

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Committee on Balance-of-Payments Restrictions

1981 CONSULTATION WITH SRI LANKA (SIMPLIFIED PROCEDURES)

Background Paper by the Secretariat

1. This paper has been prepared in accordance with paragraph 7 of the Declaration on Trade Measures Taken for Balance-of-Payments Purposes (L/4904) to assist the Committee on Balance-of-Payments Restrictions in taking the decision referred to in paragraph 8 of this Declaration.

I. Sri Lanka's previous consultations

2. The last full consultation with Sri Lanka took place on 22 June 1971. At this consultation the Committee recognized that the present balance-of-payments difficulties of Ceylon warranted the use of quantitative restrictions on imports. The Committee urged Ceylon to consider additional measures to increase foreign exchange earnings, particularly through promotion and diversification of exports, and expressed the hope that the recent improvement in the balance of trade would continue so as to enable some easing of the stringent restrictions placed on imports essential for the further development of the economy. (BOP/R/58, paragraph 27)

3. The last full consultation was followed by four consultations under the simplified procedures: September 1973, November 1975, May 1977 and November 1979.

II. The main changes in Sri Lanka's trade policy since the last consultation

4. The liberalization of the exchange and trade system begun in 1977 was continued throughout 1979 and 1980. On 15 February 1979 the Central Bank announced a range of measures aimed at the liberalization of the trade and payments system, including the abolition of the special list of importers previously maintained by the Central Bank.

5. Import duties were modified on a wide range of commodities during 1979. Rates were reduced for items including printing paper, television sets and parts, three-wheel scooters, and several commodities used by the hotel industry and by the leather and paper manufacturing industries. Duties were abolished on agricultural implements, bicycles, motorcycles and their components.

6. Duty rates were increased during 1979 on certain items including refrigerators, elastic tape, raw sugar and most textile products.

7. During the first half of 1980 import duties were raised on several items including machinery, tobacco, television sets, certain transport vehicles, several chemical products, certain types of synthetic yarns and iron and steel products.

8. The requirement for prior approval of imports of machinery was removed in May 1980 for machinery items falling under 64 BTN headings and maintained only for machinery items falling under one complete BTN heading and minor portions of three other headings.

9. Tea chest panels were added to the list of items subject to import licence in November 1980.

10. There has been a substantial reduction in the number of items subject to quotas over the period from end 1977 through 1980. These were reduced from 163 to 29, resulting in a considerable decrease in monopoly control over imports by the state sector. The private sector is now allowed to import the following items which were originally imported and controlled only by state monopolies: rice and flour; dried fish from countries other than India and Pakistan; western drugs; and full cream milk powder.

III. The major trends in Sri Lanka's foreign trade since the last consultation

11. Sri Lanka's trade deficit is estimated to have nearly doubled in 1980, to some \$900 million¹. Imports, which had increased by one-half in 1979, to \$1.45 billion, reached about \$2 billion in 1980. The share of petroleum in total imports rose from 16 per cent in 1978 to 17 per cent in 1979 and may have reached as much as 24 per cent in 1980. The net petroleum import bill (i.e., deducting from imports exports of refined products, mainly bunker fuel), roughly doubled in 1980 according to preliminary data. This was mostly due to higher prices. Rising prices also accounted for a sharp increase in sugar imports in 1980 and, to a much lesser extent, in other major food imports (rice and flour). Imports of machinery and transport equipment increased in 1980 in value terms at a rate only somewhat slower than in the preceding year (about 50 per cent against 65 per cent in 1979), reflecting a continued expansion of domestic fixed investment.

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¹Trade balance figures are here based on trade statistics: exports (f.o.b.) minus imports (c.i.f.).

12. In contrast, Sri Lanka's export growth, in dollar terms, appears to have decelerated in 1980 to around 10 per cent, from 16 per cent in 1979. While exports of tea increased somewhat, rubber and coconut product exports declined, both in volume and in value terms. Exports of crustaceans and molluscs also fell in 1980, although during the preceding year they had been one of the most rapidly expanding items. Apart from sharply increased exports of petroleum products, only an estimated 40 per cent rise in earnings from clothing exports brightened the picture of Sri Lanka's export performance last year, according to preliminary statistics available.