__Revised Draft__

Making SAFTA a Success: The Role of India

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This paper is written under a research grant from the Economic Affairs Division of the Commonwealth Secretarial, London to CUTS International, Jaipur. Views expressed in this paper are those of the authors and not necessarily reflect those of their institutions and of the Commonwealth Secretariat and CUTS International.

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ACRONYMS AND ABBREVIATIONS

AFTA	ASEAN Free Trade Area
CECA	Comprehensive Economic Co-operation Agreement
CEPA	Comprehensive Economic Partnership Agreement
COE	Committee of Experts
EHS	Early Harvest Scheme
FTA	Free Trade Agreement or Free Trade Area
GATT	General Agreement on Tariffs and Trade
GSP	Generalised System of Preferences
GSTP	Global System of Trade Preferences
ISLFTA	India-Sri Lanka Free Trade Agreement
LDC	Least Developed Countries
MFN	Most Favoured Nation
MoP	Margin of Preference
MRAs	Mutual Recognition Arrangements
NTBs	Non-tariff Barriers
PRoO	Preferential Rules of Origin
PTA	Preferential Trade Agreement
RoO	Rules of origin
RTA	Regional Trade Agreement
SAARC	South Asian Association for Regional Cooperation
SAPTA	SAARC Preferential Trading Agreement
SAFTA	South Asian Free Trade Area
SPS	WTO Agreement on the Application of Sanitary and Phyto-sanitary Measures
TBT	WTO Agreement on Technical Barriers to Trade
WTO	World Trade Organisation

Making SAFTA a Success: The Role of India

1. Introduction

In recent years, the analysis of economic liberalisation has occupied the main focus of debate in development economics. Till the late 1980s while a select group of countries moved ahead on the road of the Regional Trade agreements (RTAs), most of the developing countries continued with their objectives of economic liberalisation through the rule based multilateral trading system. However, subsequent to the Uruguay Round, the world trading system experienced a surge in RTAs, which fundamentally altered the world trade landscape. The developed as well as developing countries are actively participating in the RTAs. At present, the number of agreements notified to the WTO is more than 200[1], a rise of six folds in just two decades. Given the rush to conclude RTAs, it is expected that the number would touch 300 in a couple of years. Today, with the exception of Mongolia, all the WTO Members are participating in one or more RTA negotiations[2]. Since the 1990s, the South Asian countries also made efforts to enhance the trade and investment flows with their neighbours, with the larger objectives of achieving a reduction in poverty and enhancing development in the region.

South Asian Association for Regional Cooperation (SAARC) was established in 1985 as a grouping of seven countries, namely, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. South Asia has great economic strength in terms of its market potential (one third of humanity resides in this area) and in terms of the rich natural resources and capable human resources. Recognising the potential of the role of trade and investment flows in the process of regional economic integration, a trade block among SAARC members was formed with the signing of SAARC Preferential Trading Arrangement (SAPTA) in April, 1993. Four rounds of negotiations were held and tariff concessions were exchanged by member countries on a number of products, however, the intra-regional trade remained modest.

The decision to convert SAARC into a Free Trade Area (FTA) was taken in the 9th SAARC Summit in May 1997 in Male. Subsequently, at the 11th SAARC Summit held in Nepal in

[1] Recent accession of new members to EU has reduced the total number of RTAs. (Source: WTO)
[2] Source: WTO website

January 2002, the Heads of State or Government directed the Council of Ministers to finalise the text of the Draft Treaty Framework by the end of 2002. They also directed that in moving towards the goal of South Asia Free Trade Agreement (SAFTA), the Member States expedite action to remove tariff and non-tariff barriers (NTBs) and structural impediments to free trade. Finally, after extensive negotiations among member countries, the SAFTA Agreement was signed in January 2004 and was implemented with effect from January 01, 2006, though the tariff liberalisation started from July 01, 2006.

SAPTA was not able to achieve the desired results of enhancing the trade and investment linkages amongst the SAARC nations. Many believed that the failure of SAPTA to increase the intra-regional trade was a result of the limited product coverage and the limited extent of tariff concessions exchanged among member countries. And, accordingly, SAFTA, with the objective of bringing down the tariffs to zero, raised the hopes of millions of people for converting South Asia into a high trade region.

Will SAFTA provide meaningful market access to its members? Will it increase the economic activity in the region to foster the overall development? What are the lessons that the member countries learn from SAPTA? What role should the SAARC Member Countries (SMCs) play in achieving these goals? How should a policy maker look into these issues? Can India, as the largest economy in the region, play an important role in making SAFTA a success? This paper attempts to address some of these issues.

