

SRI LANKA'S EXPORT OPPORTUNITIES IN THE PAKISTAN MARKET

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Introduction

Sri Lanka is involved in bilateral Free Trade Agreements (FTA) that have emerged within the region. The first was with India, signed in 1998 and implemented in March 2000 and the second was with Pakistan signed in August 2002, which came into effect in June 2005. Under the Pakistan Sri Lanka FTA both sides offer preferential market access to each other's exports by way of tariff concessions.

Sri Lankan businessmen are currently enjoying duty free market access on 206 products in the Pakistani market that include tea, rubber, and coconut and Pakistan, in return, has gained duty free access in the Sri Lankan market on 102 products including oranges, basmati rice, and engineering goods, (De Mel, 2008). The value of total trade between the Sri Lanka and Pakistan, which stood at 94.69 millions US dollars in 2002, has increased to 342.14 millions US dollars in 2010, (Central Bank, 2010). Trades under PSFTA are advantageous to Pakistan.

Therefore, it is important to investigate, as to what the products which are having competitive advantage to Sri Lanka and Sri Lanka's export potential in the Pakistan market. Therefore, this study attempts to investigate the following objectives: 1. to find out Sri Lanka's export opportunities in the Pakistan market, 2. to estimate Sri Lanka's export potential in the Pakistan market and, 3. to study trade pattern of the Pakistan market.

Methodology

Sri Lanka's export and import data of the last five years were collected from Sri Lanka's Customs Department, and Pakistan's export and import data of the last five years were collected from Pakistan's Customs Department. Sri Lanka's GDP, exchange rates and price levels were collected from central bank of Sri Lanka, and Pakistan's GDP, exchange rates and price levels were collected from central bank of Pakistan. To estimate gravity model, data were extracted from UN Comtrade database. The analysis of comparative advantage has been undertaken using the Balassa index of revealed comparative advantage. The revealed comparative advantage is an index used in international economics for calculating the relative advantage or disadvantage of a certain country in a certain class of goods or services as evidenced by trade flows. If the index of revealed comparative advantage takes a value greater than unity, the country has a revealed comparative advantage in that product. As Batra and Khan (2005) point out RCA involves two steps. First is the calculation of the Penetration Ratio (PR^K) for export of product-K by country-I to destination -J

$$PR^K = \frac{\text{Country-I's export of commodity-K to destination-J}}{\text{Total import of commodity-K by destination-J}} \quad (i)$$

Then the RCA is calculated as;

$$RCA^K = \frac{PR^K}{X_I/X_{JW}} \quad (ii)$$

Where, X_I = Country-I's total export to country-J, X_{JW} = Country-J's total import from the world

Kenneth (2007) point out that Tinbergen was the first author to apply the gravity equation to analyze international trade flows. The model explains the flow of trade between a pair of countries as being proportional to their economic "mass" (national income) and inversely proportional to the distance between them (Kenneth, 2007). It can be generalized as follows (equation iii);

$$Trade_{ij} = \beta_0 Y_i^{\beta_1} Y_j^{\beta_2} D_{ij}^{\beta_3} \quad (iii)$$

Where; $Trade_{ij}$ is the value of the bilateral trade between country i and j, Y_i and Y_j are country i's and j's respective GDPs. D_{ij} is geographical distance between Colombo and capital of importing countries. Population is also used to explain the value of the bilateral trade between country i and j. Therefore equation (iii) becomes as following equation iv:

$$Trade_{ij} = \beta_0 Y_i^{\beta_1} Y_j^{\beta_2} D_{ij}^{\beta_3} L_j^{\beta_4} eu^{ij} \quad (iv)$$

Where; $Trade_{ij}$ is the value of the bilateral trade between country i and j, Y_i and Y_j are country i's and j's respective GDPs, D_{ij} is geographical distance between Colombo and capital of importing countries, L_j is country j's population, and eu^{ij} is error term. Taking logarithms of the equation (iv) we get the linear form of the model and the corresponding estimable equation as equation v;

$$\log(Trade_{ij}) = \beta_0 + \beta_1 \log Y_i + \beta_2 \log Y_j + \beta_3 \log D_{ij} + \beta_4 \log L_j + \log eu_{ij} \quad (v)$$

Where; β_1 and β_2 are regression coefficients to be estimated. The error term captures any other shocks and chance events that may affect bilateral trade between the two countries.

