

## AN ANALYSIS OF THE PAKISTAN SRI LANKA FREE TRADE AGREEMENT (PSFTA) AND POTENTIAL TRADE BETWEEN THE TWO COUNTRIES

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### Introduction

Sri Lanka has taken steps to liberalize regional trade and to speed up the economic integration process within the South Asian region. One of the initiatives taken in this direction is the South Asian Preferential Trading Agreement (SAPTA) in 1995 which became the South Asian Free Trade Area (SAFTA) in January 2006. However, due to the lack of progress in regional trade during the past few years, countries in the region switched towards Bilateral Trade Agreements (BTAs). This led to the India-Sri Lanka Free Trade Agreement (ISFTA) which came into effect in March 2000. Following this trend, a BTA was signed between Pakistan and Sri Lanka in July 2002, which came into effect in July 12<sup>th</sup> 2005. However, studies on PSFTA are limited due to the fact that it was implemented only recently. Therefore, this study aims to identify the export potential and focuses on the existing opportunities and products for bilateral trade under PSFTA.

### Materials and methods

This study utilises secondary data obtained from the Department of Commerce, the Central Bank of Sri Lanka, Sri Lanka Customs and the International Trade Centre. The potential products related to export potential are identified by calculating the potential trade value based on Pakistan's imports from Sri Lanka, Pakistan's global imports and Sri Lanka's exports to Pakistan. For example, the following steps are taken to estimate Sri Lanka's potential trade value for a specific product. Firstly, the value of Pakistan's imports from Sri Lanka is deducted from the value of Pakistan's imports from the world. Secondly, the value of Pakistan's imports from Sri Lanka is deducted from the value obtained above. In the absence of

from Sri Lanka to Pakistan, potential trade is the value of Pakistan's imports from world. After identifying the potential products between the two countries, the traditional trade index of Revealed Comparative Advantage (RCA) was calculated for the most potential top twenty commodities for Sri Lanka, under the HS (Harmonized System) code 6 digital level.

The RCA index was calculated in the following manner.

$$RCAX_{ij} = \frac{X_{ij} / X_{wj}}{X_{it} / X_{wt}}$$

- Where,  $X_{ij}$  = the value of country i's exports of commodity j  
 $X_{it}$  = the value of country i's total exports to the world  
 $X_{wj}$  = the value of world exports of commodity j  
 $X_{wt}$  = the value of total world exports of all commodities

### Results

According to the present study, PSFTA has improved trade between the countries as a result of tariff concessions and the introduction of new products such as fresh pineapples, PVC compound cables, pine wood logs, sports goods that were able to enter into the Pakistan market as a result of the agreement. This study reveals that Sri Lanka has a high export potential in traditional agricultural commodities: tea, rubber, and coconut, as well as manufactured products such as ceramics and toys. In addition, industrial goods such as aircraft parts have also been identified as a high export potential product. The following 20 products, presented in the descending order of

importance, have the most export potential trade between the two countries.

(1)Black Tea (fermented and partly fermented), (2) Pneumatic rubber tires, (3) Technically specified natural rubber, (4) Parts and accessories of automatic data processing, (5) Wheat or Meslin flour, (6) Parts of cranes, work-trucks, shovels and other construction machinery, (7) Pneumatic tyres new of rubber nes, having a hearing bone, or sim tread, (8) Articles of vulcanised rubber nes, other than hard rubber, (9) Food preparation nes, (10) Tableware and kitchenware of porcelain, (11) Parts for use with apparatus of headg, (12) Measuring and checking instruments, appliances, and machines, nes, (13) Gaskets, washers and other seals of vulcanised rubber, (14) Tiles, cubes and sim nes, glazed ceramics, (15) Toys nes, (16) Boards, panels, including control panels, for a voltage, (17) Tobacco, unmanufactured, partly or wholly stemmed or stripped, (18) Parts of electrical transformers, static converters and inductors, (19) Aircraft parts nes, (20) Wheels including parts and accessories for motor vehicles.

### **Discussion**

Pakistan is the second largest trading partner of Sri Lanka in the SAARC region. The analysis undertaken in the study finds significant levels of potential trade between the two countries. Sri Lanka can greatly benefit by developing and exporting some of its traditional products as well as new products to Pakistan. Moreover, RCA values show that Sri Lanka specializes only in agricultural products but the country has export potential in industrial products as well.

Concessions granted by the PSFTA should further encourage trade in a wider range of products. This study does not incorporate security related commodities due to the national security reasons and the non-availability of secondary data. There exist supply side constraints such as lack of infrastructure facilities lack of transport facilities (flights, ships and harbor facilities), store facilities, communication networks and marketing facilities between the two countries.

### **Conclusion**

According to the present study potential trade between the two countries is high. Trade can further improve as a result of tariff concessions granted by the PSFTA. However, the progress of the PSFTA depends on the supply side constrains. Therefore the respective governments should focus on expansion of various facilities mentioned above for smooth movement of cargo. At present PSFTA focuses only on trade in goods. In future, it should consider incorporating trade in services and investments.

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