Section 2 provides a brief introduction of various cooperation activities in SAARC, while Section 3 gives an account of India's bilateral agreements with the SAARC members, the process of economic integration in South Asia and the progress from SAPTA to SAFTA. An analysis of India's trade with SAARC Member Countries is dealt in Section 4, which also highlights India's bilateral trade with its South Asian neighbours and assesses the bearing of bilateral agreements on the implementation of SAFTA. Section 5 deals with a review of the existing literature on the potential implication of SAFTA, while Section 6 deals with issues relating to non-tariff barriers (NTBs) and suggests measures to address them so that they do not impede the intra-SAARC trade. A brief account of India's other bilateral or regional engagements have been explained in Section 7. The issue of regionalism versus multilateralism is presently the most debated topic on which a brief discussion has been presented in Section 8. Finally, in view of the above background, the paper attempts to provide an insight of how meaningful is SAFTA and what role can India play in making SAFTA a success.

2. SAARC: An overview of cooperation

The idea of a "regional forum" in South Asia was first proposed by Bangladesh in 1980. The rationale was primarily predicated on the premise that regional experiences elsewhere in the globe had been highly successful and that the countries in the South Asian region would benefit enormously from such cooperation as it would strengthen their competitive position – both individually and as a group.

Initially SAARC's activities were confined to nine non-controversial areas of regional cooperation in transport, communication, science and technology, education, culture, health, population, sports and arts etc. A SAARC Integrated Programme of action was constituted initially and a Regional Integrated Programme of Action was adopted in 2004. Some of the important achievements can be highlighted in the following manner:

- A Technical Committee on Agriculture and Rural Development was constituted. The Committee has been helpful in bridging critical knowledge gaps and identified specific areas for pursuing regional actions and projects. With few projects of Food and Agriculture Organisation (FAO) are being implemented, an important one relates to Regional Strategy & Regional Programme for Food Security.
- Apart from Technical Committee, Working Groups were created in new areas in Energy, Tourism, information and communication technology (ICT), intellectual property rights (IPRs) & biotechnology.
- Recognising the importance of regional cooperation in Biotechnology, a proposal to draw a regional framework for Bio-safety Procedures and Protocols is being considered. Meetings of experts are being convened to develop common regional strategies and concrete plan of action on the basis of state-of-the–art Reports on Selected Rural Technologies, and Biotechnology.
- Recognising that telecommunications would be looked upon as a multifaceted process enhancing socio-economic development in the region, the SAARC Communication Ministers adopted a Plan of Action in their First Conference in 1998. Subsequently, in view of rapid and innovative developments in the telecommunication sector, a

revised Plan of Action was adopted in 2004. A common position on issues of concern to the region was adopted and the same was presented at the World Summit for Information Society in November 2005.

- In the areas of cooperation in energy, several projects and studies have been commissioned. A possibility of setting up a SAARC Energy Centre is being explored. The modalities in creating a South Asia Energy Cooperation, including the concept of an Energy Ring are also being worked out. SAARC – ASEAN Cooperation in the energy sector has been finalised which provides that the SAARC Experts can visit the relevant ASEAN institutions.
- In another important area of cooperation, i.e., Environment, several studies were carried out. Studies have made specific recommendations on measures to protect and manage the environment; strengthening disaster management capabilities; and their implementation mechanisms. An Action Plan at Regional and National Levels has been prepared. It also endeavours for studying the feasibility of a Regional Treaty on Environment. Two Regional Centers of Excellence in the field of environment has been approved, a Costal Zone Management Center has come up in Maldives and SAARC Forestry Centre was set up in Bhutan.
- In the field of Science & Technology, efforts are underway to finalise a SAARC Technology Initiative with a focus on identifying and implementing specific regional projects in rural areas which would have direct impact on improving day-to-day life of people.
- A South Asian Development Fund (SADF) was created in 1996. It started with a resource base of US$5mn and has a fund of about US$6.6mn. The fund is to be utilised for projects in one or more SAARC countries which are of significant economic interest to two or more countries.

The experience of the growth and consolidation of various regional blocks world over (in early 1990s) brought to the fore the realisation that core economic areas need to be brought within the scope of SAARC activities if the objective of bringing about accelerated social and economic development in the region through mutual cooperation was to materialise. Thus, SAPTA was finalised and signed during the Seventh Summit held in Dhaka in 1993. The signing of SAPTA was a landmark achievement of the Seventh SAARC Summit. The

Agreement reflected the desire of the member States to promote and sustain mutual trade and economic cooperation within the SAARC region through the exchange of concessions.

