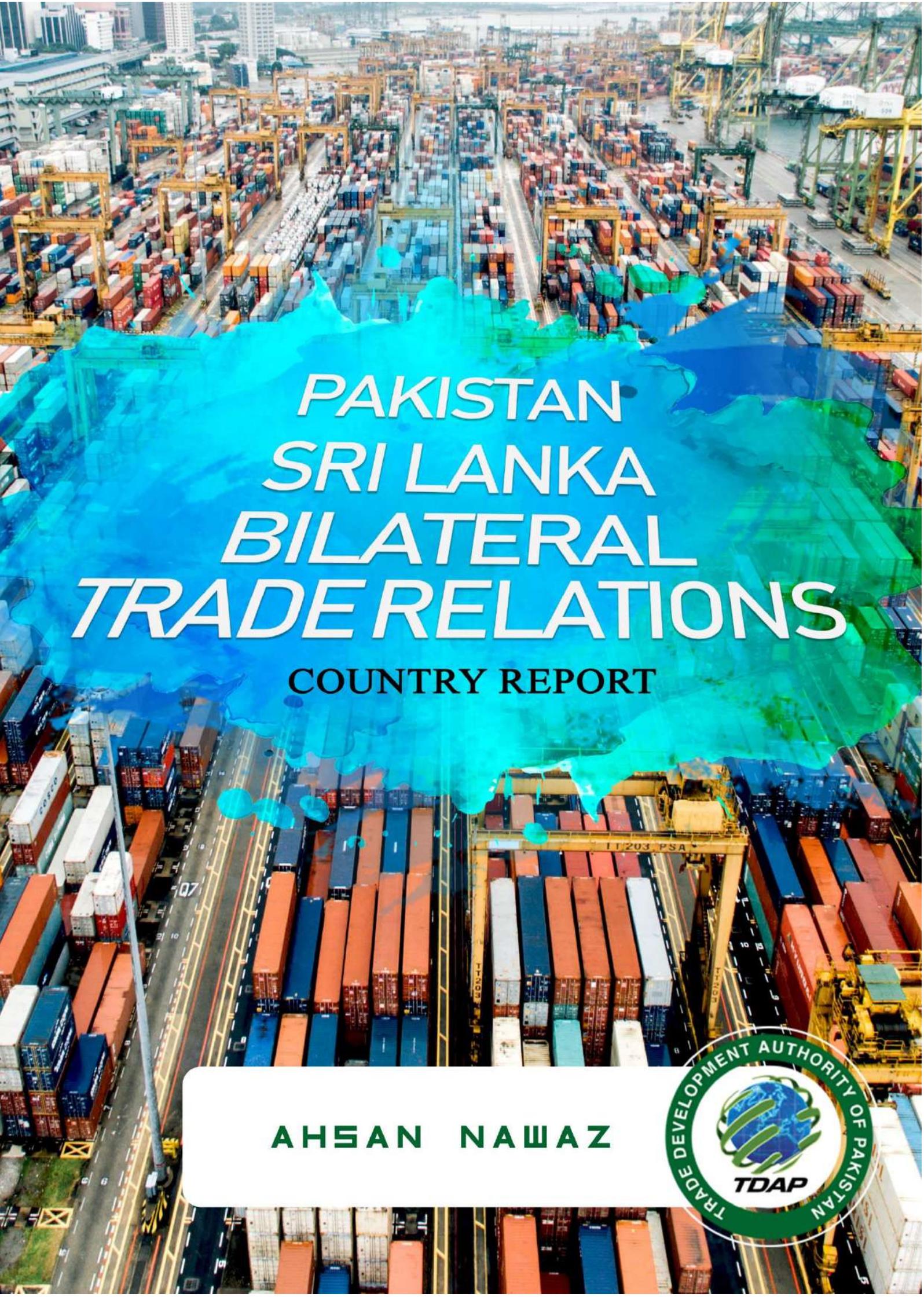


Trade Development Authority of Pakistan (TDAP)

Pak-Sri Lanka Bilateral Trade Analysis

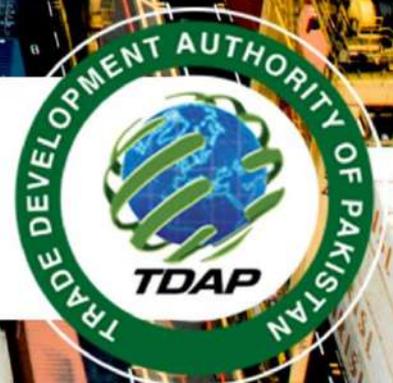
Country Report

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Research Associate



**PAKISTAN
SRI LANKA
BILATERAL
TRADE RELATIONS
COUNTRY REPORT**

AHSAN NAWAZ



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1. Introduction

The relationship between Pakistan and Sri-Lanka is based on mutual respect and close co-operation. These relations date back to 1948 but until the year 2009; this cooperation remained mainly in the areas of security and military development. The end of Sri-Lankan Civil War (1983 - 2009) provided an opportunity to further extend collaboration in the areas of trade, education, development and energy. Pakistan and Sri-Lanka share common challenges in major regional and global fora. Both countries are part of a regional organization “South Asian Association for Regional Cooperation (SAARC)” and have also signed a free trade agreement titled as “Pakistan – Sri Lanka Free Trade Agreement (PSLFTA)” to address these shared challenges.

Pakistan-Sri Lanka Free Trade Agreement (PSLFTA), which was signed in August 2002 and came into effect on June 12, 2005, granted favorable concessions to top exports of Pakistan including cement and cotton. As a result, the trade volume has doubled from \$212 million in 2005 to around \$400 million in 2017. Pakistan and Sri Lanka can further increase their bilateral trade to \$2.5 billion if free trade agreement is utilized to the fullest.

Pakistan’s efforts to enhance trade with Sri Lanka have gained great momentum and are bearing fruits as Pakistan enjoys an increasing surplus in bilateral trade. Recently in 2018, Pakistan has successfully organized its third edition “Single Country Exhibition – January 2018” in Sri Lanka. Given the noteworthy collaboration between the two nations on many fronts (i.e. trade, economy, investment, services, defence and education etc.); it can convincingly be stated that there prevails a huge potential to be explored and utilized.

2. Economic Overview

2.1. Pakistan at a glance

In 2017, Pakistan's population as reported by Pakistan Economic Survey, 2017-2018 stood at 200.7 million making it the 6th largest country by population in the world¹. Since 2014, the economy has consistently registered a smooth upward trend in GDP growth. The economy witnessed higher GDP annual growth of 5.28% in 2017², increased by 0.8 percent from 4.51% last year in 2016 which is the highest in last 10 years. Nominal GDP in Pakistan remained worth \$304.3 billion³ in 2017 reaching all time high increasing from 283.66 billion in 2016.

