Volume 23 Issue 17
Originally issued as F2

Global Journal of human-social science: F
Political Science
Volume 23 Issue 2 Version 1.0 Year 2023
Type: Double Blind Peer Reviewed International Research Journal
Publisher: Global Journals
Online ISSN: 2249-460X & Print ISSN: 0975-587X

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GJHSS-F Classification: *LCC Code: HC 415.3*



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Anjali Singh

I. Introduction

On January 22, 2023, Sri Lanka's Minister of Foreign Affairs, Ali Sabry, visited Saudi Arabia and met the Kingdom's Minister of Foreign Affairs His Highness Prince Faisal bin Farhan Al Saud. The two leaders discussed prospective ventures between Saudi Arabia and Sri Lanka, which would have an impact on their bilateral ties with respect to economic engagement in a changing world order. The visit is significant because it included discussions on areas including growing trade, raising investment, and promoting tourism. On January 27, 2023, the Agreement on Avoiding Double Taxation was signed between the two countries.[1] Additionally, Saudi Arabia proposed hiring up to 200,000 Sri Lankans in 2023.[2] This paper analyses the current Saudi Arabia - Sri Lanka relations and looks at several potential areas of collaboration. Moreover, it discusses the shared interest of both countries in advancing their economic ties and highlights the challenges in this regard.

II. Economic Ties: A Background

Diplomatic relations between the two countries have been established since Sri Lanka established its embassy in Riyadh in 1984 and its Consulate General in Jeddah in 1997, and Saudi Arabia established its embassy in the Republic of Sri Lanka in 1995. The Saudi government has offered Sri Lanka assistance in carrying out development projects as well as humanitarian and relief aid. It also provided emergency aid to Sri Lanka during the tsunami disaster in 2004. King Abdullah City and housing initiative for tsunami victims was put into action in the "Norachcholai" region.[3] In 2013, Sri Lanka ranked 28th in terms of exports to Saudi Arabia. By taking into an account its market potential, the Export Development Board (EDB) of Sri Lanka has designated Saudi Arabia as one of the entry points into the expanding Middle Eastern markets.[4] On December 8, 2017, a bilateral cooperation accord was signed between the Ceylon Chamber of Commerce (CCC) and the Council of Saudi Chambers of Commerce.[5]

In the Gulf region, Sri Lanka's most significant trading partner is Saudi Arabia. In 2019, there were 440.59 USD million worth of total trade between the two countries[6] as evident in Table: 1. The value of total trade between Saudi Arabia and Sri Lanka in 2021 was 431.21 USD million.[7] According to embassy of Sri Lanka 150,000 Sri Lankan migrants were employed in Saudi Arabia in 2018, making a substantial contribution to the country's economy. 23.5 percent of all overseas remittances comes from migrant workers in Saudi Arabia.[8]

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[1] Foreign minister Ali Sabry concludes official visit to Kingdom of Saudi Arabia, Ministry of Foreign Affairs – Sri Lanka – Ministry of Foreign Affairs – Sri Lanka, https://mfa.gov.lk/fmsl-official-visit-to-ksa/, Retrieved on February 08, 2023

[2] STEVEN GANOT. (2023, January 24). Saudi Arabia to quadruple job offers to Sri lankans in 2023. The Media Line. https://themedialine.org/mideast-daily-news/saudi-arabia-to-quadruple-job-offers-to-sri-lanka ns-in-2023/, Retrieved on February 13, 2023

[3] New Saudi ambassador pledges to develop Saudi-Lanka bilateral relations to new heights - Colombo Times. (2022, November 30). https://www.colombotimes.net/new-saudi-ambassador-pledges-, Retrieved on February 09, 2023

[4] COUNTRY BRIEF- SAUDI ARABIA, (2014, July). Export Development Board, Sri Lanka, https://www.srilankabusiness.com/pdf/Saudi_Arabia.pdf, Retrieved on February 09, 2023

[5] The Ceylon Chamber of Commerce, CEYLON CHAMBER MISSION TO SAUDI SEES POSITIVE RESULTS, https://www.chamber.lk/home-page-full-width/page/118/?responsive=true, Retrieved on February 10, 2023

[6] New Saudi ambassador pledges to develop Saudi-Lanka bilateral relations to new heights - Colombo Times. (2022, November 30). https://www.colombotimes.net/new-saudi-ambassador-pledges-, Retrieved on February 09, 2023

[7] Trade with Sri Lanka – SL embassy in Saudi, (2023, February 7). SL Embassy in Saudi – Welcome to Our Official Site. https://slemb.org.sa/trade-with-srilanka/, Retrieved on February 10, 2023