At the 10th SAARC Summit held in Colombo in July 1998, the Heads of the SAARC States/Governments decided to set up a Committee of Experts (COE) to draft a comprehensive treaty framework for creating an FTA within the region, taking into consideration the asymmetries in development within the region and bearing in mind the need to fix realistic and achievable targets. The COE first met in August 1999 but it took four years to reach an agreement on SAFTA, which was signed on January 06, 2004 during the 12th SAARC Summit in Islamabad. The Agreement entered into force with effect from January 01, 2006.

3. Trade Agreements in SAARC region

Bilateral Trade Agreements

The relationship between India and other SAARC member countries is historical. India's trade with Bangladesh, Bhutan, Maldives, Nepal and Sri Lanka are governed by the bilateral treaties/agreements. The India-Bangladesh Bilateral Trade Agreement signed on October 04, 1980, has been extended from time to time and presently the agreement is valid till March 31, 2009. This Agreement provides for expansion of trade and economic cooperation, making mutually beneficial arrangement for the use of waterways, railways and roadways, passage of goods between two places in one country through the territory of the other, exchange of business and trade delegations and consultation to review the working of the Agreement at least once a year.

In the bilateral trade talks, issues for recognising Bangladesh's accredited agencies like Bangladesh Standards and Testing Institution (BSTI) for certifying biscuits, processed food, and cement are being discussed. A lab for testing *Hilsa* fish at Petrapole border has been set up as a measure for bilateral cooperation. Earlier Bangladesh imposed restriction on import of yarn from India through land route. This issue was also resolved mutually in 2006 when Bangladesh lifted the ban on movement of yarn through Petrapole for yarn used by export oriented industry which consumes major share of total import of yarn from India. Recognising that promoting business linkages between the sides are essential to promote economic activity, a task force has been constituted between the Apex Chambers, i.e. PBCCI and FICCI in April, 2006. The bilateral talks are held at regular intervals with the objectives of removing infrastructural bottlenecks and non-tariff restrictions. At present, no negotiation for a bilateral FTA is being held.

The first formal Agreement on Trade and Commerce between India and Bhutan was concluded in 1972. It was renewed periodically, with mutually agreed modifications. The current Agreement between the two countries on Trade, Commerce and Transit was signed on July 28, 2006 and is operational from July 29, 2006 for a period of 10 years. The Agreement provides for free trade and commerce between the two countries. The new agreement also provides for movement of Bhutanese goods from one part of Bhutan to another part of Bhutan through India. As a token of friendship, Chukha Hydel Project was commissioned. Bhutan earns nearly 25 percent of its revenue through export of electricity to India. Efforts are being made to develop a Residue Monitoring Plant in Bhutan for fruits and vegetables so that the testing etc., can be done there itself and the consignments are not held at Indian border check posts.

Indo-Maldives trade relations are governed by the Trade Agreement signed on March 31, 1981 initially valid for a period of one year with the provision that it shall progressively remain in force until it is modified or terminated by either country on giving three months` notice to the other. The Agreement provides for Most Favoured Nation (MFN) treatment to each other in trade and merchant vessels, promotion of commercial and technical cooperation through exchange of delegations and participation in trade fairs and exhibitions and supply of essential commodities by Government of India to Government of Maldives on annual quota. As per the agreement, India supplies essential commodities annually at the request of Maldives. These commodities usually consist of eggs, potatoes, rice, onion, wheat flour, sugar, etc., and despite having export restrictions on some of items, India continues to supply them to Maldives.

India and Nepal have signed the Treaty of Trade to regulate bilateral trade, which was re-negotiated and renewed for five years with effect from March 06, 2002. The Treaty of Trade has been renewed in the existing form for a further period of five years with effect from March 06, 2007. The treaty provides India and Nepal to exempt primary products from each other from the basic custom duty/quantitative restrictions. India has also undertaken to promote industrial development of Nepal, by granting duty free access to Nepalese goods, on non-reciprocal basis. The treaty on the other hand, provides Nepal to exempt wholly/partially Indian imports from customs duty/quantitative restriction to the extent feasible.