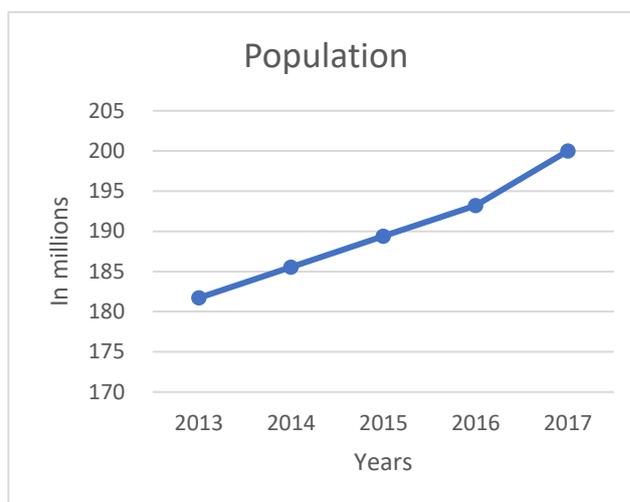


Figure 3: Pakistan's Population (World Bank)

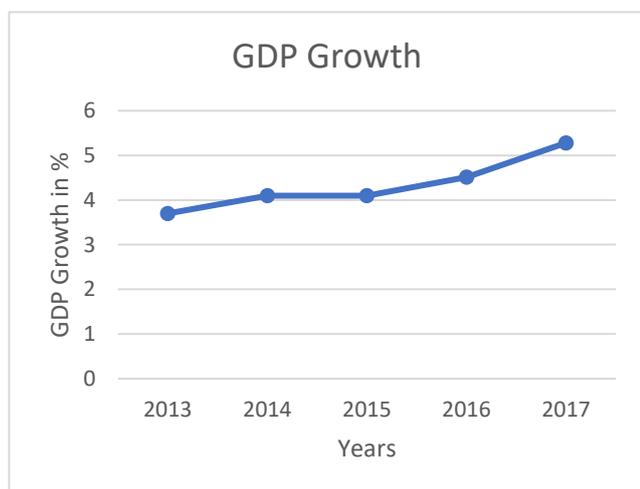


Figure 2: GDP Growth of Pakistan (SBP)

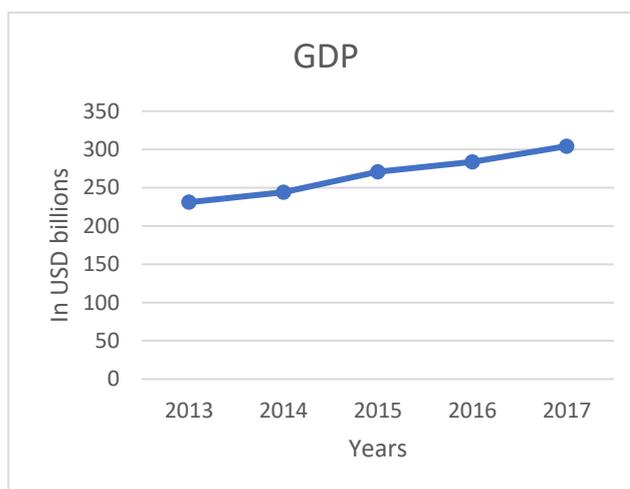


Figure 1: GDP in USD (Economic Survey of Pakistan 2017-18)

Amongst these indicators, Pakistan also achieved the milestone of a trillion-dollar economy⁴ based on purchasing power parity (PPP) in 2017. By PPP ranking, Pakistan is now the 25th largest economy in the world. Pakistan's growth reflects acceleration but balance of payment is highly constrained due to high current account deficit at 4.1% of GDP. Pakistan's exports have shown recovery in 2017 after consecutive decline of three years but import



Figure 4: Import & Exports of Pakistan (SBP)

¹ "Pakistan Economic Survey, 2018". Government of Pakistan.

² "MACRO ECONOMIC INDICATORS 2018". Pakistan Bureau of Statistics.

³ Ibid.

⁴ "World Data Atlas, 2017". World Bank.

growth caused trade deficit to climb up to \$35.5 billion. Government initiated regulatory measures to slowdown imports; even depreciated exchange rates and raised policy interest rates have yet failed to sustain depleting international reserves which as of April, 2018 were at \$11.3 billion. In this regard, instant focus on export promotion to neutralize trade imbalance is the dire need of time.

2.2. Sri Lanka at a glance

Sri Lanka is an island country situated in the Indian Ocean neighboring India. It is home to over 21.3 million⁵ people with Sinhalese (75%) being the major ethnic group. Sri Lankan Tamils (11%), Moors (9%), Indian Tamils (4%) Malay (0.30), and Vedda (0.2)⁶ etc. are other minor ethnicities.

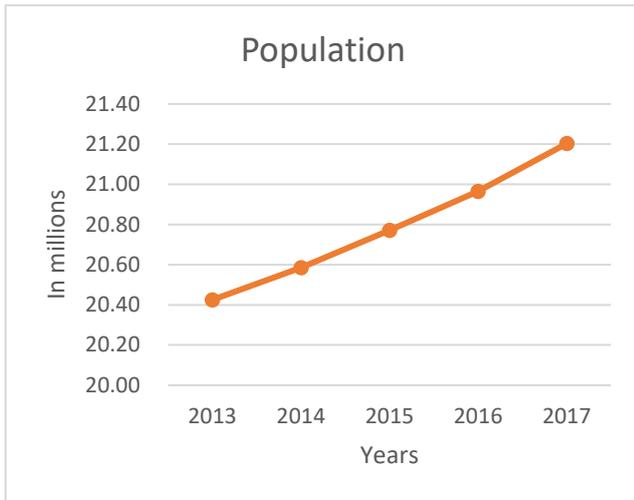


Figure 5: Sri Lanka's Population (World Bank)

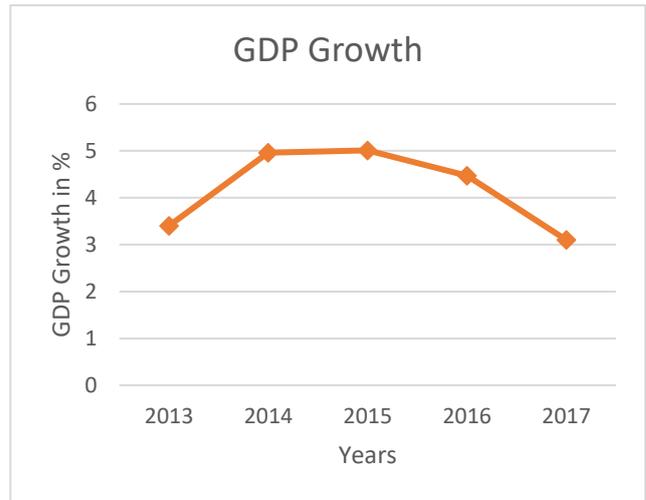


Figure 6: GDP Growth of Sri Lanka (ADB)

Since the end of Civil War in 2009, Sri Lanka has been successful to capture an average GDP growth of 5.8%. Last year in 2017, her economy suffered huge losses due to prolonged drought and floods across the country. As a result, Sri Lanka could only register a 3.1% GDP growth along with nominal GDP of \$93.45 billion⁷.

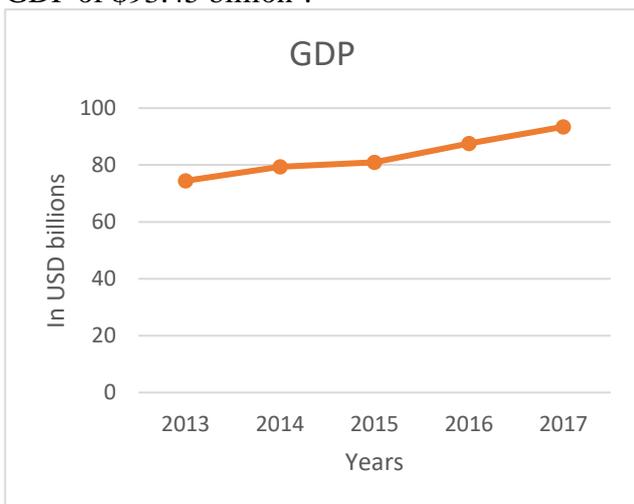


Figure 8: GDP of Sri Lanka (ADB)



Figure 7: Imports & Exports of Sri Lanka (Trade Map)

⁵ "World Bank Population Statistics, 2017". World Bank.

⁶ "South Asia: SRI LANKA". CIA - The World Factbook.

⁷ "Asian Development Outlook (ADO), 2018". Asian Development Bank.

According to Asian Development Bank estimates; GDP growth of Sri Lanka is expected to touch 4.2% in 2018 and 4.8% in 2019. Sri Lankan imports witnessed a surge of over a billion dollar as the prolonged drought created food shortages followed by heavy rains that flooded the country. As a result, the country had to import rice and dairy related products to meet the shortages which caused trade deficit to reach over \$9 billion.

