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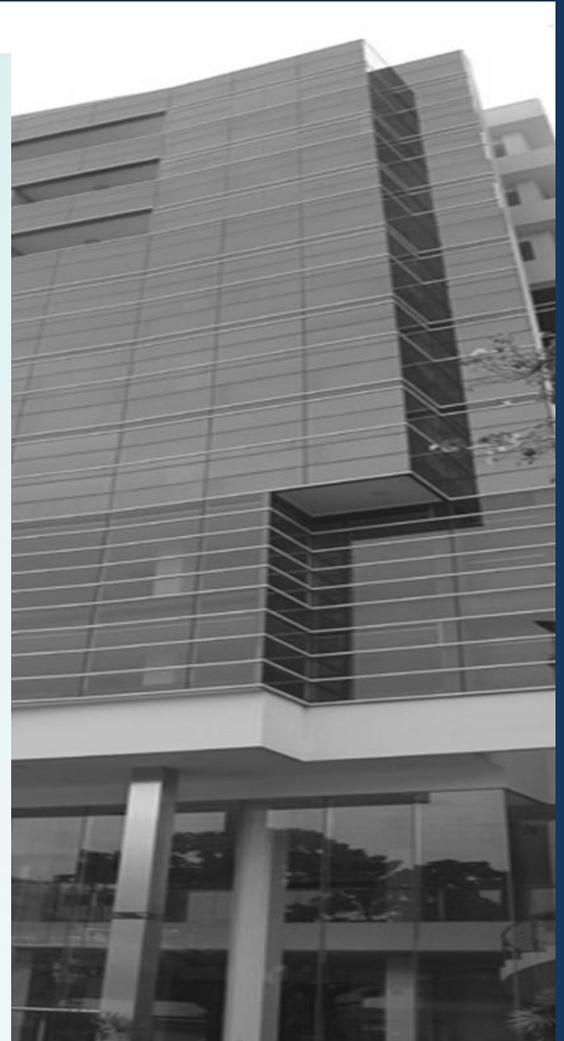
Sri Lanka – Pakistan Economic Relations

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Overview

Pakistan's economy is structured with private businesses and strong "for profit" state-owned enterprises (SOEs) in the sectors such as power, oil refinery, petroleum, gas, steel, transport, shipping, and airline. Major sectors of the country's economy include textiles, pharmaceuticals, agriculture and industrial sectors. As per an Economic survey launched by Pakistan's Finance Ministry, the country achieved a GDP growth of 5.97% during the year 2021-2022

A major development in Pakistan is that of the China Pakistan Economic Corridor (CPEC), under which ports and infrastructure in the province of Baluchistan are being developed and revamped. As per the CPEC authority, which is a China-Pakistan joint governing body, 88 projects have been announced, out of which 19 projects have already been completed whereas, 28 are under implementation. 41 projects are in the pipeline.

Administration

Pakistan is administratively divided into four provinces i.e. Khyber Pakhtun-Khwa, Punjab, Baluchistan & Sindh and one federally administered tribal area (FATA). The nation's Capital is Islamabad while Karachi (in Sindh province) acts as the nation's commercial capital. Karachi being the twelfth largest city in the world in terms of population accounts for 20% of the country's GDP, and 63% of the nation's total exports. The city is also strategic in nature, as it houses two large sea ports (Port of Karachi and Port of Bin Qasim), as well as the major international airport of Pakistan (Jinnah International). The High Commission of Sri Lanka in Islamabad and the Consulate General of Sri Lanka in Karachi represent Sri Lanka in Pakistan.

Economic Crises in Pakistan

Currently, Pakistan is facing an economic crisis and it is at risk of a Balance of Payment (BoP) crisis. The foreign currency reserves held by the State Bank of Pakistan were recorded at \$8,575.1 million in July 2022 downed from all-time high of \$20.15 billion after receiving an allocation of Special Drawing Rights (SDRs) worth \$2,751.8 million from the IMF in August 2021. The Pakistani rupee plunged to a fresh low of 240 per USD in September 2022, losing almost 37% since January 2022 as political uncertainty and surrounding financial woes of the country. This has resulted in high inflation in the country propelled by a record increase in the oil price.

To address this situation, the authorities in Pakistan are taking necessary measures including an IMF bail-out package since 2016 through its Extended Fund Facility (EFF). This however was halted due to a volatile political situation in Islamabad, with the former Prime Minister being ousted through a motion of no confidence in the nation's parliament. However, in August 2022, Pakistan has received an additional \$1.2 billion in loans which unlocks more funding. The IMF will also consider extending the facility till June 2023.