India and Nepal have also entered into a Treaty of Transit to facilitate each other's trade with third countries through territory of the other which was renewed and signed on January 05, 1999 for a period of seven years. The Treaty has further been extended for a period of seven years up to January 05, 2013. In addition, there exists an Agreement of Cooperation to Control Unauthorised Trade between the two countries which was renewed for a period of five years with effect from March 06, 2002. India is the largest investor to Nepal with investments of Indian Rupees 6 billion (US$152mn). An inter-Government Committee has been set up which meets every year to discuss the issues relating to bilateral trade, trade facilitation and unauthorised trade. Nepal being a 'land locked country' needs technical assistance to resolve issues relating to food quarantine regulations of India. Efforts are on for providing better infrastructural facilities at borders and to address Nepal's exports concerns relating to Indian Sanitary and Phyto-sanitary (SPS) and Technical Barrier to Trade (TBT) measures. Discussions are being held for establishing Special Economic Zones (SEZs) in Nepal, oil pipelines, cross- border power transmissions grid etc. In case of services, efforts are on cooperation in IT, Tourism, Education and Healthcare.

After independence, India and Pakistan signed a standstill agreement under which goods from one country to another were exempted from customs duty. Between 1965 and 1975, there was trade embargo between the two countries. A trade protocol (Shimla Agreement) was signed for lifting the trade embargo with effect from December 07, 1974. India accorded MFN status to Pakistan in 1996 and in the same year Pakistan increased its positive list of 600 items that could be imported from India. The present Positive List of Pakistan specifies 1075 items which are importable from India. The rest of the items are though allowed for imports into Pakistan from India but only against a specific import permit or licence, while these items are freely importable from rest of the world. Pakistan is yet to grant MFN status to India despite its obligations, including under the WTO, and has cited extraneous political, economic and other reasons for this. The issue of grant of MFN status continues to be flagged by India during the bilateral trade talks. Despite signing of the SAFTA, exports from India to Pakistan are governed by this positive list of imports as Pakistan's bilateral import policy for India supersedes SAFTA. Currently, this issue is being discussed at various levels of SAARC meetings. Meanwhile, in order to enhance the economic and commercial cooperation, Secretary Level Talks are now being held between India and Pakistan. Also, Pakistan has indicated that it would process the Indian Bank's applications to open branches in Pakistan expeditiously and a regular exchange of tea exporters and imports would be held so that Pakistan can import Indian tea.

Sri Lanka, having an adverse trade balance with India for the last several years, was seeking India's support for finding ways and means to reduce the trade gap. Over the years, Sri Lanka had been suggesting a bilateral faster track for free trade so as to facilitate increased exports from their country to India. During the SAARC Summit held in Colombo in July 1998, Prime Minister of India conveyed India's willingness to conclude FTAs with the willing SAARC Member State on a bilateral basis. Sri Lanka responded to this offer and held consultations with India after which a bilateral FTA was signed between the two countries on December 28, 1998. Under this Agreement, which was made operational in February-March, 2000, both countries committed to eliminating tariffs in a phased manner on all items except for items in the Negative List and items under the tariff rate quota mechanism. While India has completed its tariff elimination programme in 2003 as envisaged in the FTA, Sri Lanka will complete the tariff liberalisation programme in the year 2008.

Historically, Foreign Direct Investment (FDI) from India to Sri Lanka had been low; however, there was a dramatic increase after the signing of the bilateral FTA. A major attraction for Indian investors has been the ability to re-export to India while benefiting from lower tariffs on raw materials in Sri Lanka. India became the biggest FDI investor in Sri Lanka in 2002 and 2003. For 2004, India slipped to 4th place behind Switzerland (Holcim cements), Malaysia (Dialog mobile network) and UK (HSBC BPO) which invested in some large projects. Seeing the potential for investments from India, the Sri Lankan Board of Investments opened its first overseas branch in Bangalore on May 23, 2005.

The study of UNCTAD (see Box 1) explains how the India Sri Lanka FTA has affected the sourcing opportunities and investment decisions:

Box 1: India–Sri Lanka Free Trade Agreement and FDI
FTA gives duty-free market access to India and Sri Lanka on a preferential basis. Covering 4,000 products, it foresaw a gradual reduction of import tariffs over three

years for India and eight years for Sri Lanka. To qualify for duty concessions in either country, the Rules of Origin (RoO) criteria spelled out value added at a minimum of 35 percent for eligible imports. For raw materials sourced from either country, the value-added component would be 25 percent. Sri Lankan exports to India increased from US$71mn in 2001 to US$168mn in 2002. And India's exports to Sri Lanka increased from US$604mn in 2001 to US$831mn in 2002. Although the agreement does not address investment, it has stimulated new FDI for rubber-based products, ceramics, electrical and electronic items, wood-based products, agricultural commodities and consumer durables. Because of the agreement, 37 projects are now in operation, with a total investment of US$145mn.
Source: World Investment Report (2003) published by UNCTAD

India and Sri Lanka have signed an agreement on the US$100mn Line of Credit in January 2001 to enable Sri Lankan importers to source goods and services from India under soft loan terms. The credit is only for items of Indian manufacture and services. The credit covers import of capital goods; import of consumer durables and five specified food items, i.e. sugar, wheat flour, rice, red split lentils and wheat grains, as well as consultancy services. India and Sri Lanka are now engaged in negotiating a CEPA with the objective of widening the ambit of the FTA to include services and investment. Both sides are also negotiating for reducing the size of Negative List so that the market access opportunities could be enhanced.