2.3. Trade Profile of Sri Lanka

2.3.1. Major imports & trading partners of Sri Lanka from World

In the year 2017, Sri Lanka imported \$21.316 billion worth of goods that constitute the products from minerals fuels, iron & steel, pharmaceutical sector, Agro – foods (rice, wheat & meslin and dairy products etc.), cotton fabrics, and electrical machinery.

HS Code	Product label	2013	2014	2015	2016	2017
'TOTAL	All products	17,931	19,244	18,967	19,501	21,316
'271019	Medium oils and preparations, of petroleum or bituminous minerals, not containing biodiesel..	1,730	1,980	1,007	999	1,463
'710812	Gold, incl. gold plated with platinum, unwrought, for non-monetary purposes (excluding gold ...	196	12	41	375	650
'271012	Light oils and preparations, of petroleum or bituminous minerals which >= 90% by volume "incl. ...	667	612	502	450	627
'270900	Petroleum oils and oils obtained from bituminous minerals, crude	1,344	1,338	754	489	603
'720711	Semi-finished products of iron or non-alloy steel containing, by weight, < 0,25% of carbon..	178	255	263	236	355
'300490	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes, ...	280	284	341	374	354
'252329	Portland cement (excluding white, whether or not artificially coloured)	312	315	287	344	348
'880240	Aeroplanes and other powered aircraft of an of an unladen weight > 15000 kg (excluding helicopters ...	2	45	118	266	319
'600690	Fabrics, knitted or crocheted, of a width of > 30 cm (excluding of man-made fibres, cotton, ...	243	286	289	344	318
'100199	Wheat and meslin (excluding seed for sowing, and durum wheat)	241	339	331	230	302
'851712	Telephones for cellular networks "mobile telephones" or for other wireless networks	106	137	218	242	277
'100630	Semi-milled or wholly milled rice, whether or not polished or glazed	18	269	128	13	274
'040221	Milk and cream in solid forms, of a fat content by weight of > 1,5%, unsweetened	247	290	208	210	274
'270112	Bituminous coal, whether or not pulverised, non-agglomerated	109	147	150	187	250
'871120	Motorcycles, incl. mopeds, with reciprocating internal combustion piston engine of a cylinder..	112	205	237	221	246

Figure 9: Top Imports of Sri Lanka in USD millions (Trade Map)

21.32 bn USD of
products imported
in 2017



\$4.50 Billion

Mineral Fuels
Cement
Rice
Iron & Steel
Medicaments



\$4.20 Billion

Electrical Machinery
Knitted/ Crochet Fabrics
Iron & Steel
Man-made staple fibres
Plastics and articles



\$1.56 Billion

Petroleum Oils
Gold & Precious Metals
Sugar Confectionery
Aluminum & Plastics
Iron & Steel



2.4. Bilateral Trade Analysis

Sri Lanka is our 19th export destination in the world and the 3rd biggest market in South Asia for Pakistani products. Bilateral trade between Pakistan and Sri Lanka triggered after signing of Pakistan – Sri Lanka Free Trade Agreement (PSLFTA), 2005. Both countries agreed to achieve zero tariffs on a range of products in the long run. In this regard, Pakistan offered 100% concessions on 206 products whereas Sri Lanka offered immediate concessions on 102 products. Pakistan granted no concessions on 540 products against the 607 items list of Sri Lanka that were part of negative list (No concession). In addition to these tariff relaxations; Tariff Rate Quotas (TRQ) were also negotiated under PSLFTA which are detailed below.

Tariff Reduction	Pakistan	Sri Lanka
100% immediate concession	206 items	102 items
Tariff-phasing out period	3 years	5 years
Sensitive List	540	607 (amended in 2013)
Tariff Rate Quota	<ul style="list-style-type: none"> →10,000 metric ton duty free (Tea, Green tea, other green tea, Black tea and partly fermented tea, other black tea and other partly fermented tea.) →1,200 metric ton preference MFN (Betel leaves) →200,000 pieces at 35% rate by preference (21 tariff lines) 	<ul style="list-style-type: none"> →6,000 metric ton duty free (Long Grain Pakistani Rice (Basmati)) →1,000 metric ton duty free (Potatoes)
Rules of Origin	Direct Value Addition (DVA) requirement is 35% of FOB value. If parts of an input originate from a contracting country, minimum aggregate content must be 35% with minimum domestic input content being 25%.	

Figure 10: Pak - Sri Lanka Free Trade Agreement Modalities

Pakistan's exports to Sri Lanka have shown extensive growth in post FTA trade. They grew from \$83.5 million in 2003 to \$269 million in 2017 making about 1.23% of Pakistan's total world exports going to Sri Lanka in 2017. Pakistan's imports from Sri Lanka have also witnessed a surge from \$46 million in 2003 to \$103 million in 2017. Amongst all the free trade agreements that Pakistan has ever signed; PSLFTA can be declared a success as Pakistan enjoys a surplus in bilateral trade with Sri Lanka.

Bilateral Trade	2013	2014	2015	2016	2017
Pak Exports to Sri Lanka	316.38	266.15	260.02	237.18	268.92
% of total exports to world	1.26%	1.08%	1.18%	1.16%	1.23%
Pak Imports from Sri Lanka	63.52	62.97	72.26	76.69	103.35
% of total imports from world	0.15%	0.13%	0.16%	0.16%	0.18%
Trade Balance	252.86	203.18	187.76	160.49	165.57

Figure 11: Bilateral Trade between Pak – Sri Lanka in USD millions (Trade Map)

3. Pak – Sri Lanka Trade Scenario

3.1. Pakistan's top 15 exports to Sri Lanka

Pakistan's exports to Sri Lanka have witnessed a growth in the year 2017. The export value registered an increase of 13% from \$237 million in 2016 to \$269 million in 2017. The export basket of Pakistani products to Sri Lanka has presented a relatively unchanged pattern with portland cement, woven fabric of cotton, dyed fabric of cotton, denim, bedlinen of cotton, rice (semi milled or wholly milled and broken rice), double salts, potatoes, and medicaments being amongst the top 15 exports commodities to Sri Lanka.

In the year 2017, Pakistan's top 15 exports to Sri Lanka posted a positive change of 15% in total. These top 15 exports contributed to 61% of the Pakistan's total exports to Sri Lanka.

HS Code	Products	2015	2016	2017	% Change	% Share	Tariff
TOTAL	All products	260	237	269	13%		
'252329	Portland cement (excluding white, whether or not artificially coloured)	30	35	25	-28%	9%	0
'520932	Woven fabrics of cotton, containing >= 85% cotton by weight and weighing > 200 g/m ² , in three-thread ...	24	21	24	16%	9%	0
'100630	Semi-milled or wholly milled rice, whether or not polished or glazed	9	8	16	91%	6%	52%
'310229	Double salts and mixtures of ammonium sulphate and ammonium nitrate (excluding goods of this ...	-	-	15	-	6%	0
'300490	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes, ...	11	11	13	16%	5%	0
'730690	Tubes, pipes and hollow profiles "e.g., open seam, riveted or similarly closed", of iron or ...	14	14	11	-24%	4%	0
'520942	Denim, containing >= 85% cotton by weight and weighing > 200 g/m ² , made of yarn of different ...	15	9	11	16%	4%	0
'070190	Fresh or chilled potatoes (excluding seed)	14	15	8	-50%	3%	54%
'300439	Medicaments containing hormones or steroids used as hormones but not antibiotics, put up in ...	6	6	7	27%	3%	0
'220710	Undenatured ethyl alcohol, of actual alcoholic strength of >= 80%	10	6	7	5%	2%	590%
'630231	Bedlinen of cotton (excluding printed, knitted or crocheted)	5	5	6	29%	2%	0
'600622	Dyed cotton fabrics, knitted or crocheted, of a width of > 30 cm (excluding warp knit fabrics ...	4	6	6	5%	2%	0
'520922	Woven fabrics of cotton, containing >= 85% cotton by weight and weighing > 200 g/m ² , in three-thread ...	2	2	5	168%	2%	0
'521031	Plain woven fabrics of cotton, containing predominantly, but < 85% cotton by weight, mixed ...	3	3	5	67%	2%	0
'520912	Woven fabrics of cotton, containing >= 85% cotton by weight and weighing > 200 g/m ² , in three-thread ...	3	1	5	392%	2%	0
TOTAL		150	142	163	15%	61%	

Figure 12: Top 15 Exports of Pak to Sri Lanka in USD millions (Trade Map)

4. Potential Export Items

Given below is an analysis of export commodities for which Pakistan can potentially increase its exports to Sri Lanka. Alternatively, Pakistan can also divert its resources to Sri Lanka if the competitive advantage is expected at current rate of production.

