Tariff barriers non tariff barriers in sri lanka economics essay

As we all know, its very difficult to have an international trade without access to the domestic markets of other countries and this trade facilitation has been continuously encouraged by the WTO/GATT discussion. Although there is high attention regarding the free trade, certain barriers imposed mainly by the importing country are quite normal especially in developing countries. Though this block the freeness of international trade there are arguments with fair reasons, such as local industry protection, as a solution for dumping behavior by foreign Governments or companies and also solution for balance of payments deficit.

As like other countries trade barriers in Sri Lanka is also mainly of two types,

Tariff Barriers

Non Tariff Barriers

Tariff Barriers

The most widely utilized barrier to market access for goods is customs duties; also this is referred to as tariffs.

An import tariff is a tax that is levied on goods when they imported to a country for domestic consumption and this has been the most common method used by governments to protect domestic industry from foreign competitors and also as a means of raising government revenue.

In the current world countries are shifting from high tariffs to value-added for revenue purposes and such taxes are also based on the value of the goods

In general there are three types of tariffs:

An ad valorem tariff that is based on a fixed percentage of the value of the good that is being imported; for example, 7% of the value of computer equipment;

A specific tariff that prescribes an amount of money and doesn’t vary with the value of the imported good but may based on the quantity or weight of the good;

A mixed tariff, which is a combination of the two types of tariff previously mentioned.

Although there are three categories of tariffs most commonly used tariff type is Ad valorem customs duties. These custom duties remain an important barrier to trade because of below reasons,

Most developing countries still maintain high customs duties.

Developed countries still have high, to very high, duties on specific groups of ‘ sensitive’ industrial and agricultural products.

In competitive markets and in trade between neighboring countries, a very low duty may still constitute a barrier

In simple terms when application of tariffs it will raise the price of the importing good which most of the time it’s well above the local production as shown in the below table and figure.

Table 1

Figure 1

Current tariffs in Sri Lanka are under following categories.

Customs Duty

Surcharge

Port and Aviation Levy (PAL)

Cess Levy

Value Added Tax (VAT)

Exercise Duty

RIDL

SRL

Nation Building Tax (NBT)

Trends in tariff barriers in Sri Lanka

Rs. Millions

2000

2001

2002

2003

2004

2005

2006

2007

2008

2009

Total Imports

554209

532964

584491

643749

811138

891359

1066689

1250386

1525705

1172618

Tax Revenue

182392

205840

221839

231597

281552

336828

428378

508947

585621

618933

% of Tax on Imp

32. 91

38. 62

37. 95

35. 98

34. 71

37. 79

40. 16

40. 70

38. 38

52. 78

Table 2

Source : Central Bank of Sri Lanka, Economic and Social Statistics 2010

As per the Table 2, there has been increase of import tax contribution to the government revenue and this clearly shows that country has failed to facilitate the international trade with regard to the tax position. This may happened mainly due to the civil war that Sri Lanka experienced during past couple of decades where war expenses was a significant amount of total government expense which heavily depended on import tax.

Figure 2

Source : Central Bank of Sri Lanka, Economic and Social Statistics 2010

As per the figure 2, over the last decade the import tax % have maintained between 30%-40% which is quite high and at the later part it has hit more than 50% which restrict the free trade significantly.

Figure 3

Source : Central Bank of Sri Lanka, Economic and Social Statistics 2010

As per the figure 3, total import value and the tax revenue are very close and in the later part of the decade it became almost the same which implies that the imports were heavily taxed during that period.

Non Tariff Barriers

Non-tariff barriers are barriers that restrict imports in some way other than the imposition of a tariff. Normally they are many in numbers and may impact on trade direct or indirect means to limit or restrict free trade. These barriers can be listed as follows,

Quantitative restrictions:

Quota

Voluntary Export Restraints

Automatic and non automatic Licensing

Other Non Tariff Barriers:

Exchange controls

Embargoes

Production subsidies.

