

# How Has the Vehicle Import Ban in Sri Lanka Changed the Market for Good?

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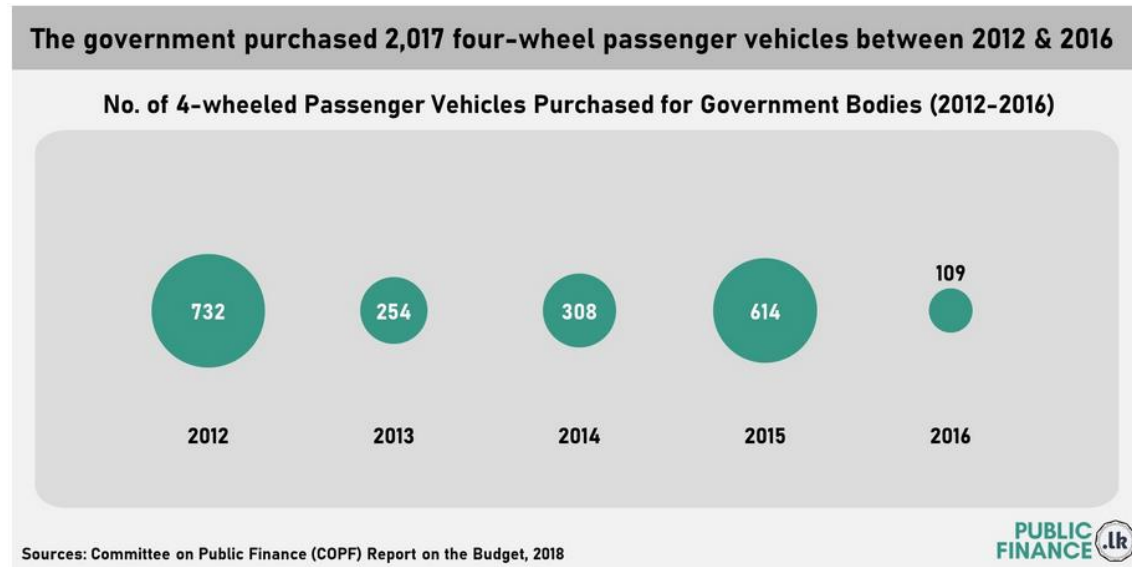
## The history of vehicle imports

Vehicle ownership was limited to the handful of elite in Sri Lanka until 1977 as few cars were made and none were imported. The 1977 liberalization (Vehicle Importers Association of Sri Lanka, 2023) of the economy open the gates to vehicle imports and starting with the Japanese, a host of new and used vehicles flooded the Sri Lankan market. In the 1970, Sri Lanka had a mere 208,026 cars (A brief history of modern transportation in Sri Lanka , 2016) on the road, and in 2019, the total number of vehicles had ballooned to 8,095,224 million (Department of Motor Traffic , 2019), with over 25 foreign vehicle brands in circulation. Each year the government was seeing a foreign exchange outflow of USD 1.25-2 billion (Central Bank of Sri Lanka , 2023) to import these cars, despite motor vehicles only making up 4% of the total imports (Jabir, 2023) of the country. In the meantime, the government earned between USD 24,456- 39,741 (LKR 8-13 million) in revenue through the taxation of vehicles as a whole (Ministry of Transport and Highways 2022) (Figure 1).

**Figure 1. The revenue collected by the Department of Motor Traffic via taxation from motor vehicle imports and sales, between 2017-2022 (Source: Ministry of Transport and Highways).**

Financial						
Revenue						
Year	2017 (Rs.Mn)	2018 (Rs.Mn.)	2019 (Rs.Mn.)	2020	2021	2022
Luxury Motor Vehicle Tax	1,286.94	1,036	1,859.52	1,614.92	1,217.8	1,331.9
Tax on Sale of Motor Vehicle	69.41	93.2	83.92	65.62	56.2	32.7
Charges levied tax under the Motor Traffic Act	9,171.94	10,432.6	10,288.49	7,236.84	6,417.1	6,554.4
Permit Tax	132.55	70	14.41	6.69	1.1	77.46
Carbon Tax			1,652.22	102.77	16.7	9.1
Total Revenue	10,660.84	11,631.8	13,901.56	9,026.84	7,708.9	8,005.56

In addition, the government provided a tax-free vehicle import license scheme for certain government servants to import vehicles once every five years. Between 2012-2016, the government alone had purchased a total of 2,017 four wheeled passenger vehicles, of these purchases, 1031 were made between 2014-2016 alone (Public Finance.lk , 2021).



