

## **Impact of Trade Policies on Sri Lankan Households' Food Consumption: A CGE Model Approach**

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### **Abstract**

Sri Lankans spend about 33.2% of their income and 37.6% of total expenditure on purchasing food and drinks in a monthly basis. Almost half of the Sri Lankan population remains below the minimum level of energy consumption per day and consumption patterns reflect the less affordability of some food items such as fruits, meat, poultry, fish, dry fish and dairy products. Therefore, food consumption is highly affected by income and food prices because they greatly influence household dietary related decisions and are mostly beyond households' control.

Subsequent governments in power attempt to control food prices by imposing numerous policies for the benefit of both producers and consumers. While the long-term policies adopted in this context usually aims at increasing productivity, the short-term ones mainly focuses on manipulating food prices. Among all these policies and practices, the trade related policies could have a strong and instant impact on food prices. 'Price ceilings', 'Floor prices' and 'Sales taxes' are the major internal trade policies implemented at the national level that possess a direct influence on food prices. Similarly, the 'Export taxes' / 'Cess' and 'Import duties' are the major external policies with a direct effect on food prices.

It is important to investigate on how the policy shocks transfer into the level of food consumption because food prices play a key role in food consumption, consequently affecting the food and nutrient security of a nation and most external as well as internal trade policies influences prices. However, there exists a gap in literature in this connection about Sri Lankan food consumption. In background, this study analyses the impact of both internal and external trade policies on food consumption of households using a Computable General Equilibrium (CGE) modelling framework. The Social Accounting Matrix (SAM) used in this context, which is the input of CGE model, describes, in turn, the input-output usage, factor market balance, income distribution, investment-saving balance, payments and receipts of taxes and transfers.

The outcome of CGM analysis revealed that there is a distributional issue of the negative impacts of these policy changes on rural and urban food consumption. The increase of import duties has resulted in reduction of consumption of food in the rural sector compared to the urban sector. The rural households seem to be more sensitive to import duties than urban households are. Results show that, as the import duties are increased the rural people tend to reduce their food consumption more compared to urban people and vice-versa. In relation to the export duties, an increase (decrease) in export duties shows an increase (decrease) in domestic food consumption in both urban and rural sectors. In contrast to the changes in the import duties, the positive (and negative) effect of export duties on food consumption in the urban sector is, however, nine times greater than that of the effect on rural sector. When the export duty increases, the export quantity showed an increase with contrary to expectations and the model predicts the domestic price precisely when the export duties increase. Increase of export duties on foods is, therefore, favourable for domestic households' food consumption.

The sales taxes on food also negatively impacts food consumption in both rural and urban sectors, but the effect is mild compared to the other two policies. In fact, the effect of sales tax on rural food consumption is less adverse compared to the effect on urban households. As expected, in relation to the domestic prices, domestically sold food quantity decreases when the taxes increase. All these effects revealed through the modelling exercise provide useful first-hand information and guidance for effective policy planning and implementation, especially on those trade related policies related to food markets.

**Keywords:** Computable General Equilibrium (CGE) model; Food consumption; Social Accounting Matrix (SAM); Trade policies