SAPTA

The SAPTA came into force in December 1995 after conclusion of First Round of negotiations in April 1995. Since then three more rounds were concluded and tariff concessions were exchanged on around 5000 products. Each Round contributed to an incremental trend in the product coverage and the deepening of tariff concessions over the previous Rounds. The SAPTA Agreement made a distinction between the least developed and other developing member countries with the former consisting of Bangladesh, Bhutan, Maldives and Nepal and the latter consisting of India, Pakistan and Sri Lanka.

The negotiations for SAPTA were held on the basis of "request and offer" approach; where the exporting Party came up with a 'country-specific' request list of its exportable (real as well as potential) items on which it would seek preferential market access. The other Party would then make an offer on items from 'request-list' and indicate the extent of tariff concessions in terms of Margin of Preference (MoP). At the end of each Round, these offers were multilateralised to all SAARC members. The least developed country (LDC) members got concessions on a large number of products with deeper MoP, without reciprocating with equivalent concession to other developing countries under the special and differential treatment (S&DT) provision of SAPTA. Since India had a better bilateral agreement with Bhutan and Nepal, bilateral negotiations in SAPTA were held only with Bangladesh and Maldives. Negotiations were also held with Pakistan & Sri Lanka (up to the Third Round as bilateral FTA was concluded with Sri Lanka before the Fourth Round). In the Third Round negotiations, India offered maximum number of concessions to the LDCs (effectively to Bangladesh & Maldives). Bangladesh made a request on textiles and textile products as well as manufactured goods. Maldives made a request on few items relating to fisheries. The total number of concessions offered by India was on 2656 products at 6-digit HS with average MoP of 50 percent for LDCs. India's offer on maximum number of items comprised the request made by Bangladesh. It is worth noting that though a number of products exported by Bangladesh to India were limited, on most these items tariff concessions were available to them under SAPTA. A similar situation existed after the Fourth Round where the product coverage for tariff concessions were increased to 2700 and the margin of preference to LDCs were deepened to 60-75 percent. It was therefore evident that despite getting the tariff concessions on more than 2500 items and MoP ranging from of 50-75 percent, Bangladesh could not utilise the concessions to its advantage and was not able to substantially increase the number of products for exports to India over the years. This could be illustrated by the fact that in the year 2005-06, Bangladesh's total exports to India for US$127.03mn comprised only 48 products at 6-digit HS level. Few attribute this to the NTBs imposed by India, while some cite the supply-side constraints of Bangladesh.

The poor performance of intra-SAARC trade flows was also due to several structural as well as policy induced constraints. Structural constraints were manifested in low capacity to supply exports, especially in LDCs of the region, e.g. Bangladesh, Bhutan, Maldives and Nepal, lack of investments due to low savings rate, technological backwardness and lack of backward-forward linkages of the industries. In some sectors, the SAARC members were competing with each other in global markets. The policy-induced constraints include the presence of trade barriers, inadequate trade facilitation (TF) mechanisms and regulated investment regimes.

SAFTA

The Agreement on SAFTA was signed in January 2004 with the understanding that the sensitive lists, RoO, mechanism for compensation of revenue losses for LDCs and areas for technical assistance for LDCs would be negotiated for implementation subsequently. The Committee of Experts (COE) concluded negotiations on these areas in December 2005 and SAFTA came into force on January 01, 2006. However, there was a delay in commencement of trade liberalisation programme due to procedural requirements for ratification of the Agreement. It was therefore agreed that tariff reduction programme would commence on July 01, 2006. The Agreement provides for Special and Differential Treatment (S&DT) for the LDCs in various forms.

Other schemes like Revenue Compensation Mechanism have also been finalised and are implemented by all Members including India. The mechanism for Compensation of Revenue Loss (MCRL) for the SAARC LDCs prescribes:

a. The compensation to LDCs would be available for four years. However, for Maldives it would be available for six years.
b. The compensation would be in the form of grant in US dollar.
c. The compensation shall be subject to a cap of 1, 1, 5 and 3 percent of customs revenue collected on non sensitive items under bilateral trade in the base year, i.e., average of 2004 and 2005.
d. The compensation shall be administered by the COE.

