Remarks made by Mr. K.M. Mahinda Siriwardana, Secretary to the Treasury and the Ministry of Finance, Economic Stabilisation and National Policies, at the *"Business Consultation Workshop on the Draft National Tariff Policy"*, organized by the Ministry of Finance, in collaboration with the World Bank, and held on 14 March 2024 in Colombo

Secretary, Ministry of Industries,
Representative of the Australian High Commission in Sri Lanka,
Representative of the World Bank,
Distinguished invitees,
Members of Committee on the National Tariff Policy,
Ladies and Gentlemen.

It is my pleasure to share a few words at the business consultation workshop on the draft National Tariff Policy, organized by the Ministry of Finance in collaboration with the World Bank.

This workshop will enable us to obtain comments and observations of the business and industry community to shape the proposed National Tariff Policy Framework.

The unprecedented crisis that affected Sri Lanka since mid-2021 has deep structural roots. A comprehensive reform process has been put in place by the government since mid-2022 to stabilize the economy and set the foundation for recovery and growth. The early signs of stabilization are now visible with a recovery in key macroeconomic conditions, including inflation, interest rates, exchange rate and fiscal balances. However, it is now necessary to shift trajectory towards economic growth.

It is also necessary that there is a qualitative improvement in economic growth compared to what was experienced pre-crisis. In the post-conflict decade, growth was dominated by the non-tradable economy with sectors like construction, finance, and domestic trade dominating growth. However, in order to ensure the ability to sustain external debt service obligations through the medium term, it is essential that growth is driven by the non-tradable sector. This includes exports of goods, exports of services (including tourism), and FDI.

Whilst Sri Lanka was the first country in South Asia to adopt an export-led open economy policy framework, including trade and financial liberalization in 1978, Sri Lanka has failed to sustain its export-led growth trajectory with a consistent, conducive policy environment. Economic policy as a whole and trade related policy specifically has seen frequent changes with the policy often changing in line with the political cycle. This is certainly not conducive to the development of a predictable and transparent operating environment in which exports and investment can thrive. Therefore, significant reform is required to convert Sri Lanka into a highly competitive, export-oriented economy.

The government has accordingly commenced implementation of a number of policy reforms to facilitate this shift towards non-debt creating inflows. The Office for International Trade has been established to spearhead negotiations on a number of Free Trade Agreements that will expand market access for exports from Sri Lanka and enable firms in Sri Lanka to participate in global and regional production value chains. A National Productivity Commission is being established to help address the productivity enhancement needs of the domestic industrial sector as they are exposed to greater international competition. A new Investment Law and Economic Commission will create a unified institutional approach for the promotion of trade and investment.

In addition to these institutional arrangements, it is necessary to address the macroeconomic and fiscal barriers to trade expansion and productivity enhancement. In the past, Sri Lanka's weak domestic revenue mobilization capacity has resulted in an excessive reliance on border tariffs. This created high tariff protection for a number of domestic sectors – driving up prices for consumers, and raising intermediate costs for manufacturers. For example, construction materials have significant tariffs, causing building costs in Sri Lanka to be very high.

An unintended consequence of this has been the development of an anti-export bias as scarce resources have flowed into highly protected domestic industrial sectors which are not necessarily competitive on a global scale. Sri Lanka's border taxes have become highly complex, opaque, and distortive, with high para-tariffs, such as cess and PAL, which increase the cost of doing business and hinder investments. There are also numerous exemptions, often without rational basis, which also create governance related risks. Elevated tariffs and para-tariffs also create extra incentive for corrupt practices, such as under-invoicing, adding to serious governance failures.

Considering the above, it is necessary to review Sri Lanka's tariff structure in a comprehensive manner. The new tariff policy would require a balance between the interests of consumers, importers, domestic producers, exporters, and fiscal authorities, among others. That is why this kind of forum is very important as part of a comprehensive consultation process to consolidate the different perspectives of various stakeholders in the formulation of the National Tariff Policy. However, in this consultation process, it is crucial that all stakeholders adopt a holistic and open minded view taking the national interest into perspective as opposed to the interest of a single sector or industry. It is necessary to consider the interests of 22 million consumers, the country's need to expand exports and investment, alongside the interests of employees and domestic manufacturers.

A World Bank study has revealed that Sri Lanka's untapped merchandise export capacity is US$ 10 billion annually. The study estimated that this untapped export potential, if exploited, could create an additional 142,500 jobs, generate US$ 8.5 billion in net inflows of foreign exchange, and bring an additional US$ 280 million in tax revenue.

The adoption of a simple, transparent, and predictable National Tariff Policy will create significant positive impacts on the business environment, export landscape, and consumer welfare. At the same time, as tariffs are rationalized, there could be disruptive impacts on domestic manufacturers who compete with importers. Therefore, measures must be taken to ensure such disruptions can be absorbed and domestic manufacturers get the required assistance to improve their productive capacity to enable them to compete. The National Productivity Commission has a key role to play in this regard. Furthermore, tariff rationalisation, particularly the phasing out of para-tariffs, which is already being implemented, will also have adverse impacts on government revenue collection. This is particularly significant at a time when revenue management is a key challenge, and therefore, this process must also be managed in a careful, gradual manner.

The development of the National Trade Policy must also take into account modern trends in global trade and investment. Today, international trade is dominated by global and regional value chains. Such a trading regime requires predictable tariff frameworks which do not disrupt flow of trade in raw materials and intermediate products. This would set the foundation to enable Sri Lanka to diversify its export base out of the present narrow set of products and markets.

Finally, I would conclude that a National Tariff Policy Framework is a long felt requirement of the country from the business community and consumers. I would urge you to provide your constructive feedback to the Committee enabling them to incorporate it as appropriate in designing the proposed National Tariff Policy, creating a framework with consistency, transparency and predictability for all purposes as part of recovery and growth measures.

Thank you.