

Spotlight: Econ Op-eds in Summary

Week ended 09th June '21

In Summary

The underneath contains summaries of the articles given above, including key extracts from these articles.

1. Trade in the pandemic era: A 1-year assessment

By: Dr. Asanka Wijesinghe

- Although trade volumes contracted in 2020, the WTO's recent estimates showed that trade contraction for 2020 was much lower than they had previously expected. New data has also shown a recovery in global trade similar to 2019 levels. However, Sri Lanka's exports need further recovery in order to reach the 2016-2018 trend levels as exports plummeted mid 2020 in light of the pandemic.
- As exports remain low, authorities have taken to restricting imports in order to maintain a bearable balance of payments. The restricted imports include food items, of which although production prospects are promising for now, economists predict to see a large decline given the chemical fertilizer ban. To avoid a shortfall in food, imports of food items must be allowed.
- Although global trade is recovering, current import controls inhibit Sri Lanka's integration into the global market. The government must re-assess import controls for two main reasons. One reason is that COVID-19 has reduced purchasing power for daily wage earners, and the other is that domestic food shortages may be created if there is a shortfall in domestic production.

On the front page of The 'New York Times' 27 March edition, a staggering chart illustrated COVID-19-induced unemployment level in the US. The front page will certainly join the club of the most creative front pages, but it was an alarming attestation of the economic impact of the coronavirus pandemic.

Many countries, including Sri Lanka, started practicing mobility restrictions from March 2020. As a result, in parallel to the slowdown of global merchandise production, trade volume also contracted from the second quarter of 2020. However, the World Trade Organization (WTO) estimates that the realised trade contraction in 2020 was just 5.3% contrary to the April 2020 forecast of a sharp contraction by between 13% and 32%.

Meanwhile, countries used trade policy to ensure that essential food, drugs, and medical equipment are available domestically. In addition, countries like Sri Lanka used trade policy tools to contain imports to allay pressures on the domestic currency.

This article discusses global and Sri Lankan trade during this pandemic, the impact of the pandemic and trade policy on Sri Lanka's trade and food imports, and policy options for sustained growth in trade and domestic food security.

Global trade recovered more rapidly than expected

The COVID-19-induced global trade contraction renewed the dialogue on a de-globalising world order. However, new data and estimates show that global trade has rebounded to the level at the beginning of 2019.

A novel seaborne trade dataset provides an idea of the movements of trade patterns. The trade volume returned to the 2017-2019 average levels by the beginning of 2021 after a sharp plunge in May-2020. It also shows the recovery of bulk, container cargo, and total trade indicators for Sri Lanka.

A noticeable pandemic-induced plummet in exports is visible around May-June of 2020. Reduced demand and the Government's import restrictions might have caused the contraction in imports. The monthly trade data published by the Central Bank of Sri Lanka also illustrate similar trade patterns.

Sri Lanka's trade sector is recovering but remains below the pre-2019 level

A basic analysis of the trend of exports shows that Sri Lanka is yet to achieve a full recovery to the 2016-2018 trend level. Crucial sectors like textiles and tea exports are still below pre-pandemic levels. Moreover, Figure 3 shows that some sectors face subsequent plummets after the sharp drop around May 2020.

The reason should be the effect of different COVID-19 waves on global demand and domestic supply of merchandise goods. However, the recovery of textiles and agricultural exports, braving the pandemic, is assuring, and credit goes to the management and the workforce. As these sectors are the driving force of Sri Lanka's exports, it is imperative to fast-track the vaccination of the labour force to ensure sustained trade growth. With the rise of the third wave of COVID-19 in the country, the importance of a fast vaccine roll-out cannot be overemphasised.

The analysis of import patterns shows that imports are contained below the pre-pandemic level. Imports of vehicles and non-food consumer goods face larger contractions, implying the effect of import control measures. Though these categories can be classified as non-essential goods, the import controls' effect expands to crucial intermediate goods.

Non-fuel intermediate goods and investment goods recovered slowly. The picking up of these imports at the beginning of 2021 is promising, but trade policy should encourage further growth.

Continuing import controls and food security

Global food prices are rising though the production prospects are encouraging. In Sri Lanka too, food inflation is on the rise. However, Sri Lanka continues to impose import restrictions on food items. While the data on trade value of food and beverages shows that imports recovered to the pre-pandemic level, trade volume data of the top 10 imported food commodities show a declining trend.