This scheme generated lot of attention when the SAFTA was signed. However, after this scheme has been finalised, it does not appear to have met the expectations of LDC members as it has a very limited scope and is in place for a limited period. By the time the LDCs would grant duty-free market access to other members of SAFTA, thereby incurring major revenue losses, the mechanism will no longer be in place.

The Agreement provides member countries to maintain sensitive lists, consisting of items which are not subject to tariff reduction. Only three countries namely Bangladesh, India and Nepal maintain different sensitive lists for LDCs and Non-LDCs. Besides, the LDCs maintain longer sensitive lists than the Non-LDCs due to the S&DT provisions. The Sensitive Lists are subject to review after every four years or earlier with a view to reducing the number of items which are to be traded freely among the SAARC countries. A comparative analysis of the size of sensitive list of each SAFTA member is given below:

Table 1: Sensitive Lists of the SAFTA Members

Country	Total number of Sensitive List		Coverage of Sensitive List as % of Total HS Lines	
	For Non-LDCs	For LDCs	For Non-LDCs	For LDCs
Bangladesh	1,254	1,249	24.0	23.9
Bhutan	157	157	3.0	3.0
India	865	744	16.6	14.2
Maldives	671	671	12.8	12.8
Nepal	1,335	1,299	25.6	24.9
Pakistan	1,191	1,191	22.8	22.8
Sri Lanka	1,079	1,079	20.7	20.7

Source: SAARC Secretariat

Given the skewed basket of exports of Bangladesh and Maldives, one would be inclined to observe that India's sensitive list of 744 items can restrict all their trade. A case in point would be denial of preferential market access to Bangladesh on textiles and textile products (which forms major part of Bangladesh global exports and these items are in the sensitive list of India). However, to understand the true perspective, one would need to understand the process of SAFTA negotiations. In SAFTA, the initial negative lists that were exchanged were much larger – some 1350 items. Then negotiations were held to reduce the size of Non-LDCs on the basis of '*request and offer*'. Each country identified its export interest item and made a request for the removal from other country's sensitive list. The present list of 744 items is outcome of several rounds of negotiations to cut down the size of sensitive list. The

TRQ on textiles to Bangladesh was outcome of such a process. A detail analysis of the impact of the size of sensitive list is dealt in subsequent paragraphs.

At the 14th SAARC Summit, the Prime Minister of India stated that as the largest country in the region, India was ready to accept asymmetrical responsibilities including opening her markets to her South Asian neighbours without insisting on reciprocity. He also announced that before the end of the current year, India would allow the LDCs among its South Asian neighbours duty free access to its markets (in SAFTA Agreement the commitment is for bringing the duties to 0-5 percent). It will also further reduce the sensitive list in respect of these countries. As per this announcement, India would reduce tariffs to zero (duty-free) for the LDC members by December 31, 2007 whereas as per the SAFTA tariff liberalisation programme, the reduction to 0-5 percent for the LDCs was to be completed by December 31, 2008. India has since eliminated tariffs for the LDC members by advancing the tariff liberalisation programme through suitable Custom Notifications (Notification No.125/2007-Customs & 126/2007-Customs both dated 31.12.2007). India is also in the process of reducing its Sensitive List for LDCs. Bangladesh and Maldives would be the major beneficiary of this move to get duty free access to the Indian market.

India's Bilateral FTAs with SAARC Members and SAFTA: A Comparison

With the implementation of SAFTA as a regional agreement, an interesting question comes up: whether the bilateral agreements become redundant or they continue to play a more prominent role than SAFTA in governing the trade flows. A case study of India was done. A comparison of India's commitment in bilateral FTAs with SAARC Members *vis-à-vis* SAFTA is illustrated in Table 2.

Table 2: India's FTAs Commitments: A Comparison

Country	Size of India's Sensitive List		Timeframe (**0-5%** level)	Timeframe (**zero duty**)	Rules of Origin	
	SAFTA	Bilateral	SAFTA	Bilateral	SAFTA	Bilateral
Bhutan	744	Nil	01.01.2009*	Already	CTH+30%	Manufactures

				granted		of Bhutan
Nepal	744	3	01.01.2009*	Already granted	CTH+30%	CTH+30%
Sri Lanka	865	429	01.01.2011	Already granted	CTH+35%	CTH+35%

From Table 2, following observations can be made:

(i) Since India has a more favourable bilateral FTAs with Sri Lanka as well as with Bhutan and Nepal on a non-reciprocal basis, it is highly likely that India's trade flows with Sri Lanka, Bhutan and Nepal will be governed by these bilateral treaties rather than SAFTA. At the same time, these countries are also providing a better market access to India in these bilateral agreements.

