



KCCI - Country Wrap: Sri Lanka (Jan'19)

Economy of Sri Lanka

Sri Lanka is attempting to sustain economic growth while maintaining macroeconomic stability under the IMF program that began in 2016. The gov't's high debt payments and historically high budget deficits, remain a concern. Government debt is about 79% of GDP and remains among the highest of the emerging markets. The Sri Lankan economy has shown positive GDP growth since the 2008 financial crises, with the highest per capita income in terms of purchasing power parity recorded in the region.

In May 2016, Sri Lanka regained its preferential trade status under the EU's Generalized System of Preferences Plus, enabling many of its firms to export products, including its top export garments, tax free to the EU. In Nov'17, the Financial Action Task Force listed Sri Lanka as non-compliant with its statutes, but reported subsequently that Sri Lanka had made good progress in implementing an action plan to address deficiencies.

Tourism has experienced strong growth in the years since the resolution of the government's 26-year conflict with the Liberation Tigers of Tamil Eelam. In 2017, the government promulgated plans to transform the country into a knowledge-based, export-oriented Indian Ocean hub by 2025.

Sri Lanka is attempting to sustain economic growth while maintaining macroeconomic stability under the IMF program it began in 2016. The government's high debt payments and bloated civil service, which have contributed to historically high budget deficits, remain a concern. Government debt is about 79% of GDP and remains among the highest of the emerging markets. In the coming years, Sri Lanka will need to balance its elevated debt repayment schedule with its need to maintain adequate foreign exchange reserves.

Key Industries of Sri Lanka

Key industries of Sri Lanka are processing of rubber, tea, coconuts, tobacco and other agricultural commodities, telecommunications, insurance, banking, tourism, shipping; clothing, textiles, cement, petroleum refining, information technology services and construction.

Sri Lanka's major trading commodities and partners

Sri Lanka's exports are based on a variety of products which include textiles and apparel, tea and spices, rubber manufactures, precious stones, coconut products and fish. Major import commodities include petroleum, textiles, machinery and transportation equipment, building materials, mineral products and foodstuffs. Sri Lanka's top sources for imports include India (22%), China (19.9%), Singapore (6.9%), UAE(5.7%), Japan (4.9%) whereas top export destinations include US (24.6%), UK (9%), India (5.8%), Singapore (4.5%), Germany (4.3%), Italy (4.3%).

Relations between Pakistan and Sri Lanka

Relations between Pakistan and Sri Lanka are cordial. In 2008, Pakistan Sri Lanka Business Forum (SRBF) was established to promote trade, investment and enhance cooperation between the two countries. Pakistan's Higher Education Commission (HEC) is going to develop academic collaboration with Sri Lanka through Pak-Sri Lanka Higher Education Cooperation Program. It will be providing scholarships to Sri Lankan students in diverse fields during next 5 years.

Bilateral Trade Relations between Pakistan and Sri Lanka

During 2017, goods exported by Pakistan to Sri Lanka totaled \$ 348.90Mn as against \$ 304.13Mn in 2016 depicting an increase of 14.7% while goods imported by Pakistan from Sri Lanka were recorded at \$ 103.4Mn in 2017, registering a growth of 34.8% as compared to \$ 76.69Mn in 2016.

Pakistan - Sri Lanka Free Trade Agreement

Pakistan is the 2nd largest trading partner of Sri Lanka in South Asia. Sri Lanka was the first country to sign a Free Trade Agreement with Pakistan, which became operational from June 12, 2005. Under the FTA, Sri Lanka received 100% duty free access to Pakistani markets on 206 tariff lines where a total of 10,000 metric tons (MT) of tea has been given free market access and 35% MoP (Margin of Preference) on applied MFN rate is given on 1,200MT of betel leaves through Tariff Rate Quotas (TRQ). Similarly kitchenware and ceramic articles are entitled to enter Pakistan with 20% MoP on applied MFN rate when manufactured in Sri Lanka.

On the other hand, Pakistan received 100% duty free access to Sri Lanka on 102 HS tariff lines. MoP and TRQ granted to Pakistan under FTA include duty free access of 6,000MT of Pakistan basmati rice and 1,000MT of potatoes per year. Products at least 35% value added in Pakistan such as agricultural, fishery and mineral products are allowed duty free access in Sri Lanka. Later, the Pakistan gov't., through SRO 280 of 2014, revised tariff concessions on imports from Sri Lanka by enhancing its "No concession List" to 993 items though items coming under the head of "Coffee, tea, maté and spices" have been kept completely duty free. On the Sri Lankan side, in 2011, a special commodity levy was imposed on certain fruits and vegetables.