Technical Regulations, Standards and conformity assessment procedures

Sanitary and Phytosanitary Measures

Lack of Transparency in government requirements

Unfair and arbitrary application of the government regulations

Customs formality and procedures

Pre shipment inspection

Origin Requirements

Government Procurement Requirements

Trends in non-tariff barriers in Sri Lanka

Although Sri Lanka use tariffs as the main mode of barriers to trade, there are few non-tariff barriers also exists which mainly affect the free trade in agricultural products such as,

In the fruit industry in Sri Lanka there are few government regulations and origin requirements such as fruit importation from a non growing area (Country) into Sri Lanka is prohibited

Example: Importation of fruits from Dubai is prohibited since Dubai is a non growing area.

and also fruit that has even a little commercial production are not allowed to import.

Another main example is Fertilizer subsidy (which is nearly 10% of actual cost) given to the Rice farmers make the production cost of Rice considerably down. This encourage paddy farmers to re-engage in the production and as a result they have succeeded to produce at a very low cost which enable them again in the rice market. On top of this importation of Rice is restricted through an import license given only to import selected varieties such as Basmathi Rice. These changes have restricted the international trade with regard to rice.

With regard to Sanitary and Phytosanitary requirements for an example preventing any agricultural based commodity or wood/timber from South American countries are restricted due to the fear of transferring any insect which may destroy the local Rubber plantation

Trend in both barriers in Sri Lanka

When evaluating last 5-6 decades there is a couple of fluctuations in the trade barriers; which have caused big impact on the international trade.

In 1950’s-1960’s there were barriers on few selected areas such as restrictions on foreign investments and nationalization of the Port, Insurance and the passenger transport services ands some stringent import and exchange restrictions. But after 1960 till 1977 Sri Lanka heavily moved towards protectionism trade policies with full of trade barriers.

With the change of the government in 1977, the trade policy change, new set of policies were introduced which more towards the open market free trade, such as,

Infrastructure developments such as Roads and Port sector.

Trade and Exchange controls were liberalized.

Liberalization in Shipping opening to foreign carriers to serve

Incentives were offered to enhance foreign and domestic investment

Encourage the private sector to take leading role in the economic progress

Removal of the import quota system

Though there is a good start in 1977 in terms of trade facilitation, after 1990's we can see clear slow down in terms of trade facilitation and also there were quite a significant amount of trade barriers are also in place. The civil war which Sri Lanka experienced might affect this situation considerably.

Conclusion

When evaluating Sri Lanka in trade facilitation context, as of now the country shows a very minimal improvements or negative improvements on removing trade barriers, which authorities should have to seriously put some efforts in improving the below three major areas,

Border management institutions – Sri Lanka Customs

Invest in trade related infrastructure

Transport regulation policy

Figure 4

When comparing the LPI 2010 score with the LPI 2007 Sri Lanka lost its position by 45 ranks which display a huge drop in terms of trade facilitation.

Although LPI shows a significant drop in the rank, Sri Lanka was among the higher side in terms of World Bank 2010: " Doing Business Report" among the developing countries. For example efficiency in handling for both Imports and exports are relatively higher comparing with developed nations.

Since now Sri Lanka is free from the civil war and the major attention is on developing the country's economy, it's very important that Sri Lanka should facilitate the trade by trim down un-necessary high import tariffs and also non-tariff barriers which will definitely have a very positive impact on free trade.

And also in this process Sri Lanka needs to give strong attention on improving the LPI's ranks in below areas,

Efficiency of the customs clearance process

Quality of trade and Transport related infra-structure

Ease of arranging competitively priced shipments

Competency and quality of logistics services

Ability to track and trace consignments

Frequency within which shipments reach the consignee within the schedule or expected time.

If Sri Lanka can do the above improvements there will definitely be a removal of significant amount of trade barriers which facilitate the trade enormously which will directly help to develop the country's economy.