(ii) The timeframe for tariff liberalisation as agreed under SAFTA is much longer when compared to the bilateral agreements and therefore, has not much of relevance in terms of providing preferential access within the group of countries viz. India, Sri Lanka, Nepal and Bhutan.

(iii) In the bilateral FTAs, there is a commitment for establishing a duty-free regime (except sensitive or negative list items). In SAFTA, however, the commitment is to bring the preferential duties to 0-5 percent. There is no commitment for establishing a duty-free regime. Hence, these bilateral agreements are more ambitious than SAFTA.

(iv) The size of sensitive list in SAFTA is larger than those listed in bilateral agreements, meaning thereby that even when a zero duty preferential regime in SAFTA will be established, concessions on more number of items would be available to Bhutan, Nepal and Sri Lanka under their bilateral agreements *vis-à-vis* SAFTA.

(v) India's trade with Bangladesh, Maldives and Pakistan would to a large extent depend on the concessions offered under SAFTA.

(vi) There is a commonality; however, on the RoO between SAFTA and these bilateral agreements, with the exception of Bhutan. Therefore, if a product can qualify under one agreement, it can qualify under the SAFTA as well or *vice versa*. This harmonisation on the RoO is a positive sign for the exporters, who would not be required to maintain separate inventories for qualification of a product for preferences.

It is clear that in the present form, the bilateral agreements are more favourably placed and to that effect they undermine SAFTA. Given the fact that the trade in goods will continue to take place under the bilateral agreements, in order to make SAFTA meaningful for the region one would need to expand the scope of SAFTA. To this effect, to make it more lucrative, issues like trade facilitation measures and removing the NTBs would be required to be taken up on priority. Secondly, if SAFTA can widen its base like further reducing the items in sensitive lists, expands its scope to cover services and investments agreements and addresses the issues relating to NTBs, it would provide greater opportunity than the bilateral agreements (except to the India-Sri Lanka where the negotiations for a Comprehensive Agreement is at advance stage).

4. India's Trade with SAARC Members

South Asia's intra-regional trade as a share of total trade remained below five percent in the 1980s and 1990s and continues to be around the same level at present. At a broad level, the available data of the major South Asian countries indicate that industrial countries continue to assume a major share of the region's trade, while developing countries outside South Asia have been the second most important group, although their importance has been steadily diminishing.

India's import from SAARC for the period 1996-97 to 2005-06 is given in Annexure 1. Though the imports from SAARC increased steadily during the period and have quadrupled, it remained around one percent of India's global imports since 1998-99. Despite the fact that most of its neighbours are import-dependent, India's trade with its neighbouring countries has not been very impressive, both in terms of volume and as a percentage of its global trade. India's intra-SAARC trade is approximately 2.6 percent of its total trade, with India's exports to SAARC countries constituting roughly 5 percent of its total exports and India's imports from the SAARC countries constituting only 0.9 percent of its total imports. Even though the trade volume has increased in the recent years, it is much below the true potential. Given the size of the Indian economy and its geographical positioning at the centre of the region, the success of trade initiatives taken in the SAARC region greatly depends on India and therefore, India needs to play a greater role in ensuring that the goals of SAFTA are achieved.

India's trade with the SAARC countries is shown in Table 3 and 4. As evident from Table 3, while India has a favourable balance of trade with all countries in the South Asian region, it has a huge trade surplus with Bangladesh, Sri Lanka, Pakistan and Nepal. However, it is important to note here that the official accounts of South Asia's international trade statistics are flawed by the high incidence of informal trade between India and its neighbours. The data merely captures the formal trade which takes place among the neighbouring countries. Studies have shown that huge informal trade takes place through the bordering countries, for instance, the informal trade between India and Pakistan was estimated to be US$1bn for the year 2004-2005 (Taneja 2005[3]). According to the World Bank Report on *'India-Bangladesh Trade, Trade Policies and Potential Free Trade Agreement',* very approximate estimates based on surveys in Bangladesh during 2002, total smuggled exports from India to Bangladesh may have been around US$500mn, about 42 percent of Bangladesh's recorded imports from India in 2002-03, or about 30 percent of total imports (recorded plus smuggled). Most of the smuggled imports came by the land border. Similarly, informal exports to India from Bangladesh, Nepal, and Sri Lanka are also relatively high though they comprise a sizable share of third-country goods. These national guesstimates of informal trade based on a sample survey of key locations may have high error margins and, hence, may not be fully reliable[4]. However, the available information on the informal trade does not significantly alter the pattern of intra-regional trade.