Potential for enhancing bilateral trade relations between Sri Lanka and Pakistan

- Sri Lanka has good skills to cut, polish and shape gemstones into world class jewelry. Jewelers in Pakistan can avail this opportunity by entering into joint ventures, enabling them to make world class jewelry.

- Businessmen and investors may look for opportunities in the agriculture, textile, tourism, real estate, energy and IT sectors which are attractive investment sectors in both countries.

- There is a need to boost air and maritime linkages between both countries so that cooperation in business and industry could be strengthened.

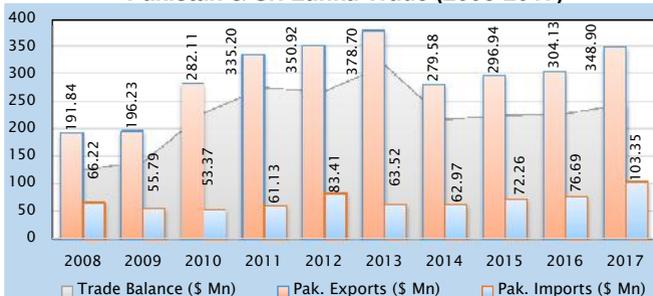
- Pakistani products including pharmaceuticals, rice, fruits & vegetables, cement and garments have huge potential in Sri Lanka while Sri Lankan tea, wall tiles, floor tiles etc. have great scope in Pakistan.

Economic Indicators

Indicators	Unit	2016	2017	Change
GDP (PPP)	\$ Bn	267.0	275.8	3.30%
GDP per Capita	\$	12,600	12,900	2.38%
GDP growth	%	4.50	3.30	-1.20%
Forex Reserves	\$ Bn	6.02	7.96	32.23%
External Debt	\$ Bn	45.26	51.72	14.27%
Exports of Goods	\$ Bn	10.31	11.36	10.18%
Imports of Goods	\$ Bn	19.18	20.98	9.38%
Trade Balance	\$ Bn	-8.87	-9.62	-8.46%
Current Account	\$ Bn	-1.74	-2.31	-32.53%
FDI - at Home	\$ Bn	N/A	N/A	N/A
FDI - at Abroad	\$ Bn	N/A	N/A	N/A
CPI	%	4.00	6.50	2.50%
Prime Lending Rate	%	10.49	11.60	1.11%
Population	Mn	N/A	22.58	N/A
Unemployment	%	4.40	4.40	0.00%
Literacy Rate	%	N/A	92.60	N/A

Sources: KCCI Research, CIA Factbook

Pakistan & Sri Lanka Trade (2008-2017)



2017: Pak Exports: \$ 348.9Mn Pak Imports: \$ 103.35Mn Balance: \$ 245.6Mn

Source: KCCI Research, SBP

Sri Lanka's Top 10 Trade Items With World (2017)

Export Items	(\$ Mn)	Import Items	(\$ Mn)
Apparel/Clothing Knitted	2,727.91	Mineral fuels & oils	3,215.43
Apparel/Clothing Not-knitted	2,011.97	Machinery	1,676.30
Coffee, tea, maté & spices	1,877.34	Vehicles other than railway	1,497.81
Rubber	876.90	Electrical machines & equip.	1,382.08
Mineral fuels & oils	294.67	Knitted fabrics	843.85
Electrical machinery & equip.	286.60	Iron & steel	802.29
Ships & floating structure	280.40	Natural & pearls/stones	772.13
Natural pearl/stone	266.81	Plastics	723.05
Fish & crustaceans	255.73	Wheat/Rice/Maize/Oats	657.83
Machinery & appliances	206.29	Cotton	654.05

Sources: KCCI Research, Trademap

Pakistan - Sri Lanka Top 10 Trade Items (2017)

Pakistan's Export Items	(\$ Mn)	Pakistan's Import Items	(\$ Mn)
Cotton	78.43	Ships, boats & floating struc.	30.52
Cement, Salt & Sulphur	45.29	Vegetable plaiting materials	23.20
Fertilisers	33.82	Rubber & articles	9.20
Pharmaceutical products	33.17	Wood & articles	9.05
Wheat/Rice/Maize/Oats	28.88	Edible fruit & nuts	5.53
Made-up textile articles	20.47	Oil seeds & oleaginous fruits	4.81
Beverages, spirits & vinegar	16.33	Machinery & appliances	4.77
Edible vegetables	11.90	Coffee, tea, maté & spices	3.19
Articles of iron or steel	11.23	Woven fabrics	1.77
Man-made staple fibres	9.89	Electric machinery & equip.	1.64

Sources: KCCI Research, Trademap