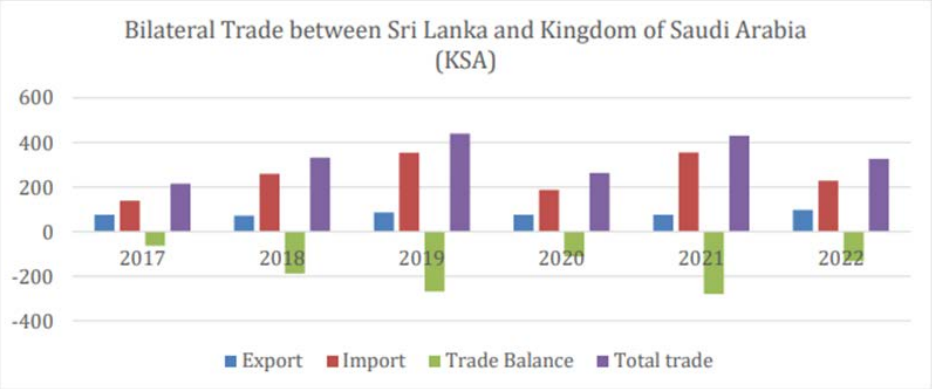
[8] Sri Lanka – KSA bilateral relations – SL embassy in Saudi. (n.d.). SL Embassy in Saudi – Welcome to Our Official Site, https://slemb.org.sa/bilateral-relations/, Retrieved on February 13, 2023

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Table 1: Sri Lanka's Bilateral Trade with Saudi Arabia (2017-2022)

All Values in USD Million

Year	Export	Import	Trade Balance	Total trade
2017	76.08	139.3	-63.22	215.38
2018	71.93	260	-188.07	331.93
2019	86.16	354.43	-268.27	440.59
2020	75.77	187.55	-111.78	263.32
2021	75.69	355.52	-279.83	431.21
2022	97.34	229.12	-131.78	326.46



Source: MARKET AND COUNTRY BRIEF ON Kingdom of Saudi Arabia (KSA) 2023, https://www.srilankabusiness.com/pdfs/market-profiles/2023/saudi-arabia-2023.pdf

III. Recent Initiatives of Economic Expansion

During his visit to Saudi Arabia, Sri Lanka's Foreign Minister, Sabry, highlighted the strong bilateral ties between the two countries and commended Saudi Arabia for supporting Sri Lanka at international forums, particularly during its membership at the UNHRC in 2009, 2012, and 2014.[9] The Minister also expressed gratitude for the Saudi Development Fund's support of the International Monetary Fund's (IMF) debt restructuring programme and its investment in Sri Lanka's infrastructure projects. The Minister underlined his dedication to enhancing Sri Lankans' professional, skilled, and semi-skilled work opportunities in Saudi Arabia and thanked his counterpart for hosting about 185,000 Sri Lankans. Saudi investors were invited to invest in Sri Lanka, notably in the Colombo Port City and the renewable energy industry, by Minister Sabry.[10]

a) Double Taxation Avoidance Agreement

The Double Taxation Avoidance Agreement (DTAA) between Sri Lanka and Saudi Arabia was signed on January 27, 2023, in accordance with Section 75 (1) of the Inland Revenue Act No. 24 of 2017, with the intention of preventing double taxation and fiscal evasion in income taxes.[11] By paying tax in a single nation, this clause enables taxpayers to save money on their income. The discrepancy in global tax collection resulted in the establishment of this DTAA. For instance, a person who intends to operate a business in another nation must pay two taxes. Both in their native country and the country where the income is earned. This might be difficult financially and in terms of savings for a budding entrepreneur. So, DTAA is a step of relief against this as an individual can earn interest in both countries as global income even if they have deposits in native country or have moved to another nation.[12]

b) Labour Market

The economy of Saudi Arabia can be analysed from two aspects; the conventional, labour-intensive non-oil sector and the dominant, capital-intensive oil sector. However, the problem with Saudi Arabia's economy is that there aren't enough human resources there to support the country's manufacturing sector. Thus, Riyadh depend on the migrant labour force.