In order to enhance our export base; a number of filters have been employed to identify potential exports of Pakistan to Sri Lanka at HS – 6-digit level. In this regard; a three-tier methodology is used.

- At first tier, top exports of Pakistan to Sri Lanka are selected which are in high demand in Sri Lankan market and import value of Sri Lanka for the same is greater than \$30 million.
- At second tier, top exports of Pakistan to Sri Lanka are selected for which Pakistan's world export is greater than \$20 million.
- At third tier, after filtering products through first two tiers, top exports of Pakistan to Egypt which have successfully captured 10% market share in Sri Lankan market were excluded from potential list.

Some of potential products identified for export promotion are detailed as under:

HS code	Product label	Pak Export to Sri Lanka 2017	Sri Lanka World Import 2017	Pak World Export 2017	Tariff
'TOTAL	All products	269	21,316	21,878	
'252329	Portland cement (excluding white, whether or not artificially colored).	25	348	208	0
'100630	Semi-milled or wholly milled rice, whether or not polished or glazed	16	274	1,513	52
'300490	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes,	13	354	71	0
'520942	Denim, containing >= 85% cotton by weight and weighing > 200 g/m ² , made of yarn of different ...	11	39	482	0
'070190	Fresh or chilled potatoes (excluding seed)	8	36	81	54
'220710	Undenatured ethyl alcohol, of actual alcoholic strength of >= 80%	7	26	362	590
'170199	Cane or beet sugar and chemically pure sucrose, in solid form (excluding cane and beet sugar ...	4	233	343	6
'100640	Broken rice	3	27	183	34
'520839	Woven fabrics of cotton, containing >= 85% cotton by weight and weighing <= 200 g/m ² , dyed.	2	83	31	0
'521142	Denim, containing predominantly, but < 85% cotton by weight, mixed principally or solely with.	2	38	51	0
'901890	Instruments and appliances used in medical, surgical or veterinary sciences, n.e.s.	0	44	361	0
'520522	Single cotton yarn, of combed fibres, containing >= 85% cotton by weight and with a linear ...	0	23	97	0
'721049	Flat-rolled products of iron or non-alloy steel, of a width of >= 600 mm, hot-rolled or cold-rolled ...	0	30	31	12
'731029	Tanks, casks, drums, cans, boxes and similar containers, of iron or steel, for any material, ...	0	21	38	8

Figure 13: List of Indicative Potential exports to Sri Lanka in USD millions

5. Value Chain Mapping

In order to gain a better perspective on the potential export products, value chain mapping is utilized in full spectrum coupled with numerous analytical tools. These analyses are inferred upon:

- Import value of Sri Lanka from different competitors,
- Market share of competitors,
- Average unit price of the potential product,
- Tariff and non-tariff barriers faced by the said product,
- Export Competitiveness Index (ECI),
- Pakistan's top export destinations for the product,
- Product diversification in the target market,
- Top 10 exporters of the same product,
- Competitors' Strategy.

HS code	Product label	Pak Export to Sri Lanka 2017	Sri Lanka World Import 2017	Pak World Export 2017	Tariff
'TOTAL	All products	269	21,316	21,878	
'252329	Portland cement (excluding white, whether or not artificially colored).	25	348	208	0
'520839	Woven fabrics of cotton, containing >= 85% cotton by weight and weighing <= 200 g/m ² , dyed.	2	83	31	0
'521142	Denim, containing predominantly, but < 85% cotton by weight, mixed principally or solely with.	2	38	51	0
'300490	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes,	13	354	71	0

Figure 14: Potential Products selected for Value Chain Mapping- Values in USD millions

5.1. Portland cement excluding white, whether or not artificially colored (252329)

Portland cement excluding white, whether or not artificially colored at HS-6 digit 252329 is selected that fulfills the criteria and indicates potential of around \$47 million in Sri Lankan market. The import value of Sri Lanka for this product in 2017 was \$348 million. India secured the majority share of 57% as \$199 million worth of exports landed in Sri Lanka. Indonesia, Pakistan, Malaysia and Vietnam captured market share of 19%, 7%, 5.7% and 4.4% respectively. Despite its highest average unit value, India is the biggest supplier in this market. Pakistan offers a competitive average unit value of just 59 USD/ton against the world average price of 61 USD/ton. Pakistan, along with its competitive unit price and zero-rated tariff can capitalize upon the market demand and expand its untapped potential.

Countries	Sri Lanka's Imports 2017	% Share in Sri Lanka's import	Avg. Unit Value (USD/ton)	Tariff	Non-Tariff	ECI Ranking	
						2013	2017
World	348				4		
India	199	57.2	64	0%	4	1	1
Indonesia	67.5	19.4	59	0%	4	7	2
Pakistan	25	7.2	59	0%	4	2	3
Malaysia	20	5.7	63	0%	4	4	4
Viet Nam	15	4.4	54	0%	4	3	5

Figure 15: Trade Indicators (252329)

Pakistan’s world export of Portland cement, excluding white whether or not artificially coloured at HS code 6-digit for the year 2017 stood at \$208 million. Top export destinations for this product are Afghanistan (\$85 million), India (\$65 million), Sri Lanka (\$25 million), Madagascar (\$17 million) and Comoros (\$4.77 million).

Sri Lanka is the world’s 2nd biggest importer of this product as Sri Lanka’s import value constitute 6% of the world imports⁸. The demand for this product coincides with the recovery and reconstruction of

infrastructural development taking place in post-civil war period since 2009. According to the reports of The Chamber of Construction Industry Sri Lanka (CCI), 26 mega projects are in process under public sector construction & upgradation (rapid economic expansion) program under which 9.1% of the GDP is allocated for the same. The Institute of Construction Training & Development (ICTAD) reported that construction industry in Sri Lanka witnessed the year-on-year growth of 12% in 2017. In turn, the growth is credited to the rapid urban transformation. Portland cement market in Sri Lanka presents favorable trade indicators and a great potential for Pakistan.