Discussion and Conclusion

Sri Lanka exports, exhibiting strong RCA, are mainly concentrated in the coconut products, vegetable and fruits, tea products, and spices. The index of RCA is greater than one for 86 products indicating that Sri Lanka holds comparative advantage in these products in the Pakistan market. Among the selected products, the highest RCA value indicates Coconut/copra oil-cake and both solid residues, whether/not ground/pellet (HS 230650) accounting to 14159.64 RCA value. Bran, sharps and other residues of leguminous plants, plated or not (HS 230250), Cucumbers and gherkins, prepared or preserved by vinegar or acetic acid (HS 200110), and Pepper of the genus Piper, except cubeb pepper, crushed or ground (HS 090412) indicate RCA value 0 before FTA as those products were not exported before the FTA but after the FTA those products have higher RCA index 7185.04, 5027.06 and 861.61 respectively. The Table 3 depicts that the following 10 products have indicated higher RCA values. Even though all the following products indicate higher RCA value; Solid or cushioned tyres, interchangeable tyres treads and tyre flaps of rubber (HS 401290) shows less value after the FTA. Coconut and coconut products category has higher RCA index. Coconut/copra oil-cake and both solid residues, whether/not ground/pellet (HS 230650) has 12692.08 RCA before the FTA and after the FTA it has increased up to 14159.64 RCA.

So the 86 products which are having $RCA > 1$ can compete with products of other countries products when entering into the Pakistan market.

The model fits the data well and explains 52 percent of the variation in bilateral trade across the sample of countries. The estimated coefficient on log distance has the anticipated negative sign and is 0.37 indicating that trade between a pair of countries falls by 0.37 percent for every one percent increase in the distance between them. However, the distance variable was not significant. The coefficient for population was statistically significant and positive. The coefficient on the GDP variable in our specification is positive, statistically significant and economically reasonable indicating that higher GDP increases trade. Given that the coefficient is less than one (0.22), an increase in the size of the country increases trade, though, less than proportionately. After obtaining the estimated results of the gravity models for bilateral trade flows, it proceeds to estimate trade potential for Sri Lanka with Pakistan. The ratio of trade potential (P) as predicted by the model and actual trade (A) i.e. (P/A) is then used to analyze the future direction of trade for Sri Lanka. If the value of P/A exceeds one, the implication is in terms of potential expansion of trade with Pakistan.

Table 3: The products having highest RCA

Product code	Product label	RCA	
		Pre FTA (avg 2003-2005)	FTA period (avg 2006-2010)
230650	Coconut/copra oil-cake and both solid residues, whether/not ground/pellet	12692.08	14159.64
230250	Bran, sharps and other residues of leguminous plants, plated or not	0	7185.04
200110	Cucumbers and gherkins, prepared or preserved by vinegar or acetic acid	0	5027.06
550810	Sewing thread of synthetic staple fibers	976.34	2359.26
330520	Hair waving or straightening preparations	42.27	1223.35
090412	Pepper of the genus Piper, except cubeb pepper, crushed or ground	0.00	861.61
090210	Green tea (not fermented) in packages not exceeding 3 kg	31.59	631.29
400129	Natural rubber in other forms nets	213.88	616.48
400121	Natural rubber in smoked sheets	362.86	559.67
401290	Solid or cushioned tyres, interchangeable tyre treads and tyre flaps of rubber	953.98	537.36

The results of the study show that Sri Lanka holds comparative advantage in 86 products among the 100 products at major exports to Pakistan at 6 digit level of HS classification and can compete with products of other countries products when entering in to the Pakistan market. Sri Lanka exports, exhibiting strong RCA, are mainly concentrated in the coconut products, vegetable and fruits, tea products, and spices. The highest RCA value indicates Coconut/copra oil-cake & both solid residues, whether/not ground/pellet (HS 230650).

The other 14 products which are Sewing thread of artificial filaments (HS 540120), Articles of plastics or of other materials of Nos 39.01 to 39.14 nes (HS 392690), Waste and scrap of paper or paperboard, nes (including unsorted (HS 470790)), Labels, badges and similar articles, not woven of textile (HS 580790), Food preparations nes (HS 210690), Flat rolled prod, i/nas, plated or coated with zinc, >/=600mm wide, nes (HS 721049), Parts and accessories of automatic data processing machines and units thereof (HS 847330), Paints and varni based on polymers dissolve in a non aqueous solv nes (HS 320890), Tiles, cubes and sim nes, glazed ceramics (HS 690890), Palm oil and its fractions refined but not chemically modified (HS

151190), Newsprint, in rolls or sheets (HS 480100), Industrial fatty acids, acid oils nes (HS 382319), Chemical/allied industry preparations/prods nes (HS 382490), and Textured yarn nes of polyester filaments, not put up for retail sale (HS 540233) must be changed or their quality enhanced to increase their capability to compete with products of other countries.

Also from these 100 products export of 45 products were started after the FTA, and 37 products hold comparative advantage in Pakistan market.

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