It is in this backdrop that a ban on vehicle import was brought in as the country faced foreign exchange crisis in 2020 (Newsfirst.lk , 2020).

Umesh Moramudali, Senior Lecturer in Economics at the University of Colombo said the vehicle import ban was good in the short term as the country could no longer support such outflows at that time.

He added that a lot of personal loans were also being taken to purchase these cars which were increasingly turning into non-performing loans for the bank. A bad sign in a crashing economy.

Mr Moramudali explained further that owning a car had become a personal status symbol for many but as the number grows, the government would need to import more fuel, which is then sold at a subsidized rate to consumers. In a country with low taxation, this incentivization to own a vehicle is not productive,” he stressed.

The only issue with the ban however was that vehicle import parts needed to be made available to keep the ageing fleet in top condition. The other longer term option was to assemble or manufacture vehicles in Sri Lanka. This article looks at how the import ban has affected the vehicle market dynamics in Sri Lanka and what new opportunities have opened for foreign vehicle manufacturers coming into the country.

### [Effect of the automotive import ban on Sri Lanka’s automotive industry workforce](#)

The automotive import ban created a significant effect on local assembly activities when it was suddenly enforced in March 2020, amidst the start of the Covid-19 pandemic (Lanka News Web, 2023). The whip-crack effect of the ban caused a significant impact on all aspects of the automotive industry in Sri Lanka.

According to Nimal Wimalasuriya, an industry expert and Editor-in-Chief of Sri Lanka's oldest automotive publication called the Motor Magazine, the automotive ban adversely affected nearly all parties involved in the automotive trade. He estimates nearly 15,000 direct jobs have been lost in the motor trade since March 2020, along with the closing down of approximately 1,500 auto dealers, nearly all of them SMEs (Wimalasuriya, 2023).

Mr. Wimalasuriya points out that the ban also drove skilled auto workers to leave Sri Lanka in search of greener pastures. Most technicians, engineers and workers in the automotive industry have gained a high level of skills and knowledge. With the ban impacting their jobs, they easily found lucrative positions overseas. Hence, Sri Lanka faced a severe brain drain that had a twofold effect. The first negative impact is that the industry is losing staff at all levels, making it harder to maintain Sri Lanka's existing fleet of vehicles. Secondly, when the ban is lifted, there will be a severe shortage of skilled labour to fill the newly opened vacancies within the field.

### Effects of the automotive import ban on car prices

Cars are typically seen as an investment rather than merely a tool, or appliance (Senaratne, 2020). However, due to the automobile import ban, the price of cars has skyrocketed, according to Sheran Fernando, an Economist and Industry Professional with nearly three decades of direct involvement in the industry. The import ban created a scarcity of cars in the country since supply was zero. However, there was some buying and selling activity taking place, as interest rates were still in single-digit ranges, and there was sustained demand for cars of all types and value propositions (Fernando, 2023).

As Sri Lanka's economic crisis wore on with severe rationing of several items, fuel shortages, and power cuts by 2022 (Perera, 2022), interest rates significantly increased, and purchasing power severely reduced. This caused a reduction in vehicle prices, but not to pre-2020 levels.

Mr. Fernando cited an example of a 2018 BMW 740i LE (a full-size German luxury car, typically purchased at the upper end of the market), purchased brand-new in 2018 for approximately LKR 32 million (after taxation), would by January 2020, have depreciated to LKR 22 million. However, following the import ban, the car's value shot up to around LKR 35 million, and kept climbing, peaking at around LKR 50 million by early 2022. The economic crisis then came into effect, and the car's current value can be estimated at around LKR 40 million.

This trend is observed in almost all other vehicles, albeit less drastic at the lower end of the spectrum.

### Creation of opportunities for local automotive assembly activities

The silver lining here however was that the automotive import ban created a multitude of opportunities for local automotive assembly, as the latter represents the only avenue for the public to purchase and drive a brand-new vehicle. According to Amanda Gooneratne, Director Operations – Hyundai Abans, the ban on new CBU imports resulted in the shooting up of second-hand vehicle prices. However, it also

created an increased demand for locally assembled vehicles, since these are brand-new vehicles (Gooneratne, 2023).

