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# Designing a Credible Trade Adjustment Programme for Sri Lanka's Renewed Tariff Rationalisation Plans

Sri Lanka's renewed push to rationalise tariffs - as set out in the National Tariff Policy (February 2026) - will steadily expose sectors that have been protected by para-tariffs to fresh import competition. Sri Lanka has been here before, and we know that it generates industry pushback and political pressure. An accompanying trade adjustment programme that is designed well, and is credible in its implementation can mitigate this risk. It can provide a smarter institutional framework, anchored to the objective of supporting firms and workers adjust to a new operating environment. Drawing on the detailed framework developed during 2018–2019 but never fully operationalised, this Policy Note recommends establishing an independent Trade and Productivity Commission, with its own Secretariat, analytical capacity, and a mandate to monitor follow-through, interlocked with, but distinct from, the proposed new National Tariff Policy Committee. It also recommends complementary mechanisms: Industry Competitiveness Councils to resolve sector-specific, horizontal constraints; TVET-based worker retraining; and time-bound investment promotion to create new job opportunities. The templates and reference material for technical design already exist; what is required now is the institutional will to implement them firmly and credibly.

## 1. Context

Sri Lanka's trade policy agenda is once again in motion on two connected fronts. The National Tariff Policy, issued by the Department of Trade and Investment Policy in February 2026, commits the country to a simplified four-band Customs Import Duty structure, a scheduled phase-down of the CESS levy running through 2029, and a rejection of open-ended tariff exemptions as an instrument of industry facilitation. In parallel, the Trade Ministry Secretary has indicated that an FTA negotiating committee is to be established to resume bilateral trade negotiations. He has been reported as stating that the government is considering a trade adjustment mechanism to protect domestic sectors and workers adversely affected by trade liberalisation.

This is a significant and constructive signal. It also revisits a question Sri Lanka has considered before. Between 2017 and 2019, as an earlier tariff rationalisation effort and a parallel round of FTA negotiations were initiated, the government formulated a trade adjustment programme (TAP) to manage the transition. A detailed design was subsequently developed, was submitted jointly by the Ministry of Development Strategies and International Trade, the Ministry of Industry and Commerce, and the Ministry of Finance, and approved by the Cabinet of Ministers in early 2019. That round of liberalisation did not proceed to full implementation, and the associated adjustment programme was not operationalised.

The logic underlying that earlier work does not depend on the administration or the tariff schedule of the day - it addresses a structural feature of tariff reform in a small, increasingly inward-oriented, economy. With a new National Tariff Policy now in effect and FTA negotiations being potentially recommenced, the institutional questions this earlier work sought to answer are relevant again. This note sets out the rationale for a trade adjustment mechanism at this juncture, and details the institutional architecture that earlier work developed - much of which remains directly applicable.

## 2. Why Tariff Rationalisation Requires an Accompanying Mechanism

The National Tariff Policy's own diagnosis of the existing regime is unambiguous: it characterises the current tariff structure as an 'Anti-Export Bias Duty Regime' that has diverted investment toward protected, domestic-market-oriented sectors and away from export-oriented production, at a cost the World Bank has estimated at USD 10 billion in unrealised annual export potential. Correcting this distortion through a simplified, rationalised tariff structure is a well-founded long-term objective.

That correction, however, is not without its effects to firms and workers in the short-to medium-term. Several sectors that are labour-intensive have organised their production around a high-protection environment, and will face greater import competition as the four-band regime and the CESS phase-down are implemented. Where labour market regulations remain comparatively rigid, firms adjust to new market conditions more slowly, and workers face higher costs and delays in moving between sectors. These frictions are not evenly distributed: SMEs, less productive firms, workers in poorer and rural districts, together with women and less-skilled workers, typically face the greatest difficulty in adjusting.

None of this constitutes an argument against tariff rationalisation. Rather, it is an argument that a deliberate accompanying mechanism is useful to manage the transition. It also helps message politically. In the absence of such a mechanism, three outcomes become more likely: affected firms and workers absorb adjustment costs without support; industries seek exceptions to the reform through direct lobbying rather than through a transparent process; and political pressure builds to slow or reverse the reform altogether. The latter dynamic is broadly consistent with what occurred following 2019.

## 3. Institutional Architecture: A Trade and Productivity Commission

The central institutional recommendation of the earlier framework - and the element most in need of restatement now - is the establishment of an independent Trade and Productivity Commission (TPC) as the body responsible for assessing and recommending trade adjustment support.