Top 10 exporters of Portland cement excluding white, whether or not artificially colored at HS-6 digit 252329 are:

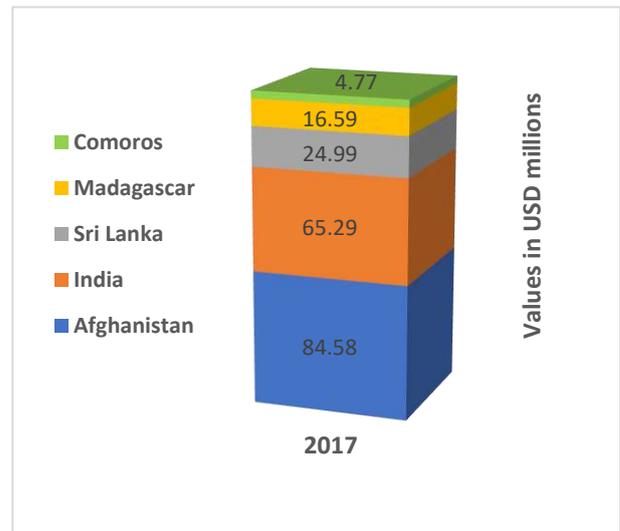


Figure 16: Top 5 Export Destinations for Pakistan - 252329

Pakistan Exporters Directory Portland Cement >	252321 → White cement, whether or not artificially coloured.	Lucky Cement Ltd.
	252329 → Portland cement (excluding white, whether or not artificially coloured) >	Attock Cement Pakistan Ltd.
	252330 → Aluminous cement	Bestway Cement Ltd.
	252390 → Other hydraulic cements	Maple Leaf Cement Factory Ltd.
		Askari Cement Ltd.
		Dg Khan Cement Company Ltd.
		Fauji Cement Company Ltd.
		Cherat Cement Co Ltd.
		Dewan Cement Ltd.
		Kohat Cement Company Ltd.

Figure 17: Top Exporters (252329)

⁸ COMTRADE Country Import Ranking, 2017

5.1.1. India's export promotion strategy – Portland cement excluding white, whether or not artificially colored (252329)

India is the biggest competitor of Pakistan in Sri Lankan market for the product “Portland cement excluding white, whether or not artificially colored at HS-6 digit 252329”. India with the total population of 1.324 billion has a demand driven cement market which has pushed cement industry to be the second largest cement producer in the world. Recent initiatives by Indian government (i.e. *Make in India* campaign, *100 Smart cities project* and *Urban housing for all*) have created high demand of local cement in the country. According to the reports of Department of Industrial Policy and Planning, India (DIPP), there are around 286 cement producers with around 575 operational cement plants (210 large and 365 small plants) whereas 98% of these plants are private-run and only 2% are owned by the government.

Demand pushed production of cement attracted great deal of investment from Europe and paved way for export of cement. Owing to the wits of the Indian government for growth, the industry enjoys lower taxes, friendly laws, high profit margins, and huge influx of foreign direct investment (FDI).

Chemical and Allied Export Promotion Council of India (CAPEXIL) is the steering body working under Ministry of Commerce & Industry, responsible for export promotion of cement. On the other hand, National Council for Cement & Building Materials (NCB) overlooks research, mining, and quality management. India has developed export competitiveness through continued process of modernization and technology upgradation. In the last decade, cement production process has transformed from highly polluted industry to environment friendly industry (e.g. Dalmia Cement – 100% renewable energy production) through active participation in Cement Sustainability Initiative (CSI). In this regard, the industry has also witnessed a shift from wet & semi-wet technology to modern dry process of cement making. Furthermore, Indian cement industry has been declared most energy efficient industry in 2017 by World Business Council for Sustainable Development (WBCSD). India has a free trade agreement with Sri Lanka plus most of the cement production plants (77 out of 210) are installed in the Southern parts of India – enjoying additional cut on transportation cost.

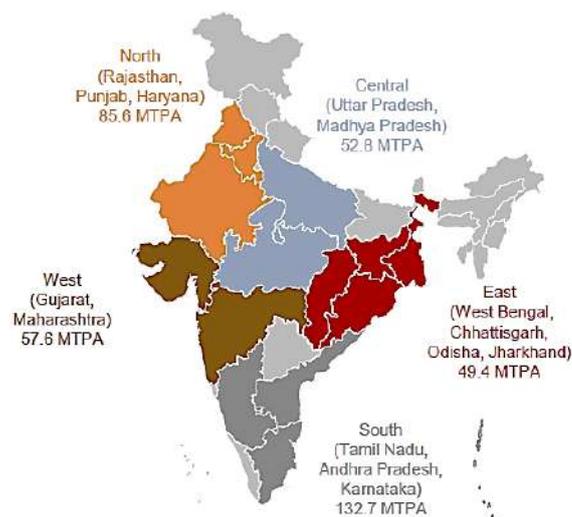


Figure 18: Installed capacity of cement production (India)

Interestingly, apart from active participation in trade fairs in Sri Lanka; Con-Expo, Sri Lanka; is solely organized by Indian event management company.

5.2. Woven fabrics of cotton, containing \geq 85% cotton by weight and weighing \leq 200 g/m², dyed (520839)

The second potential product identified for Sri Lankan market is woven fabrics of cotton, containing \geq 85% cotton by weight and weighing \leq 200 g/m², dyed at HS code 6-digit 520839. The import value of Sri Lanka in 2017 was \$83 million. Majority share is captured by China at 62.6% with \$52 million worth of goods making their way to Sri Lanka. China is also ranked 1st in export competitiveness index for this product. Pakistan's export share only makes 2% of the Sri Lankan import value. Pakistan offers the lowest average unit value of 6,426 USD/ton and faces no tariff restrictions yet failed to capture the expected market share. Pakistan's exports of the said product remained low due to low quality and low tech dyeing process whereas China despite its highest average unit value secured cumbersome market share due to its high-tech production process and quality.

Countries	Sri Lanka's Import 2017	% Share in Sri Lanka's import	Avg. Unit Value (USD/ton)	Tariff	Non-Tariff	ECI Ranking	
						2013	2017
World	83				N/A		
China	52	62.6	13,235	0	N/A	1	1
India	20	23.5	6,653	0	N/A	2	2
Thailand	2.6	3.1	6,871	0	N/A	4	4
Pakistan	1.6	2	6,426	0	N/A	5	6
Viet Nam	0.61	0.7	13,818	0	N/A	11	7

Figure 19: Trade Indicators (520839)

Pakistan's top 5 export destinations for woven fabrics of cotton, containing \geq 85% cotton by weight and weighing \leq 200 g/m², dyed at HS code 6-digit 520839 are Bangladesh, Sri Lanka, Viet Nam and Indonesia. Pakistan exported \$31 million worth of woven fabric of cotton dyed to the world.

Sri Lanka has the highest per capita exports of apparels in South Asia. In the year 2017, she exported record high \$4.82 billion⁹ worth of apparels registering growth of 3.06% from the last year.

Around 87% of the apparels are exported to America and Europe region. Moreover, owing to the fast network of shipping and clearing facilities¹⁰, many European companies also prefer to store their fabric supplies in Sri Lanka – indicating high demand. Despite its enormous export volume, growth and high demand, the industry lacks backward linkages.

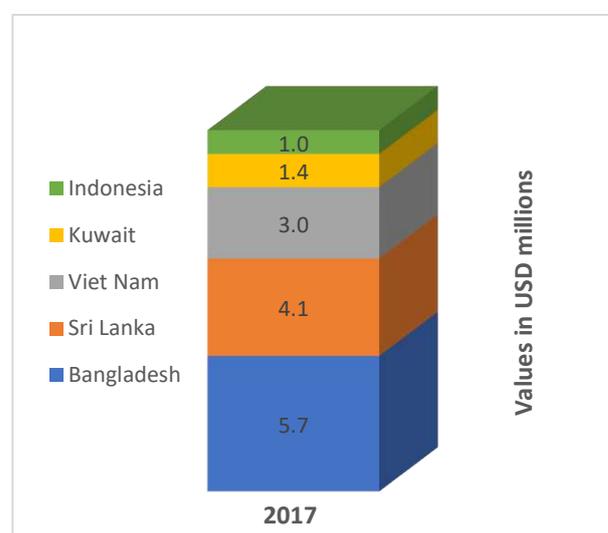


Figure 20: Top 5 Export Destinations for Pakistan - 520839

⁹ Industry and Commerce Ministry of Sri Lanka Export Brief (Feb. 2018)

¹⁰ Colombo Port, Sri Lanka ranked 26th busiest container port by World Shipping Council in 2016.