[9] Foreign minister Ali Sabry concludes official visit to Kingdom of Saudi Arabia, Ministry of Foreign Affairs – Sri Lanka – Ministry of Foreign Affairs–Sri Lanka, https://mfa.gov.lk/fmsl-official-visit-to-ksa/, Retrieved on February 13, 2023

[10] Ibid

[11] Tax treaty brief: February 2023. (2023, February 9), IRegfollower - Tracking regulatory changes around the world, https://regfollower.com/tax-treaty-brief-february-2023/, Retrieved on February 10, 2023

[12] Double Taxation Avoidance Agreement: What is DTAA, Benefits & Rates, (2023, January 30), Digit Insurance, https://www.godigit.com/finance/salary/double-taxation-avoidance-agreement-dtaa, Retrieved on February 10, 2023

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[13]According to the Central Bank of Sri Lanka, in 2022, more than 300,000 Sri Lankans were employed abroad, primarily in the Middle East. One of Sri Lanka's biggest sources of foreign income comes from the remittances by migrant workers, totaling 3.8 USD billion in 2022. Minister of Labour and Foreign Employment of Sri Lanka, Manusha Nanayakkara, stated on January 24, 2023 that Saudi Arabia proposed to hire up to 200,000 Sri Lankans in 2023. This is almost four times the number of employment Saudi Arabia gave to workers from Sri Lanka in 2022, when Riyadh offered 54,000 positions.[14] This will be beneficial for Sri Lanka's economy as well for Saudi Arabia's Labour market.

c) Trade

Together with the Sri Lanka Tea Board (SLTB), the Sri Lankan Embassy in Riyadh and the General Consulate in Jeddah participated in "Foodex Saudi 2022," the largest international food and beverage trade show in Saudi Arabia, which was held in Jeddah, Saudi Arabia, from February 28 to March 3, 2022. At the "Foodex Saudi 2022" exposition, His Excellency P.M. Amza, the Sri Lankan ambassador to the KSA, ceremonially opened the pavilion for Sri Lanka.[15]

In 2022, Sri Lanka's entire exports to KSA was worth 97.34 USD million, and Saudi Arabia's total imports were worth 229.12 USD million. Compared to the year 2021, Sri Lanka's exports to Saudi Arabia increased by 25.16 percent in 2022.[16]

d) Investments

In the Energy sector, number of power projects with an estimated cost of 800 USD million was proposed to Sri Lanka by ACWA Power of Saudi Arabia. All of these projects would produce roughly 100 MW of electricity, and the Public Investment Fund (PIF) of Saudi Arabia, one of the five biggest Sovereign Wealth Funds (SWF) in the world, owns 50 percent of the company.[17] Additionally, Sri Lanka was one of the first nations to support Saudi Arabia's effort to host EXPO 2030 in Riyadh in order to modernise the Gulf Arab nations and diversify its economy to wean it from oil export revenue.[18]

Also, in environment sector, there were prospects for collaboration between Colombo and Riyadh, particularly in mining industry. The Sri Lanka's Environment Minister, mentioned that Sri Lanka might gain from Saudi Arabia's knowledge to know how to develop the mineral business as well as its laws and policies.[19]

e) Tourism

As Sri Lanka struggles with an ongoing crisis in its tourism sector, participants in the travel businesses, are seeking to draw more visitors from Saudi Arabia. Sri Lanka has relied heavily on tourism as a source of funding for many years, officials are giving priority to the revival of tourism. Saudi Arabia is among the top primary markets and top potential markets that Sri Lanka's Tourist Development Authority has identified using visitor statistics from 2022 until July. Data from the tourist bureau shows that visitors from the Saudi Arabia spend, on average, 230 USD per day in Sri Lanka. According to chairman of the Travel Agents Association of Sri Lanka, Saudi market has the potential to grow as one of the key country's Sri Lanka should try to engage with to boost its inflows of foreign currency.[20]

IV. Saudi Arabia and Sri Lanka's Interest in the Expanding Economic Ties

Since early 2022, Sri Lanka has been engulfed in a severe financial crisis. The country with a population of 22 million person is experiencing its worst financial situation since indep0endence, with issues ranging from low foreign currency reserves to out-of-control inflation. People have been dealing with severe shortages of basic necessities including food, medication, and fuel for months, while the inflation rate soared to a record 60.8 percent in July.[21] Saudi Arabia's investments at this time can be very helpful in resolving the problem. Strong relationships and international collaborations are required in light of the many difficulties Sri Lanka's economy has faced since the latter half of last year and the start of this one. Saudi Arabia can assist Sri Lanka with its economic management and recovery plans. Because of its huge oil production, Saudi Arabia is known for generating significant amounts of revenue and international exchange. Sri Lanka needs the Saudi

[13] Cleron, J. P, Saudi Arabia 2000 (RLE Saudi Arabia): A strategy for growth, Retrieved on February 08, 2023

