

IMPACT OF CONSTRUCTION COMMODITIES IMPORTATION ON THE SRI LANKAN ECONOMY

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DECLARATION

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ABSTRACT

The construction industry is generally set to be heavily relied on imported construction commodities. One of the key concerns is its impact on the trade balance which is an integral component of a country's balance of payments. A trade deficit can exert pressure on the overall balance of payments, potentially leading to negative consequences. A persistent trade deficit may require Sri Lanka to draw down its foreign exchange reserves to cover the shortfall in payments for imported construction commodities. Many researchers have studied the relationships between economy and construction sector and highlighted the industry's positive contribution to economy in many countries. However, it is important to study its' negative side effects also in order to assess the position of the construction industry in any country's economy. In this context, this research aimed to investigate the impact of construction commodities imports on the economy via the case study of Sri Lanka.

Initially, an extensive literature review was carried out to gain an in-depth knowledge and understanding about the research area, overview of Sri Lankan economy, significance of imports, economic theories relevant to imports, challenges and risks in imports, benefits of imports, factors/policies influencing and harmonized coding system. Mixed research method was used to achieve the objectives of the study. The study primarily employed a quantitative method where a documentary review into the archives of the Department of Customs, Sri Lanka was done to extract imports related data. The document review was further extended into other sources of reports to examine the trade policies and agreements influencing imports. The required data extracted were analyzed using descriptive statistics and content analysis.

The research focused on imports of 1060 construction related commodities as per the Harmonized System (HS) Codes. The above selected construction commodities were then categorized into 13 main categories, of which 80% represents construction materials while remaining 20% represents machineries and mechanical appliances. Article of Iron and Steel (13%), Iron and steel (13%), Bituminous Substances (11%) and Cement (10%) were identified as key imports materials. These materials mainly imports from China, India, Russia, Pakistan, South Africa, United Arab Emirates,

United Kingdom, South Korea and Indonesia. As per CBSL reports for the period of 2010 to 2022, the average construction materials imports out of total imports was 6.6%. Further, it was found that strong relationships exist in between construction performance, national economy and construction imports. Moreover, Sri Lanka has entered into FTA with other countries / organizations namely APTA, ISFTA, PSFTA, SAPTA, SAFTA & SLSFTA and granted preferential tariff benefits to a wide range of products. Finally, some recommendations are provided for minimizing the adverse economic impacts stemming from heavy reliance on imported construction commodities which included diversifying the country's imports portfolio, fostering local production through incentives, and renegotiating trade agreements to better serve the national interest. Furthermore, the evidence gathered lays a foundational platform for policymakers to craft informed strategies to navigate the complexities of construction commodities imports effectively.

Key Words: *Construction, Commodities, Materials, Imports, Economy, Policies, CBSL.*

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LIST OF ABBREVIATIONS

CBSL	- Central Bank of Sri Lanka
CIDA	- Construction Industry Development Authority
GDP	- Gross Domestic Product
GNI	- Gross National Income
BOP	- Balance of Payments
ISI	- Imports Substitution Industrialization
HS	- Harmonized System
RDA	- Road Development Authority
BII	- Bureau of Infrastructure Investment
SME	- Small and Medium-Sized Enterprises
CIF	- Cost, Insurance and Freight
CVA	- Construction Value Added
ICTAD	- Institute of Construction Training and Development
CIDA	- Construction Industry Development Authority
SLEDP	- Sri Lanka Export Development Board
DCSSL	- Department of Census and Statistics, Sri Lanka
LCB	- Licensed Commercial Banks
FDI	- Foreign Direct Investment
WCO	- World Custom Organization
WTO	- World Trade Organization
ADB	- Asian Development Bank
APTA	- Asia Pacific Trade Agreement
AFTA	- Agreement for Asian Free Trade Area

ISFTA	- Indo - Sri Lanka Free Trade Agreement
PSFTA	- Pakistan - Sri Lanka Free Trade Agreement
SAPTA	- SAARC Preferential Trade Agreement
SAFTA	- South Asia Free Trade Area
SLSFTA	- Sri Lanka Singapore Free Trade Agreement
FTA	- Free Trade Agreement
CVA	- Construction Value Added
CGDFCF	- Construction in the Total Gross Domestic Fix Capital Formation
CCI	- Construction Cost Indices
GDPD	- Gross Domestic Product Deflator