Since fabric alone makes up for 60% of the total cost of an apparel, there prevails a huge potential for export of raw material (yarn, and fabric) to Sri Lanka.

Top 10 exporters of woven fabrics of cotton, containing $\geq 85\%$ cotton by weight and weighing ≤ 200 g/m², dyed at HS code 6-digit 520839 are:

Pakistan Exporters Directory Woven fabric of cotton >	520831 → $\geq 85\%$ cotton by weight, weighing ≤ 100 g/m ²	Liberty Mills Ltd.
	520832 → $\geq 85\%$ cotton by weight, weighing > 100 g to 200 g/m ²	Union Fabrics Pvt Ltd.
	520833 → $\geq 85\%$ cotton by weight, weighing ≤ 200 g/m ² , in three-thread	Nishat Mills Ltd.
	520839 → $\geq 85\%$ cotton by weight, weighing ≤ 200 g/m, > dyed...	A. B. Exports (Pvt) Ltd.
		M S Emporio
		Nimra Textile Pvt Ltd.
		Nishat (Chunian) Ltd.
		Khurshid Textiles
		Imran Brothers Textile (Pvt) Ltd.
		Diamond Fabrics Ltd.

Figure 21: Top Exporters (520839)

5.3. Denim, containing predominantly, but $< 85\%$ cotton by weight, mixed principally or solely with man-made fibres and weighing > 200 g/m², made of yarn of different colours (521142)

The third potential product identified for Sri Lankan market is “Denim, containing predominantly, but $< 85\%$ cotton by weight, mixed principally or solely with man-made fibres and weighing > 200 g/m², made of yarn of different colours (521142)”. World import of Sri Lanka for the product in 2017 was recorded at \$39 million. The leading competitors of Pakistan are China with 77% market share, Brazil with 3% market share, India with 2.6%, and Turkey with 1% market share. Pakistan is the second biggest supplier of denim (made of yarn of different colors) to Sri Lanka with export value of \$2.3 million. In the last couple of years, despite tariff relaxations at zero percent, Pakistan has lost its market share by 50% (\$4.8 million in 2014). In terms of export competitiveness ranking, Pakistan’s position has plummeted from 1st in 2013 to 3rd in 2017.

Countries	Sri Lanka's Import 2017	% Share in Sri Lanka's import	Avg. Unit Value (USD/ton)	Tariff	Non-Tariff	ECI Ranking	
						2013	2017
World	38.4						
China	30	77.1	5,700	0	N/A	2	1
Pakistan	2.3	5.9	7,831	0	N/A	1	3
Brazil	1.16	3	4,311	0	N/A	13	4
India	0.98	2.6	6,093	0	N/A	5	5
Turkey	0.41	1.1	14,207	0	N/A	22	7

Figure 22: Trade Indicators (521142)

If we examine the average unit price (USD/ton), Pakistan is offering the highest price of 7,811 USD per ton. Pakistan has the potential to capture at least 25% market share by addressing supply side constraints that in turn lead to higher unit cost.

In 2017, Pakistan’s world export of this product stood at \$50.88 million. Out of the total exports, \$36 million worth of goods were imported by Bangladesh followed by India (\$2 million), China (\$1.7 million), Sri Lanka (\$1.6 million) and Turkey (\$1.5 million).

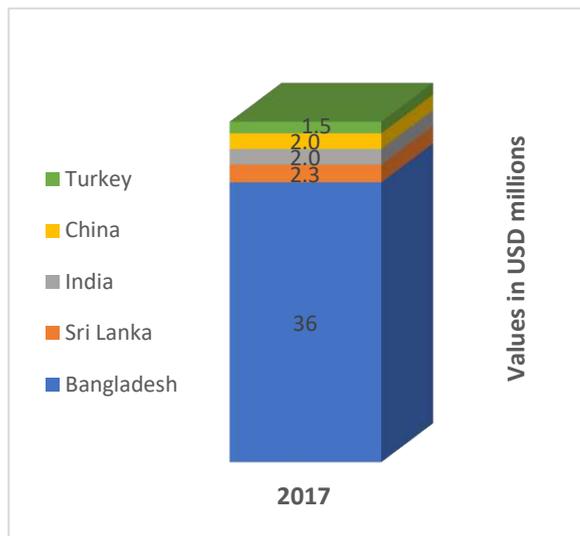


Figure 23: Top 5 Export Destinations for Pakistan - 520942

Top 10 exporters of Denim, containing predominantly, but < 85% cotton by weight, mixed principally or solely with man-made fibres and weighing > 200 g/m², made of yarn of different colours at HS code 6-digit 521142 are:

Pakistan Exporters Directory Denim, made of yarn of different color.	>	521142 → contains < 85% cotton by weight, mixed with man made fibres, weighing > 200 g/m ²	>	Rana Textile Mills Ltd. Rajby Textiles (Pvt.) Ltd. S M Traders Mekotex (Pvt.) Ltd. Indigo Textile (Pvt.) Ltd. Artistic Denim Mills Ltd. Diamond Fabrics Ltd. Siddiq Sons Limited Soorty Enterprises (Pvt.) Ltd. Jeans Company (Pvt.) Ltd.
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Figure 24: Top Exporters (520942)

5.3.1. China’s export promotion strategy – Textile

China is the world’s largest producer of textile products which account for more than half of the world’s total production whereas China’s exports exceed one third of the world’s total textile exports. In 2017, China exported \$254 billion worth of textiles; of the total \$2.2 trillion exports to the world. Key advantages to Chinese industry are its easy access to raw material (local production of cotton yarn), Special Economic Zones (SEZs), high end value addition, web-based business processing (e-commerce models e.g. Alibaba & AliExpress etc.), technologically advanced production process and most importantly cheap skilled labour which is also educated (average 10 years of education). In turn, these factors add to the highly competitive, low priced textile products by China in international market.

Furthermore, China offers a diversified product range in six sub-industries of textile industry:

- Cotton,
- Wool textile and dyeing finishing industry,
- Chemical fiber textile and printing & dyeing finishing industry,
- Silk textile and finishing industry,
- Linen textile,
- Knitted and woven product industry
- Finished textile product manufacturing

China and Sri Lanka are also negotiating a free trade agreement yet in the absence of any FTA; China enjoys dominance in cotton textile market of Sri Lanka. Sri Lanka imports around \$700 million worth of textiles including woven fabric of synthetic staple fibres, knitted and crocheted fabric of artificial filament, and dyed cotton as raw materials from China¹¹.

China has offered credit lines for debt driven infrastructural financing of around \$15 billion to Sri Lanka including a power plant, an extension of the existing port at Colombo along with a brand-new financial district called the ‘Colombo Port City’, an airport, and a new port at Hambantota.

Unfortunately, these projects soon became distressed assets and Sri Lanka had to give up Hambantota port and its sovereignty to Chinese imperialism to wave off more than \$1 billion debt. Owing to the development of these infrastructures, a huge number of Chinese workforce is present in Sri Lanka creating demand for Chinese products.

5.4. Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes. (300490)

Fourth product identified with indicative potential is “Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes (HS 6-digit 300490)”. Import value of Sri Lanka from the world in 2017 was \$354 million. India succeeded to capture 53.2% market share as compared to 8.6% and 4.6% market share of Pakistan and Bangladesh respectively. Average unit price of Pakistan for this product remained at 28,408 USD/ton – comparatively higher than that of India at 18,974 USD/ton. Both Pakistan and India face zero rated tariff in Sri Lankan market indicating higher cost of production for the product in Pakistan. Nonetheless, Sri Lanka has a huge demand for the product as 16% of the population is aged above 65 and this aging population is expected to grow two folds by 2030. The demand for medicaments has further escalated after prolonged drought followed by a series of

¹¹ London School of Economics – South Asia (*Sri Lanka-China trade relations: Time to focus on unexplored Chinese markets*)

floods in March, 2018. In the last decade, Sri Lanka has developed a successful public delivery system under which both preventive and curative healthcare is provided free of cost in public hospitals. After the inception of this system, 95% of inpatient care and 50% of outpatient care is provided by the government indicating huge demand for medicaments in Sri Lanka¹².