Imports of food items like onions, sugar, canned fish, and dried fish are below 2017/19 averages. Special commodity levies are being imposed on food commodities periodically. In addition, the credit base requirements are supposed to delay the outflow of foreign currency, though the trade volume data show that credit basis did not affect trade volume much (Figure 5).

The proposed chemical fertiliser ban should be considered in the context of these restrictive trade policies. Economists predict a significant plunge in rice production if the proposed chemical fertilizer ban forces farmers to use only organic fertiliser. Therefore, a drastic food shortage can be avoided only through imports.

Lessons learned and the way forward

Contrary to the expectations of globalisation critics, global trade is recovering. Sri

Lanka's imports and exports are also picking up. However, the slow recovery of non-fuel intermediate goods imports, investment goods, and the suppressed imports of essential food commodities require policymakers' attention.

The rapid export recovery to the pre-pandemic level and continual growth from that point need integration to the global market. **Current import controls are inimical to such integration.** Though exchange rate crisis is a valid concern from the policymaker's perspective, the short-term remedies should not be worse than the issue. **Backward and forward participation in global value chains will dampen the pressure on domestic currency in the long run.**

In the context of domestic food security, the government will have to re-evaluate existing import controls for two reasons. **Firstly, the third wave of COVID-19 may cause substantial income loss for informal sector workers reducing their purchasing power.** Food inflation can drag them below the poverty line. Secondly, the ambitious green agriculture policies may **create a domestic food shortage if imports do not compensate for production losses in the interim.**

[For the full article – Refer Daily FT](#)

2. Promoting organic agriculture Repercussions of the fertiliser ban By Nimal Sanderatne

- A recent report by the Sri Lanka Agricultural Economics Association (SESA), while acknowledging and endorsing the decision to adopt a green socio-economic model, raised concerns about the recent decision to ban chemical fertilizer and pesticides and impact it could have on the productivity of agricultural goods.
- While more and more countries are currently adopting this green socio-economic model, most countries take systematic and pragmatic approaches to achieve this long-term objective by first setting targets, standards, and subsequently, investing and promoting farmers to adopt best practices.
- As such the SESA proposes a three-point policy package to incentivize organic cultivation. These includes, encouraging organic fertilizer production, developing national standards for organic fertilizer and improving awareness of various organic farming technologies.

The **Government's decision to ban chemical fertiliser and pesticides immediately, in order to promote a green agriculture in the island has serious repercussions** on the economy and livelihoods of people. The Government should consider the economic consequences of an immediate ban and adopt a **phased introduction of organic agriculture on scientific principles.**

Economic consequences

An immediate ban of chemical fertilisers, weedicides and pesticides would have dire economic consequences on agricultural production, livelihoods of farmers and external finances of the country.

A ban on chemical fertiliser would **reduce production of both food crops and export crops, impoverish farmers, decrease food availability, increase food prices and reduce accessibility of low incomes to adequate food, threaten food security, increase import expenditure, reduce export earnings and worsen the country's weak external finances.**

The Government should consider all the economic consequences of such a sudden ban and adopt a phased introduction of organic agriculture on **scientific principles and realistic possibilities.**

Vibrant discussion

There has been a vibrant discussion on the agronomic and economic consequences of the fertiliser ban in the media, among the scientific community and agricultural economists. Yet, as is often the case, these do not appear to have had any influence on policy makers.

Agricultural economists

A few weeks ago, the Sri Lanka Agricultural Economics Association (SAEA) consisting of a large number of agricultural economists in Sri Lanka and its members abroad had a vibrant discussion on the impact of banning chemical fertiliser.

On the basis of this extensive discussion, a well-considered memorandum titled: The Green Socio-Economic Model and the Agriculture Sector of Sri Lanka: Insights from the Sri Lanka Agricultural Economics Association (SAEA) was sent to His Excellency the President with copies to all important policy makers. Last week's Sunday Times and other newspapers had succinct summaries of this memorandum titled "The pros and cons of organic agriculture."

The SAEA's position

The memorandum said the membership of the SAEA "**endorses the Government's decision to adopt a green socio-economic model** for development as we firmly believe that such a strategy would be critical to conserving the environment and improving human health."

