

The local business community was opposed to the sudden opening of the market as a result of the outward-oriented economic policy with no controls. They were of the view that it would destroy the domestic industries, and there would be many adverse impacts. The most hazardous situation they expected was the increase in unemployment. Some leading business organizations argued against the new outward-oriented economic policy. They have made a comment that wholesale import liberalization will be equal to the opening of flood gates. They were of the view that "export industries can only be built up on the strong base of serving the domestic market" and it appealed to the government "not to attempt to turn them into exporters while leaving the domestic market open for dumping of imported consumer products from countries which heavily subsidize exports" (Wijesekera, 1982). The anticipated hazardous situation had a negative impact on consumer welfare in the long term.

The forecast of the business community came true since most of the heavy industries that were under the government (state-owned enterprises) were also very vulnerable to foreign competition and made huge losses. Later, it was an additional burden for the general treasury since the general treasury was compelled to pump money to cover the huge losses of these industries. As a result, most of these government corporations collapsed. As an example, the state-owned steel industry collapsed due to the dumping of foreign steel manufacturers. Subsequently, the foreign exporters increased the price drastically. Consumers had to buy steel at a higher price than the price of the same product when it was manufactured domestically. Then it was too late to start manufacturing again since the technical staff had left the country seeking for foreign employment after shutting down the factory. Later, the same factory was purchased by a foreign company from the country that dumped the steel and started manufacturing at a higher price. Sri Lanka did not have trade remedy legislation at that time to control dumping and subsidize exports.

Imports, exports, and the trade gap has increased from 1997 to 2019. It has seen a sharp increase from1995 to 2019 with some fluctuations. The trade protection measures implemented by Sri Lanka have not had any effect on controlling overall imports since they started following the outward oriented economic policies, ,specifically after 1995.

A future study could be conducted on the impact of trade protection measures on some selected leading imports (specific products) to Sri Lanka.

Sri Lanka has a history of repeating itself. Until roughly 1977, the nation encouraged industrialization through protectionism in commerce and industry. These regulations stifled industrial and tea output. Sri Lanka liberalized its trade rules and developed special economic zones in an effort to break with the past (SEZ). Foreign trade policy, however, has been reversed since 2002. With the goal of preserving home industry, the government enacted a number of levies that had the same effect as tariffs. It also imposed export levies in order to stimulate downstream production. These and other restrictions were designed to preserve domestic production while encouraging enterprises in other areas to migrate up the value chain. According to the observations, it was found that tariff rates had a negative and significant impact on the exchange rate, total reserves, employment-to-population ratio, and the terms of trade. In addition to that, there is a negative and insignificant impact on imports, balance of payments, and the consumer index. There is a positive but significant relationship between tariff rates and GDP and value added by the industry.

References

Athukorala, P. C. (2012). Sri Lanka's trade policy: Reverting to dirigisme?. *The World Economy*, *35*(12), 1662-1686.

Central Bank of Sri Lanka. (1950-2020). *Central Bank of Sri Lanka Annual Report*. Central Bank of Sri Lanka.

Ekanayake, E.M., 1996. *The impacts of trade policy reforms on the Sri Lankan economy* (Doctoral dissertation, Florida International University).

Helleiner, G. K., & Helleiner, G. (Eds.). (1994). *Trade policy and industrialization in turbulent times*. Place of publication:Psychology Press.

Kaminski, B., & Ng, F. (2013). *Increase in protectionism and its impact on Sri Lanka's performance in global markets*. The World Bank.

Kappagoda, Niuhal, M. (1967). Foreign Exchange Budgeting – Ceylon's Experience. "Monthly Bulletin of the Central Bank of Ceylon. September.

Naranpanawa, R. M. A. K. B. (2005). *Trade liberalization and poverty in a computable general equilibrium (CGE) model: The Sri Lankan case*. (Unpublished PhD Thesis*)*. Griffith Business School, Griffith University, Australia.

Navaratne, N. M. C. (1991). Who bears the incidence of import protection? Evidence from Sri Lanka. *World development*, *19*(10), 1409-1419.

Peebles, P. (2006). *The History of Sri Lanka*. Westport, USA:Greenwood Publishing Group.

Pursell, G., & Ahsan, F. Z. (2011). Sri Lanka's trade policies: Back to protectionism. *Australia South Asia Research Centre Working Paper* No. 2011/03.

Rafeek, M. I. M., & Samaratunga, P. A. (2000). Trade liberalisation and its impact on the rice sector of Sri Lanka. *Sri Lankan Journal of Agricultural Economics*, *3*(1381-2016-115735), 143-154.

Tennakoon, K. U. A. (2004). *General equilibrium analysis of Sri Lanka's trade liberalization policy options* (Doctoral dissertation). The University of Auckland, New Zealand .

Rafeek, M.I.M. and Samaratunga, P.A., 2000. Trade liberalisation and its impact on the rice sector of Sri Lanka. *Sri Lankan Journal of Agricultural Economics*, *3*(1381-2016-115735), pp.143-154.

World Trade Organization. (1995). *Trade Policy Review: Sri Lanka* (Vol. 67). Geneva: WTO.

World Trade Organization. (2004). *Trade Policy Review: Sri Lanka*. Geneva: WTO.

World Trade Organization. (2010). *Trade Policy Review: Sri Lanka*. Geneva: WTO.

World Trade Organization. (2016). *Trade Policy Review: Sri Lanka*. Geneva: WTO.