Recent austerity measures and imports ban in Pakistan

Government of Pakistan has taken several measures to discourage imports including an import ban on multiple “luxury and non-essential items “, imposing 100% cash margin for opening LCs on selected imports. Delays in opening LCs for imports were observed due to the shortage of foreign currency.

The import ban imposed through the S.R.O. 598(I)/2022 on 19th May 2022 has been removed by the Government of Pakistan on 19th August 2022 and introduced high Regulatory duties instead.

Sri Lanka- Pakistan Bilateral dialogues

The importance of Diplomatic ties between the two nations can be highlighted in the visit of the Prime Minister, Excellency Imran Khan to Sri Lanka on 23rd and 24th February 2021. The visit focused on enhancing relations between the two countries in particular in the commercial relations. Further a Ministerial delegation headed by the Minister of Trade, Hon. Dr Bandula Gunawardana (M.P) called on the Minister of Foreign Affairs Shah Mehmood Qureshi & the Minister of Trade Abdul Razzak Dawood and had an audience with the Prime Minister, Excellency Imran Khan, during his visit to Pakistan in January 2022.

Both countries engage in bilateral economic related discussions on the platforms of Joint Economic Commission, Commerce Secretary Level Talks, Working Group on Trade, Investment & Auto Sector and Working Group on Customs Cooperation.

Both nations have been signatories to different investment treaties such as a Bilateral Investment Treaty signed on 20th December 1997 and a Double Taxation Avoidance Agreement signed on 05th October 1981. In addition, Sri Lanka and Pakistan are covered by the SARRC Multilateral Treaty signed on 13th October 2005 which came into effect from 2011/2012 onwards.

Economic relations between Sri Lanka & Pakistan

Pakistan was the 26th export market for Sri Lanka with a share of 0.75% in 2021. In 1977, Pakistan was Sri Lanka’s largest export market with a share of 8.67%. It is imperative to mention that Pakistan and Sri Lanka have enjoyed a lucrative partnership in the past. In the mid-1970’s Pakistan imported 80% of tea from Sri Lanka. The market share was eroded with the escalation of auction prices in Colombo and as a result Pakistani importers moved to CTC teas from Kenya for lower prices. Sri Lanka is exploring the possibilities of regaining the lost Ceylon tea market by opening of Ceylon Tea centers in Pakistan and undertaking other promotional campaigns.

Pakistan is the second largest trading partner of Sri Lanka in the SAARC region. Sri Lanka was the first country to sign a Free Trade Agreement (FTA) with Pakistan. A substantial growth is seen in bilateral trade, particularly after implementation of the Pakistan–Sri Lanka Free Trade

Agreement (PSFTA) in 2005. In 2021, USD 62.25 Mn out of USD 91.86 Mn worth of total exports to Pakistan (67.7%), have took place under the PSFTA.

Details of Sri Lanka's trade with Pakistan are given below.

Trade between Pakistan and Sri Lanka

Year	Exports (US\$ Mn.)			Imports (US\$ Mn.)		
	Total Exports to Pakistan	Under PSFTA	Percentage under the PSFTA	Total Imports from Pakistan	under PSFTA	Percentage under the PSFTA
2015	73.10	58.84	80.49	297.28	42.76	14.38
2016	63.80	51.52	80.75	304.33	20.72	6.81
2017	74.01	60.33	81.51	349.05	15.81	4.53
2018	75.94	50.72	66.79	428.45	41.24	9.62
2019	81.53	60.76	74.52	369.78	23.91	6.47
2020	74.27	52.96	71.30	324.26	10.81	3.33
2021	91.86	62.25	67.77	394.34	12.32	3.12

Source: Sri Lanka Customs

Pakistan was the 26th export market for Sri Lanka with a share of 0.75% in 2021. Sri Lanka's main exports items to Pakistan are given below.

Pakistan was the 12th Import partner of Sri Lanka with a share of 1.97% in 2021. Sri Lanka's main import items from Pakistan are given below.