The Association agrees that "green approaches in crop cultivation contribute significantly towards achieving Sustainable Development Goals (SDGs)" and "is of the view that most of the current farming systems in Sri Lanka are unsustainable. Hence, the conversion of them into organic farming systems, in the long run, would help promote health of the people and nurture integrity of the nation's environment."

Other countries

The letter points out "**that many countries currently take systematic and pragmatic approaches to achieve this long-term objective by first setting targets, standards, and subsequently, investing and promoting farmers to adopt best practices.**"

Serious concerns

In spite of support for a green agriculture, SAEA, brings out serious concerns on the appropriateness of the newly introduced regulation to restrict forthwith the importation of chemical fertilisers and pesticides by the Gazette Extraordinary No 2226/48 of May 6, 2021, to achieve the above-mentioned broader development goal.

Economic losses

The **SAEA predicts massive economic losses due to potential yield losses in the absence of proper substitutes for chemical fertilisers and pesticides with the implementation of the import ban on fertilisers and pesticides.**

The immediate adverse impacts on food security, farm incomes, foreign exchange earnings and rural poverty can be detrimental to achieving the cherished long-term goals. The SAEA's primary concerns and the less costly policy alternatives proposed by its members in place of the newly introduced import ban are that "the policy instrument identified by the government to promote organic farming is less appropriate due to potential economic losses and its incompatibility with other policy goals of the Government."

Costs and benefits: Paddy

It points out that "When converting from conventional agriculture into organic farming, the government should weigh the technological, environmental, and economic costs and benefits. The preliminary findings of the studies conducted by the SAEA on potential economic losses of the import ban reveal that the average yields from paddy can drop by 25 percent if chemical fertilisers are fully replaced by organic fertilisers and this loss in productivity could reduce the profitability of paddy farming by 33 percent and rice consumption by 27 percent, if paddy is cultivated only with organic fertilisers with a complete ban on rice imports.

In contrast, applying organic fertiliser with the recommended dosages of chemical fertilisers would improve the profitability of farming by 16 percent.

Tea

The SAEA points out that the absence of chemical fertiliser would drastically reduce the productivity of Vegetative Propagated Tea (VPT) by 35 percent and the export volume from 279 to 181 million kg that would in turn result in an income loss of Rs 84 billion.

Estates are likely to incur significant losses compared to those of tea smallholders and could be further aggravated due to increased cost of labour to apply bulky organic fertilisers.

Coconut

The SAEA points out that coconut yields would be reduced by 30 percent if chemical fertilisers and pesticides are not applied. This situation will adversely impact fresh coconut availability, production of coconut oil, desiccated coconut and other coconut products.

Foreign exchange loss

The report states that loss in foreign exchange earnings can be as high as Rs 18 billion, based on the assumption that only 26 percent of the total coconut extent is fertilised. When the additional cost for the importation of edible oils is considered, the loss of foreign exchange earnings will be even higher.

Other consequences

The SAEA memorandum discusses several other adverse economic consequences of the fertiliser ban on GDP, trade balance and other development objectives of the government. It goes on to suggest an alternate strategy for agricultural development.

Alternate strategy

The SAEA suggests the Government use more cost-effective instruments to achieve the stated health and environmental outcomes in place of the newly introduced import regulation. They note that globally, the approach to environmental protection has been evolving from a regulation-driven approach to a more proactive approach involving voluntary and market-led initiatives.

Policy package

Accordingly, they propose the following three-point policy package to incentivize organic cultivation using safe and environmentally friendly organic fertilisers and pesticides:

1. Open up pathways towards encouraging organic fertiliser production, storage, distribution, etc. and promote Public-Private Partnership (PPP) models to achieve those.

2. Develop national standards for organic fertilisers and pesticides to ensure non-importation of substandard products to the country and domestic production meeting specified quality standards.
3. Improve awareness of various organic farming technologies among farmers through a strengthened extension system. These are discussed in much detail in the memorandum to the President.

Recommendation

The recommendation of the Sri Lanka Agricultural Economics/Association (SAEA) is for the Government to lift the ban on chemical fertiliser and pesticides and to gradually reduce the subsidy on chemical fertilisers.

In conclusion

It would be prudent to consider all the above economic consequences and adopt a phased introduction of organic agriculture on scientific principles and realistic possibilities. The economic consequences of banning chemical fertilisers immediately are horrendous. We should adopt a phased introduction of organic agriculture on scientific principles.

[For the full article – Refer Sunday Times](#)

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