

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

BOP/W/72

22 September 1983

Limited Distribution

Committee on Balance-of-Payments Restrictions

1983 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 (BISD 26S/205) to assist the Committee on Balance-of-Payments Restrictions in taking the decision referred to in paragraph 8 of this Declaration. It updates the paper prepared for the 1981 consultation (BOP/W/48).

I. Sri Lanka's previous consultations in the Committee on Balance-of-Payments Restrictions

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 Sri Lanka warranted the use of quantitative restrictions on imports. The Committee urged Sri Lanka 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 five consultations under the simplified procedures in 1973, 1975, 1977, 1979 and 1981.

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

4. There is no licensing requirement except for certain specified imports. Imports that are subject to prior licensing include newsprint, certain consumer goods, and several major food items, i.e. rice, flour, and wheat grains.

5. Imports of certain items may only be made by state corporations. These include dried fish from India and Pakistan, dates, chillies, onions, potatoes, beedi leaves, certain petroleum products, films, consumer textiles, caustic soda, jute hessian (partial), and mammoties. Prior approval procedures apply to certain imports of capital goods: certain machinery imports relating to foreign investment require the approval of the Foreign Investment Advisory Committee, and machinery imports relating to local investment require the prior approval of the Local Investment Advisory Committee.

6. On 18 February 1983 the government increased all import duties and the turnover taxes payable at the point of import. Import duty rates on all dutiable items compared with previous rates are as follows:

Old rate	New rate
Free	5%
5%	7 ¹ / ₂ %
7 ¹ / ₂ %	10%
10%	12 ¹ / ₂ %
12 ¹ / ₂ %	15%
more than 12 ¹ / ₂ % but less than 100%	up 10 percentage points for each band rate of duty

The revision of the rates of the turnover tax payable at the point of import is as follows:

Old rate	New rate
2%	4%
5%	7 ¹ / ₂ %
10%	15%
15%	20%
35%	40%

Under the new scheme, importers selling imported items directly to customers and manufacturers are no longer entitled to a rebate on the turnover tax payable at the time of the import.

III. Recent trends in Sri Lanka's economy and foreign trade

7. The drought in 1982 severely damaged Sri Lanka's tea output, reducing it by 11 per cent to the lowest level in more than twelve years, and brought about declines in several other crops, particularly rice. Due to the still dominant place of agriculture in the economy, its low output growth in 1982 was translated into a slower overall economic expansion despite sustained growth in manufacturing and most services sectors. Real GDP growth, which had averaged over 6 per cent annually since 1978, slowed to roughly 5 per cent in 1982. Consumer prices increased less in 1982 than in the previous year (by 11 per cent versus 18 per cent) but the rate of inflation tended to accelerate near the end of the year. Between December 1982 and May 1983, consumer prices increased by 9¹/₂ per cent.

8. Exports posted a volume expansion of about 10 per cent in 1982, a rate equalled or surpassed only twice in the last 35 years (in 1964 and 1975); in dollar value, however, they remained at about \$1 billion. Earnings from the three major agricultural exports (tea, rubber and coconut products), which account for about one-half of total exports, declined due to lower dollar prices; the volume of tea and rubber exports fell somewhat, but shipments of coconut products rose steeply. Volume gains were also notable in exports of some minor agricultural commodities as well as certain manufactures (clothing, footwear and rubber articles). Import volume growth was modest again in 1982 (2 per cent, compared with 4 per cent in 1981 and the annual average of 25 per cent in the previous four years). The value of imports totalled nearly \$2 billion in 1982. The food import bill fell markedly, despite increased volumes for rice and wheat, mainly due to falling prices and to lower sugar requirements. Petroleum imports rose by nearly one-quarter in value and their share in total imports reached 29 per cent. Volume declines were recorded in imports of fertilizers and investment goods (except transport equipment).

9. In the first quarter of 1983, dollar export earnings were 8 per cent lower than in the corresponding period of last year, partly due to decreased volumes of agricultural exports. Imports remained at the same level as in the first quarter of 1982, in dollars, and a wider trade deficit was therefore registered.