### 3.1 An independent body with staff capabilites

It is important to be explicit on this point: a body that merely convenes stakeholders for consultation, receives submissions, and forwards them for ministerial decision will not function as an effective adjustment mechanism. The value of the TPC model lies specifically in its independence, its internal analytical capabilities, and its ability to follow through on recommendations over time. A consultative committee lodged within an existing ministry, without dedicated staff, without the mandate to conduct its own analysis, and without a role in monitoring implementation, would replicate the weaknesses of ad hoc, discretionary tariff decision-making that both the earlier TAP framework and the new National Tariff Policy are explicitly designed to move away from. If a TPC-equivalent body is established as a nominal add-on to existing structures rather than as a standing institution with the powers described below, it should be expected to fail in the same way that unstructured industry consultation processes have failed previously - namely, by defaulting either to inaction or to case-by-case political accommodation.

The National Tariff Policy of 2026 already proposes estabishing a National Tariff Policy Committee (NTPC), chaired by the Secretary to the Treasury, with a defined mandate to examine proposals for the imposition, removal, or revision of tariffs within the scope of the National Tariff Policy's objectives and principles.

This is a valuable and necessary institution, but it is designed to process tariff-change proposals generally, on a quarterly cycle, drawing on the recommendations of line ministries. It is not designed, resourced, or staffed to conduct the sector- and firm-level vulnerability analysis, structured industry hearings, and adjustment-plan evaluation that an adjustment mechanism requires. A trade adjustment mechanism should therefore be established as a distinct body that feeds structured, analytically grounded recommendations into the NTPC's existing process, rather than being subsumed within the NTPC itself.

### 3.2 Composition and status

The earlier framework proposed a Commission of seven members, drawn from relevant professional backgrounds, with two members nominated by the Ministry of Finance and the remainder nominated by the ministry responsible for trade, all appointed by the Cabinet of Ministers for four-year terms. In fact, the first set of members to the TPC was already appointed in 2019, with work commencing only briefly, before a change of government later that year. The composition at that time was strong – with independent economists with industry experience, and recently retired industry professionals.

A later evolution of this proposal considered elevating the Commission's status further, to be appointed and governed by the Constitutional Council, in order to strengthen its independence and durability across changes of government; but this would have required the TPC to be set up under its own Act of Parliament.

### 3.3 Secretariat and analytical capacity

The Commission's effectiveness depends on a dedicated Secretariat, staffed with competent analytical and administrative officers. The Secretariat's core responsibilities should include: receiving and processing industry submissions in a structured format; conducting or commissioning the underlying vulnerability analysis (see 4 below); preparing case files and recommendations for Commission deliberation; and maintaining the public record of submissions, recommendations, and decisions. Technical assistance for establishing the Commission's operating procedures - an Operations Manual and Implementation Guide - was previously developed, and remains available as a reference document today.

## 4. Identifying Vulnerable Firms, Sectors, and Workers

The earlier framework developed two complementary analytical tools that a reconstituted mechanism can draw on directly:

- An industry-level vulnerability tool, which constructs an import-sensitivity index from the combined level of import duty and CESS protection a sector receives, weighted across the products within that sector, and cross-references this against workforce characteristics (size, gender composition, average educational attainment, and rate of informality) to identify sectors where both economic and social exposure to liberalisation is high.
- A product-level vulnerability tool, which filters products by import exposure (low export volumes, low import volumes, and high existing protection, since a highly protected product with low import penetration indicates that the tariff is genuinely binding) together with employment characteristics associated with that product, including the number of jobs involved, concentration in poorer districts, and the share of female employment.

These tools can be updated with current data and adopted as the evidentiary basis on which vulnerability is asessed, industry submissions are evaluated, rather than leaving it to ad hoc discussions in a Committee (like the NTPC) and misleading claims by affected industrialists.

## 5. Transparency Safeguards

All industry submissions, Commission recommendations, and NTPC decisions - together with their justification - should be published online as a matter of course. This is intended to replicate the transparency the Central Bank has established for monetary policy decisions: a brief, public rationale accompanying every adjustment decision, addressing why a particular sector was or was not granted transition support. This transparency requirement serves two purposes: it constrains the scope for the kind of arbitrary, discretionary tariff-setting that the National Tariff Policy itself identifies as the central pathology of the existing regime, and it builds public and industry confidence that the process is evidence-based rather than a vehicle for selective favouritism.

## 6. Toolbox of Supporting Measures

An effective trade adjustment mechanism cannot rest on this process alone. The earlier framework set out three further categories of intervention that should be constituted alongside it.

### 6.1 Industry Competitiveness Councils

Where the Commission identifies a sector facing structural competitiveness constraints - as distinct from a sector simply requiring more time to adjust - the TAP proposed the establishment of Industry Competitiveness Councils (ICCs), adapted from many similar global examples (for instance, the *"Mesas Ejecutivas"* or 'Executive Round Tables' developed by Peru's Ministry of Production). An ICC is a temporary, public-private collaboration group convened for a specific sector or cross-cutting constraint (such as logistics or access to finance), bringing together private-sector leaders, the relevant government agencies, and dedicated public-sector staff empowered to act on issues raised.