Countries	Sri Lanka's Import 2017	% Share in Sri Lanka's import	Avg. Unit Value (USD/ton)	Tariff	Non-Tariff	ECI Ranking	
						2013	2017
World	354						
India	189	53.2	18,974	0	8	1	1
Pakistan	31	8.6	28,408	0	8	3	2
Bangladesh	16	4.6	32,361	0	8	7	3
Russia	14	3.9	69,585	0	8	68	6
Switzerland	13.5	3.8	16,893	0	8	2	4

Figure 25: Trade indicators (300490)

In the year 2017, Pakistan's exports for Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes at HS code – 300490 were \$71 million. Majority of the exports went to Sri Lanka (\$13 million) indicating her to be a favorable market for Pakistani products. Afghanistan (\$12.8 million), Lithuania (\$6.3 million), Sudan (\$3 million), and Kenya (\$2.7 million) were the top export destinations for this product. If we analyze export destinations of Pakistani medicaments, they are mostly exported to developing countries where non-tariff barriers are minimal indicating lack of compliance to international standards.

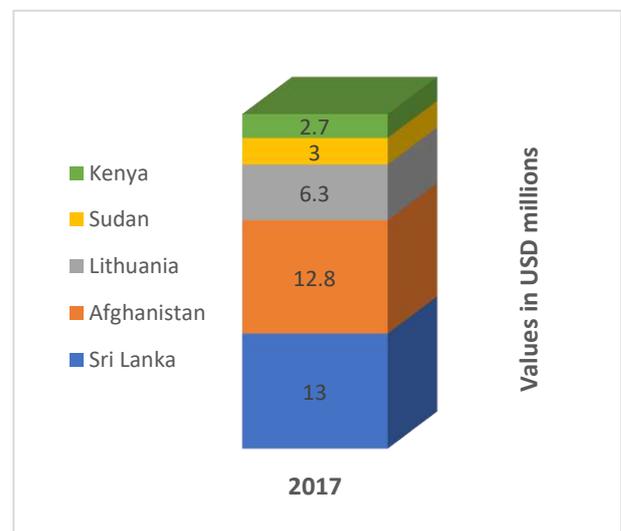


Figure 26: Top 5 Export Destinations for Pakistan - 300490

¹² Oxford Business Group: Health care in Sri Lanka, 2017.

Top 10 exporters of Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes at HS code – 300490 are:

Pakistan Exporters Directory Medicaments, mixed or unmixed products	>	300440 → containing alkaloids or derivatives, not containing hormones, steroids...
		300450 → containing provitamins, vitamins.
		300460 → containing any of the following antimalarial active principles
		300490 → Mixed or unmixed products for therapeutic or prophylactic purposes
	>	Herbion Pakistan (Pvt.) Ltd.
		Novartis Pharma (Pak) Ltd.
		CCL Pharmaceuticals (Pvt.) Ltd.
		Abbott Laboratories (Pakistan) Ltd.
		Searle Pakistan Ltd.
		Zafa Pharmaceutical
		Laboratories (Pvt.) Ltd.
		Atco Laboratories Ltd.
		Kaybee Imports Enterprises
		Star Laboratories (Pvt.) Ltd.
		Nabi Qasim Industries (Pvt.) Ltd.

Figure 27: Top Exporters (300490)

5.4.1. India’s export promotion strategy – Medicaments

India has introduced numerous export promotion initiatives that have made Indian pharmaceutical industry self-reliant and a net exporter in the world. In medicaments, a steering body “Pharmaceutical Export Promotion Council of India (PHARMEXIL)” under the directives of Ministry of Commerce & Industry, India is responsible for export promotion of medicaments. PHARMEXIL launched a product branding campaign as “INDIA: Pharmacy of the world” under which all medicaments are exported to the world with product brand. Apart from branding, PHARMEXIL is also responsible for marketing campaigns across the globe. In 2006, India introduced two financial schemes “Market Access Initiative – MAI” & “Market Development Assistance – MDA” to promote this industry under which financial incentives are given to exporters through ‘focus product – focus country’ approach. In this regard, medicaments and pharmaceutical industry enjoys ‘focus product’ status and exporters in this category are given financial incentives on decreasing basis via export promotion council. These schemes have borne positive results and have been pivotal in the development of pharmaceutical industry in India.

In Sri Lankan market, India stands to be the closest competitor of Pakistan and exports \$189 million worth of pharmaceuticals. Owing to her high-tech industry and skilled labour; India enjoys economies of scale and offers low price medicaments at an average unit value of 18,974 USD/ton. India has established its own certification laboratories and has a centralized bar coding mechanism that ensures compliance to international quality standards.

6. Market Initiatives by TDAP (Sri Lanka)

Trade Development Authority of Pakistan undertakes many initiatives to promote exports. In this regard, TDAP has facilitated exporters through ‘Single Country Exhibition’ (January 12 – 14, 2018) in Sri Lanka. In this exhibition, 134 exhibitors from textile, leather, Agro-food, furniture, handicrafts, surgical, sports & pharmaceutical sectors participated in the event.

7. SWOT Analysis

7.1. Strengths

In Pak – Sri Lanka bilateral trade, Pakistani products enjoy certain benefits while exporting to Sri Lanka if compared against exports to the world. That are:

- Sri Lanka is an island country located in the south of India. The geography of Sri Lanka is favorable to Pakistani exports as travel distance between Bin Qasim port and Colombo port is 1531 nautical miles coverable in just 4 days. Pakistan has advantage in transportation cost and delivery time as compared to the rest of the world.
- Pakistan and Sri Lanka have decades old friendly relations based on mutual respect. Both countries are part of numerous bilateral and multilateral (political and trade related) agreements i.e. South Asian Association for Regional Cooperation (SAARC), South Asia Preferential Trade Agreement (SAPTA), South Asia Free Trade Agreement (SAFTA) and Pak – Sri Lanka Free Trade Agreement (PSLFTA). These agreements provide tariff and non-tariff concessions that are favorable for export of Pakistani products to Sri Lanka.
- Sri Lanka is going through the recovery and reconstruction phase after post Sri Lankan civil war. In turn, a number of developmental projects and expansion of health care networks taking place in Sri Lanka complement Pakistan’s potential exports of Portland Cement and Medicaments.

7.2. Weaknesses

- Exporters in Pakistan have skeptical cautious behavior and are reluctant to explore new markets and avenues for export. Sri Lanka is believed to be a small market. Hence, despite favorable FTA, exports have been sloppy.
- Lack of research, innovation, technology and skillset are hindrances to efficient production that affect production capacity. Whereas exporters and manufacturers in Pakistan have already

captured a significant market share in developed economies which leaves no room for further expansion to economies like Sri Lanka.

- Sri Lanka produces high end articles of apparel and clothing (knitted petticoats, panties, pyjamas, swimsuits, t-shirts, gloves, and trousers etc.) and exports them to Europe and America. In this regard, exports (knitted or man-made staple fibres and woven fabric) from Pakistan are expensive and of low quality due to supply side bottlenecks in local industry when compared against the supplies from India and China.