[14] STEVEN GANOT. (2023, January 24). Saudi Arabia to quadruple job offers to Sri lankans in 2023, The Media Line, https://themedialine.org/mideast-daily-news/saudi-arabia-to-quadruple-job-offers-to-sri-lankans-in-2023/, Retrieved on February 13, 2023

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[16] Market Profiles and Briefs Related to Saudi Arabia, https://www.srilankabusiness.com/exporters/market-profiles/saudi-arabia.html, Retrieved on February 23, 2023

[17] Ibid

[18] Ministry of Foreign Affairs- Sri Lanka. (2023, January 27). Foreign minister Ali Sabry concludes official visit to Kingdom of Saudi Arabia. Ministry of Foreign Affairs – Sri Lanka – Ministry of Foreign Affairs – Sri Lanka. https://mfa.gov.lk/fmsl-official-visit-to-ksa/, Retrieved on February 16, 2023

[19] Fatehelrahman Yousif. (2023, January 29). Sri Lanka seeks to benefit from Saudi mining experience. Asharq AL-awsat. https://english.aawsat.com/home/article/4125761/sri-lanka-seeks-benefit-saudi-mining-experience, Retrieved on February 14, 2023

[20] MOHAMMED RASOOLDEEN. (2022, August 21). Sri Lanka looks to Saudi travelers to boost tourism industry. Arab News. https://www.arabnews.com/node/2146841/world, Retrieved on February 16, 2023

[21]MOHAMMED RASOOLDEEN. (2023, January 26). Crisis-hit Sri Lanka seeks support, investment from OIC countries. Arab News. https://www.arabnews.com/node/2238076/world, Retrieved on February 20, 2023

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government's assistance to aid the development of their energy sector due to the present energy issues that country is facing.[22] Enhancing bilateral ties was crucial for Sri Lanka since Saudi Arabia, one of the Group of 20 largest economies, is a very prominent member of the international community, particularly in the Islamic world. If Sri Lanka improves its ties with Saudi Arabia, this might serve as a catalyst for more extensive and beneficial ties with the Islamic world,[23] for serving Sri Lanka's national interest as well to attract more investment to overcome this crisis.

Saudi Arabia's economy, with its enormous potential and distinctive investment opportunities, is one of the economies that anticipates the future. As a country with a wealth of natural resources and a prime location at the crossroads of the major trade routes connecting the three continents, Saudi Arabia presents opportunity for investors. Many economic reforms implemented as part of Saudi Vision 2030 have been effective in boosting Saudi Arabia's key strategic assets, fostering economic growth, and diversifying the country's economy. If Sri Lankan investors invest in Saudi Arabia, there are a number of interesting investment options that will allow them to fully own their investment projects without the need for a local partner.[24]

V. Saudi Arabia's Interest in Investing in Sri Lanka

Since Sri Lanka is geographically located at the intersection of important shipping routes to South Asia, the Far East, and the continents of Europe and America, it serves as a beneficial port of call for shipping companies and airfreight services and provides an important opportunity for industries seeking to grow worldwide. A further benefit of Sri Lanka's proximity to the Indian subcontinent is that it serves as a gateway to a market with 1.3 billion people. These elements have brought up a great deal of interest from manufacturers looking for business prospects in South Asia as well as the country's logistics industry. These elements have combined to spark intense interest in the countries' logistics industry from both manufacturers looking for possibilities in the South Asian region and the country itself. The government is committed to open, market-oriented policies that will support private sector economic activity and overcome challenges to a free market economy. Sri Lanka's primary objectives in its quest of a knowledge-based Social Market Economy founded on social justice precepts are multi-disciplined economic strength, local competitiveness, international trade, and investments. Following these changes, Sri Lanka's position for "Ease of Business" has greatly increased, surpassing that of most of its South Asian neighbours.[25]

Sri Lanka is a key geographic location for Saudi Arabia in terms of investment prospects in the petroleum, hospitality, and renewable energy sectors and there are multiple prospects to establish free trade and partnership agreements with one of the South Asian country easily.[26] Furthermore after signing Double Taxation Avoidance Agreements it will provide relief from double taxation for international investors. Additionally, Sri Lanka is an agile talent pool since it has a multifaceted and adaptable workforce that can meet every need of the Saudi Arabian industry at an affordable price. The Sri Lankan labour force is highly trainable and recognised throughout the world for its ability to manage precision industrial activities. This may be advantageous for the labour force in Saudi Arabia.[27]