Critically, ICCs are not vehicles for subsidy or special treatment: their purpose is to identify and resolve horizontal improvements - specific regulatory, administrative, and public-goods constraints (e.g., an outdated regulation, an absent piece of infrastructure, or an administrative bottleneck) that are within the government's power to fix, and to do so within agreed timelines. ICCs should be established only as and when required, for a defined period tied to resolution of the issues identified, and should not become permanent fixtures.

### 6.2 Labour market flexibility and worker transition support

Two complementary sets of measures address the position of workers directly:

**Labour market flexibility:** A working group comprising the ministries responsible for trade, industry, and labour should identify a limited, immediately implementable set of flexibility measures - such as targeted waivers on severance obligations for firms in sectors formally identified as affected, where the firm's workers have secured access to adjustment assistance such as retraining. The objective is to prevent firms from being effectively "locked-in" to declining, newly liberalised activities by high severance costs, without requiring comprehensive labour law reform as a precondition. In the meantime, ongoing efforts (anchored at the Labour Ministry) at introducing a modernised, omnibus labour law, can continue.

**Retraining and job placement:** Given the demonstrated wage returns to vocational training in Sri Lanka (the earlier analysis found wage premiums in the range of 10–25 percent per year of training across most public and private vocational programmes) the framework recommended designating a network of TAP-approved TVET providers, tasked with developing conversion and retraining courses targeted at workers in sectors identified as vulnerable, and establishing dedicated service counters within existing regional job-placement infrastructure (such as the earlier JobsNet centres) to process applications for training support from affected workers. This service should be available to any affected worker, whether directly or indirectly affected by the liberalisation, and government support should cover part of the cost of training.

### 6.3 Investment promotion to create new job opportunities

Adjustment assistance addresses the transition; it does not, on its own, create the new employment opportunities into which displaced workers and reallocated capital could move. The framework accordingly recommended an accelerated, time-bound investment promotion effort - on the order of a 12-month period with regularly monitored milestones - targeted at export-oriented sectors already identified through Sri Lanka's export strategy work (then the National Export Strategy, now the National Export Development Plan), with a dedicated team established within the investment promotion agency for this purpose. This element of the programme should run concurrently with, rather than following, the tariff transition itself.

## 7. Sequencing with the National Tariff Policy

The National Tariff Policy provides a clear and immediately usable anchor for a reconstituted adjustment mechanism. It sets out a defined tariff destination (the four-band structure), a scheduled CESS and PAL phase-down through 2029, and an existing procedural framework (the National Tariff Policy Committee), a requirement for economic impact analysis ahead of Cabinet decisions, a minimum 30-to-45-day period before any tariff change takes legal effect, and a commitment to an independent impact assessment after two years of implementation. A trade adjustment mechanism should be designed explicitly to interlock with this framework: the Commission's sector-level vulnerability analysis and recommendations can feed into the NTPC's proposal process as a distinct input stream, rather than operating as a parallel or competing structure, and the same transparency and Gazette-publication requirements that the National Tariff Policy establishes against arbitrary tariff change should extend to adjustment decisions.

## 8. Institutional Pitfalls to Avoid

Two risks identified in the earlier work remain directly relevant. First, the mechanism must avoid becoming a vehicle for "picking winners" - providing directed support to sectors based on their political weight or lobbying capacity rather than on transparent, evidence-based criteria. The Commission's role is to test evidence, not to identify strategic sectors for government backing. Second, the institutional design must be flexible enough to adapt as the effects of liberalisation unfold and as the economy evolves, while remaining sufficiently formalised to resist industry capture.

## 9. Conclusion

The technical groundwork for a trade adjustment mechanism (vulnerability tools, institutional design, international comparators, etc) has been substantially completed before - it can be referenced, and need not be redeveloped from scratch. With the newly confirmed tariff rationalisation, a reconstituted FTA apparatus, and a government that firmly believes in worker-friendly policies as well as in transparent engagement with the private sector sans corrosive lobbying, what remains now is the political decision to establish the right institutional mechanisms. It must be done in step with the tariff rationalisation process now, rather than in response to industry pressures that will predictably generate.

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**This Policy Note was authored by Anushka Wijesinha - Director, CSF.**

Anushka was previously Advisor to the Minister of Development Strategies and International Trade, during which time he helped formulate the 2018-2019 Trade Adjustment Programme mentioned in this Policy Note.

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