7.3. Opportunities

- Owing to the India's support for Tamil tigers (an extremist fraction in Sri Lanka) Pakistan and Sri Lanka have enjoyed close diplomatic and military relations where Pakistan has assisted Sri Lankan military with defense weaponry. After the end of Sri Lankan civil war in 2009, India has maintained hostile behavior towards Sri Lanka. This hostility has created a gap between India – Sri Lanka bilateral relations whereas under these circumstances, an opportunity arises for Pakistan to capitalize upon decades old military relations vis-à-vis expand bilateral trade.
- In 2017, Sri Lanka witnessed a prolonged drought followed by a series of floods that have destroyed agricultural produce. Shortage of essential commodities has created demand for rice, maize, wheat, sugar and dairy products which is an opportunity.
- In Sri Lanka, there are more than 600 government hospitals and nearly 220 private hospitals. In contrast to the demand, 70% of the pharmaceutical and medicinal supply comes from private sector whereas government is the biggest direct buyer of medicaments from the world. There prevails a supply-demand gap for medicaments in Sri Lanka – an opportunity for investment and export promotion.
- Sri Lanka has emerged to be the trading hub of textile products as many European and American apparel/garment brands have started to pile up their stocks in Sri Lanka. In this regard, demand for cotton yarn, man-made staple fibres and cotton fabric has surged. Pakistan has an opportunity to capture market share in this market and be part of value chain process in Sri Lanka's rising textile industry.

7.4. Threats

- China is the biggest competitor of Pakistani products in Sri Lankan market and both countries are also negotiating a free trade agreement. Signing a bilateral trade agreement will toughen the competition for Pakistani products.
- Recent floods & droughts (natural calamities) have created a huge demand for agricultural products. On the contrary, they have also affected the purchasing power of consumers in Sri Lanka. Therefore, an expected decline in products other than Agro-foods poses a threat to Pakistani exports.

8. Recommendations

During the course of preparing this report; concerned trade associations, manufacturers and exporters were contacted to seek out market insight and suggestions regarding potential exports to Sri Lanka. Some of the recommendations covering policy measures, product diversification, compliance issues and industry specific initiatives have been detailed.

Pak-Sri Lanka FTA has been in practice since 2005 but due to lack of awareness; exporters are unaware of the market potential and benefits. It is necessary that Sri Lankan market should be promoted for its potential through seminars, conferences and market research (as the likes of CPEC).

Under PSLFTA, exporters are required to acquire certificate of origin indicating 25% value addition on locally produced items and 35% value addition on imported items. In this regard, complex & time-consuming procedures, extensive filing of documents and poor facilitation for FTA in customs discourage exporters to Sri Lanka who in turn, prefer Europe for GSP facilitation or China for FTA facilitation. It is recommended that one window operations for trade facilitation to Sri Lanka under PSLFTA is initiated.

International Cement Review – a renowned trading magazine by CemNet, has declared the year 2018 to be a bumper year for cement sector in Pakistan. The same argument was supported by All Pakistan Cement Manufacturers Association (APCMA) in August 2018 as total domestic production of cement surpassed 54 million ton per annum while working at 95% of the installed production capacity in fiscal year 2017-18. Pakistan offers competitive unit value, fulfills all compliance requirements yet this sector suffered 19% decline in exports in the year 2017. There are some export barriers which need to be addressed.

- Cement industry in Pakistan is disseminated into two regions (North & South). North region registered 7% to 10% annual growth in 2017 and contributes with 80% of the total production (just 1/10th of North zone production is exported) mainly exporting to Afghanistan (50% of total exports). On the other hand, South region just recorded 4% annual growth with its 20% share in production (1/3rd of South zone production is exported). South zone has the additive advantage of exporting through sea port but lacks production and export capacity. APCMA has recommended that government should provide inland freight subsidy to make good use of production capacity. In this regard, more effective resolve would be the aggressive development of South zone through numerous incentives like tax holidays, export processing zones, low tariff duties, and subsidized supply of electricity & gas.
- In Sri Lankan market, India is the biggest competitor of Pakistani cement. Despite competitive prices, India successfully secured 57.2% market share through its diversified

product range (13 different types of cement varieties). In order to capture more market share in Sri Lankan market, Pakistani exporters should diversify their production through research, innovation and value addition; adjusted according to the demands of Sri Lankan market.

- APCMA registered its outcry stating shortage of energy supply as a hindrance to production and export. As a result, cement manufacturers had to resort to in-house energy production. The recent surge in coal prices (35% increase at 108 USD/ton), oil prices and new FED (increase from Rs. 1.25/kg to Rs. 1.50/kg) have further increased the cost of cement production in Pakistan. APCMA urged that government should decrease taxes and ensure supply of energy, so that price competitiveness is maintained against the cement from India, Iran and China.

Medicaments and pharmaceutical products have also been identified as potential exports to Sri Lankan market.

- India is our biggest competitor for the product in Sri Lankan market. Key success of Indian pharma is its vibrant branding and marketing titled as “India: Pharmacy of the world”. Interestingly, it is India who organizes pharma related exhibitions and events in Sri Lanka. In this regard, Pakistan just organizes “Single Country Exhibition” in Sri Lanka. Pakistan should upscale its marketing and branding efforts in Sri Lanka through active participation in exhibitions.
- Indian pharmaceutical industry has exploited more than 53 percent market share in Sri Lankan market through its research and innovation which has allowed them to diversify their product range. India has introduced different natural alternatives to allopathic medicines such as herbal products, nutraceutical products and probiotic products. It is recommended that Pharmaceutical industry should realize changing patterns of demand and take a leap of innovation and research beyond profits.
- Indian pharmaceutical testing laboratories are world renowned and are certified by World Health Organization but Pakistan’s National Drug Laboratory has no such recognition. Sri Lankan medicaments’ industry is highly regulated whilst lack of FDA approved plants in Pakistan will affect exports in future. Government should encourage and also support pharma companies in getting FDA and other quality approvals. In this regard, it is recommended that the testing standards and status of National Drug Laboratory should be upgraded up to International compliance standards. Strict adherence to quality and standards will restore confidence in Pakistani products.

9. Conclusion

The bilateral trade between Pakistan and Sri Lanka witnessed growth in the immediate post FTA period but the gains were short lived. Pakistan still enjoys surplus in bilateral trade with Sri Lanka as Pakistan exported USD 268 million worth of goods against the imports of USD 103 million in 2017. Pakistan has a favorable trade balance with Sri Lanka but the growth rate of Pakistan's exports to Sri Lanka in the last 5 years has been sluggish as compared to the imports from Sri Lanka – portraying an adverse trend in trade balance. In Sri Lankan market, tariff restrictions are low for Pakistani exports but non-tariff barriers such as para tariffs, accumulation of nation building tax (NBT), value added tax (VAT), ports & airport development levy (PAL), special commodity levy (SCL) and compliance issues (health, sanitary and safety standards) add cost to imported items. So, in a nutshell, non-tariff barriers have overshadowed the impacts of tariff rationalization under PSLFTA and in turn, have been the major impediments to export performance of Pakistani exports.

Pak-Sri Lanka bilateral trade has the indicative potential of USD one billion. Some of the potential export products of Pakistan are portland cement, denim fabric, woven fabric of cotton yarn, medicaments & surgical instruments, paper & paper boards, articles of silk & synthetic textile, knitwear, fertilizers, towels, bed wear, cutlery, leather products, sports gloves and footwear. In the year 2017, the only remarkable contribution was recorded in the textile sector as 46 percent of the total exports to Sri Lanka were of textile products. Sri Lanka had experienced prolonged drought in November, 2017 and floods in March, 2018 which created demand for Agro foods (16% of the total exports to Sri Lanka). Some of the emerging export sectors are minerals, metals, chemicals and plastic.

Agro foods and specially rice, potato, sugar and meslin are some of the export products of Pakistan in this category whereas under PSLFTA, Pakistan is granted limited quota for these essential commodities (Agro foods). If Pakistan can seek concessions for Agro foods in its free trade agreement with Sri Lanka; a new range of products can also be exported to Sri Lanka. Sri Lanka is a potential market for Pakistani products and through proper planning and management; Pakistan can acquire handsome share against India.