VI. Challenges Ahead

Notwithstanding the positive trends and opportunities, there are still certain obstacles to be overcome if the two countries are to continue their economic collaboration. Sri Lanka is dealing with a serious balance of payments issue and unmanageable debt, which is hindering the country's ability to develop and increase poverty. Due to the economy's forecast downturn, poverty is predicted to have increased in 2022. Moreover, in June 2022, the banking system's net foreign assets decreased to -5.9 USD billion. Official reserves decreased from 7.6 USD billion in 2019 to less than 400 USD million in June 2022. The political unpredictability and growing imbalances in the fiscal, external, and financial sectors are major concerns for Sri Lanka's economic outlook. The real GDP of Sri Lanka is estimated to decline by 9.2 percent in 2022 and by an additional 4.2 percent in 2023.[28]

[22] Daniel Manoba. (2023, January 24). Foreign Minister of Sri Lanka begins state visit to Saudi Arabia. https://thediplomaticinsight.com/foreign-minister-of-sri-lanka-begins-state-visit-to-saudi-arabia/, Retrieved on February 21, 2023

[23] MOHAMMED RASOOLDEEN. (2023, January 23). Sri Lanka seeks investment, employment opportunities from Saudi Arabia. Arab News. https://www.arabnews.com/node/2237656/world, Retrieved February 22, 2023

[24] MOHAMMED RASOOLDEEN. (2022, November 30). New Saudi ambassador pledges to develop Saudi-Lanka bilateral relations to new heights. Colombo Times - First to know news in Colombo. https://www.colombotimes.net/new-saudi-ambassador-pledges-to-develop-saudi-lanka-bilateral-relations-to-new-heights/, Retrieved on February 23, 2023

[25] Trade with Sri Lanka – SL embassy in Saudi. (2023, February 7). SL Embassy in Saudi – Welcome to Our Official Site. https://slemb.org.sa/trade-with-srilanka/ , Retrieved on February 23, 2023

[26] RASHID HASSAN. (2023, January 28). Sri Lankan foreign minister's trip to Saudi Arabia yields 'positive vibes. Arab News. https://www.arabnews.com/node/2240626/saudi-arabia, Retrieved on February 24, 2023

[27] Why Sri Lanka – New – Investment Opportunities – Board of Investment of Sri Lanka, https://investsrilanka.com/why-sri-lanka-new/#:~:text=Sri%20Lanka, Retrieved on February 24, 2023,

[28] The World Bank In Sri Lanka: Overview. (2022, October 6). World Bank. https://www.worldbank.org/en/country/srilanka/overview, Retrieved on February 27, 2023

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A substantial economic overhaul can often be spurred by an economic crisis, but there are serious downside consequences when there is no political stability. Given that the Sri Lankan public has amplified its willingness to penalise those who have failed to deliver, there is a loss of faith in political institutions and leaders, which elevates the risks. Even if all goes according to plan, it would be another two to three years before the Sri Lankan population notices any significant improvement in economic conditions. Given all the ambiguities, Sri Lanka will need to focus on 2023 as it prepares for the upcoming presidential elections in 2024.[29] If Saudi Arabia makes an investment in Sri Lanka at this moment, they will need to have the patience to wait until the country achieves political stability because an economic recovery without it is impossible. As a result, Saudi Arabia may be taking a risk by investing in Sri Lanka given the country's unclear political and economic future.

VII. Conclusion

In order to get out of this predicament, Colombo is attracting investment from other countries as Sri Lanka experiences its greatest economic crisis since gaining independence. Given the numerous challenges Sri Lanka's economy has encountered, strong ties and economic cooperation with Saudi Arabia are necessary. However Saudi Arabia is also investing in Sri Lanka because of its strategic location as a gateway to the South Asian market, as it serves its own national interests. The Double Taxation Agreement, which both countries have signed, would combat double taxation and tax evasion with regard to income taxes. It is expected to boost the bilateral economic relationships between the two countries and the influx of foreign investment into the country. There is challenge that Saudi Arabia must overcome while investing in Saudi Arabia, but it may be worthwhile to take the risk of entering the South Asian market through Sri Lanka. The convergence between Saudi Arabia and Sri Lanka benefits both countries equally.

[29] Dushni Weerakoon. (2023, January 10). Sri Lanka's hard road to recovery from economic and political crisis. East Asia Forum. https://www.eastasiaforum.org/2023/01/08/sri-lankas-hard-road-to-recovery-from-economic-and-political-crisis/ , Retrieved on February 28, 2023

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