However, one must not think that locally assembled vehicles are not cheaper than their imported variants would be. According to Mr. Wimalasuriya, auto manufacturing relies heavily on technology and economies of scale. Robotics and just-in-time component deliveries, coupled with high outputs and efficiency levels ensure the most effective cost per unit. Hence, the cost of production on a manufacturer's main lines overseas will be less than the same cost incurred to produce the car in Sri Lanka (Wimalasuriya, 2023). This is most likely why there has been only one local automotive assembly plant set up in Sri Lanka post-2020.

Despite this, local assembly activities create and bolster a multitude of surrounding and supporting products and services. Mr. Wimalasuriya points out that component manufacturing has been heavily bolstered and supported by the automotive import ban. A myriad of components are locally created as a result of local component manufacturing, such as tyres, batteries, rubber components and bushes, exhaust systems, fuel tanks, seats, radiators, bumpers, and some electrical aspects. This creates local innovation and fosters enhancement of local talent in the industry (Wimalasuriya, 2023).

### Impact of the import ban on local component manufacturing

Local automotive component manufacturing has been pursued for over twenty years, with companies such as Lanka Harness Co. Pvt Ltd manufacturing airbag and seat belt components for the global automotive market since 2001 (Sri Lanka Export Development Board, 2023). Certain components such as Exide automotive batteries (Exide Sri Lanka, 2023) and Ceat tyres (Ceat Sri Lanka, 2023) have been catering to the local market for over a decade. These manufacturers used to sell batteries and tyres on the consumer market, as replacement parts. Now they supply components to assembly plants as well. In addition, several new component manufacturers have commenced operations following the Mahindra-Ideal assembly plant. One of these is Modicon (Pvt) Ltd, who manufacture components such as exhaust systems and fuel tanks. According to Kelum Wijayawardhana, one of the key factors that contribute towards the growth of component manufacturers, is technological knowledge transfer. This is due to Modicon and other component manufacturers being trained and guided by manufacturers on how to produce components to global standards. This in turn creates jobs for youth, as well as enhances their skillset in line with global standards (Wijayawardhana, 2023).

However, Mr. Wijayawardhana also cites challenges such as high capital investment, demand fluctuations due to the local economy, and difficulties in importing raw materials as significant challenges to component manufacturers. Furthermore, changing Government policies can cause ripple effects, necessitating careful planning and contingency planning in an effort to anticipate these. (Wijayawardhana, 2023).

The import ban has also encouraged better local innovation in terms of converting modes of transport such as motorcycles and three wheelers into environmentally friendly electric vehicles. There are companies developing conversion kits for three wheelers, as well as infrastructure for battery swapping,

minimizing charging times faced by drivers who use these vehicles as their means for earning a livelihood (Wimalasuriya, 2023).

## Opportunities in Sri Lanka

As Sri Lanka looks for innovative ways to keep its thirst for vehicles going, some of the key areas it would look for expertise is in electric vehicle manufacturing and component manufacturing, said Mr Fernando (Fernando, 2023).

“The local industry should also actively explore the possibility of assembling EV batteries locally, as this would facilitate a local manufacturing industry. The local industry should be looking at export and not merely local sales,” he added.

Here foreign expertise and technology transfer could greatly help get the efficiencies required. This is needed now more than ever as the country faces a brain drain of skilled workers.

Mr Fernando also noted that the country is under pressure from her trading partners to open vehicle imports, and eventually Sri Lanka would have to do so. However, as the country opens, he recommended that we look at importing mostly electric vehicles instead.

“Currently over 40% of total carbon emission comes from road transport. Even if we never import another ICE, this emission will take 20 years to reach a near zero figure. Thus, from an environmental standpoint, we must use the opportunity of the vehicle import ban to shift to an aggressive EV only policy,” he stressed, adding, “This will be a challenge for buses and lorries and for these categories of vehicles, we should require mandatory EU6 emission requirements.”

## Conclusion

From an economic perspective, Sri Lanka cannot afford the outflow of foreign exchange for the import of motor vehicles, and so the import ban has merit. According to Mr Moramudali (Moramudali, 2023), we would have to keep the ban going on for at least sometime as economic recovery is going to take time. “Our economy is not strong enough to withstand liberalization now,” he stressed.

This would mean that a very lucrative vehicle import market like Sri Lanka is changing, it is looking inwards. Foreign vehicle manufacturers wanting a stake in this growth, can partner with local producers in terms of component and parts manufacturing which then could be re-exported to other markets. The money in the parts, not in its totality.

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