Potential areas

Following the implementation of PSFTA, a range of new products has penetrated into the Pakistan market. such as MDF boards, sports goods, tamarind with seeds, edible oil, porcelain tableware & kitchenware, ceramic tiles, furniture, electrical switches & sockets, herbal cosmetic products, plastic articles, paints, glass paintings, leather products, frozen fish, prawns, lobsters, crabs, cut flowers & foliage, gems & Jewelry, aquarium fish, coconut related products along with construction materials. These sectors could be considered as the potential sectors for further expanding.

It is important to mention that there are immense untapped other potentials as well to enhance the trade between the two countries especially in the sectors covered under the FTA.

Raw material exports

Raw materials used in the constructions industry is also a promising area to focus on. Several Sri Lankan companies already penetrated into the market in Pakistan specially utilizing the duty concessions available under the PSFTA. Sri Lanka exported around US\$ 14 Mn. worth of construction materials in 2021 to Pakistan including industrial surgical gloves of rubber, insulated wires and cables, switches, boards panels, MDF & fiberboards, other products of base metal, and standard wire of aluminum, copper & iron. Sri Lanka Consulate General is in discussion with the Association of Builders and Developers (ABAD) to explore the possibilities of promoting our exports through their members. ABAD is a national-level representative organization of builders and developers, formed in the year 1972 with the aim and objective of unifying and streamlining the construction activities of the private sector. ABAD has in its fold more than 1,200 leading construction companies in the country.

Textile and Phrama

Both nations of Sri Lanka and Pakistan may explore available opportunities for the collaborations, in particular in the textiles and pharmaceuticals sectors. Pakistan is the 8th biggest exporter of textile products in Asia. In a worldwide level, the country is the third largest consumer of cotton and simultaneously the fourth largest producer of it. The textile industry also enjoys capital and seed funds through the nation's stock exchange market, with 5% of textile companies listed with share offerings. Since Sri Lanka imports fabrics in larger quantities, collaborations in the textile industry between the two countries could be beneficial. As per the Pakistan Business Council (PBC), Pakistan has around 700 pharmaceutical companies exporting to around the world. Getting Pakistan companies to invest / collaborate with Sri Lankan companies would be beneficial for both countries.

Coconut Related

Sri Lanka's coconut industry which is promising with doubling its exports to the world in the last 10 years is another area for promotion. Since Pakistan also imports substantial quantities of

coconut related products, the Consulate General and the Coconut Development Authority in Sri Lanka organized a series of webinars for the promotion of coconut related products in Pakistan. Pakistan imports a considerable number of coconuts and coconut-based products from Sri Lanka i.e. coconut oil, desiccated coconut, and copra (90% out of total Sri Lankan exports), fresh coconut (80% out of total Sri Lankan exports), ekels (100% of total Sri Lankan exports), defatted coconut, and coconut fiber products.

Tourism

Pakistan was the 26th largest source of tourist traffic to Sri Lanka in 2019 with 14,655 visitors while Pakistan tourists’ arrivals to Sri Lanka peaked in 2015 with 32,300 visitors. Therefore, there is much potential for Sri Lanka to attract more tourists from Pakistan. However, due to the existing procedures in issuing visas for the Pakistan tourists’ potentials for increasing arrivals from Pakistan to Sri Lanka have been negatively affected.

Trade Exhibitions and Visits

In order to enhance economic relations, businesses may consider participating at exhibitions organized in Pakistan such as “My Karachi” Expo, “Pakistan Travel Mart”, “Pakistan Hospitality Expo” and “MICE Promotional Conference Exhibition”. The Consulate General of Sri Lanka in Karachi successfully participated at the 17th “My Karachi” Exhibition from 13th to 15th May, 2022 at the Karachi Expo Center, Pakistan with the budgetary allocation provided by the Department of Commerce, Sri Lanka. A few Sri Lankan exporters also participated in the 3rd Pakistan Tea Convention held in Karachi in May 2022. Trade Minister Bandula Gunawardena & State Minister for Regional Cooperation Tharaka Balasuriya with a business delegation visited Karachi and Islamabad and had successful business meetings with all major Chambers in Karachi, Islamabad and Rawalpindi.

Pakistan’s Investment in Sri Lanka during 2005 – 2021 stood at around US\$ 10 Mn. which could be considered as moderate.

Pakistan houses a diaspora of around 600 Sri Lankan nationals, including around 300 Sri Lankan students on scholarships, military personnel who are having training employees mainly in the textiles industry etc.,

A collaborative effort is required by the government and the private sector in Sri Lanka to enhance the B2B contacts between the two countries.

Acknowledgment of Content Contribution:
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