[3] Taneja, Nisha (2005): Informal trade in South Asia? How to channelise to a formal route? CUTS briefing paper RECSA 5/2005.

[4] World Bank Policy Research Working Paper 3497, February 2005: What Does Regional Trade in South Asia Reveal about Future Trade Integration? Some Empirical Evidence by Nihal Pitigala

Table 3: India's Trade with SAARC Members

(Value in US$ million)

	2001-02			2002-03			2003-04			2004-05			2005-06		
	Exports to	Imports from	BOT	Exports to	Imports from	BOT	Exports to	Imports from	BOT	Exports to	Imports from	BOT	Exports to	Imports from	BOT
Bangladesh	1002.18	59.12	943.06	1176.00	62.05	1113.95	1740.75	77.63	1663.12	1631.12	59.37	1571.75	1664.36	127.03	1537.34
Bhutan	7.60	23.92	-	39.05	32.15	6.89	89.49	52.37	37.12	84.58	71.00	13.58	99.17	88.77	10.40
Maldives	26.88	0.40	26.48	31.59	0.33	31.25	42.34	0.37	41.96	47.61	0.61	47.00	67.58	1.98	65.60
Nepal	214.46	355.94	-	350.36	281.76	68.59	669.36	286.04	383.32	743.14	345.83	397.31	859.97	379.85	480.12
Pakistan	144.01	64.76	79.25	206.16	44.85	161.31	286.94	57.65	229.29	521.05	94.97	426.08	689.23	179.56	509.67
Sri Lanka	630.89	67.38	563.51	920.98	90.83	830.16	1319.20	194.74	1124.47	1413.18	378.40	1034.79	2024.67	577.70	1446.97

(Source: DGCI&S data, Government of India)

Upon examining the bilateral trade patterns, one would notice that historically Nepal was the largest exporter to India in the region till 2003-04 except for the year 1998-99 when Pakistan was the largest exporter (see Annexure-I). This trend was broken by Sri Lanka in 2004-05, and since then it became the largest exporter to India among the SAARC members. In fact, the sharp rise in their exports to India every year has been observed since 2002-03 onwards.

During 2001-02, Sri Lanka's exports to India saw 150 percent increase over the preceding year. India gave duty free treatment to Sri Lankan goods with effect from March 2003. In another two years Sri Lanka's exports surpassed Nepal's exports to India, making Sri Lanka the largest exporter to India! This happened even though the size of India's Negative List in Nepal treaty is miniscule compared to Sri Lanka FTA and the RoO for Nepal is more relaxed than the one with Sri Lanka. Definitely bilateral FTAs reaped the benefits to India that it had simultaneously allowed Nepal and Sri Lanka and to some extent Bhutan to gain effective preferential market access in India. This happened despite the fact that the agreements with Nepal and Sri Lanka are not free from pitfalls. Indian industry has been making several complaints about misuse of some of the provisions of these agreements and the talks continue to resolve these issues to the mutual satisfaction of the respective sides.

The above trends of trade present a very interesting feature about India's trade with SAARC members if one takes into account the history of India's bilateral agreements with SAARC nations, especially with Nepal and Sri Lanka. Under the bilateral trade treaty India has given duty free access to Nepal, which utilised the agreement to its advantage by continuously maintaining its status of being the largest exporter in SAARC to India. Nepal's exports to India in value terms also remained much higher than any other SAARC member. The fact that India is one of the largest exporters to Nepal, one would be inclined to attribute this to the constraints which a land-locked country faces. The literature suggests that in such cases the neighbours are the most important natural trading partners and one would need to assume that it would not only be the tariff preferences that make India the principal trade partner of Nepal but also the geographical proximity. However, the trade data illustrates the fact that the reverse trend is also true i.e. Nepal is the largest exporter to India from among the SAARC Member Countries. Similarly, Sri Lanka became the largest exporter to India post bilateral FTA implementation (see Table 3), which again is a small–island country. Therefore, one would be inclined to argue that tariff concessions indeed play a significant role in determining the trade flows, even for a land-locked or small-island neighbouring country.

Table 4: Major Commodities Traded

Country	**India's export commodities**	**India's import commodities**
Bangladesh	Fabrics, engineering goods, chemicals and pharmaceuticals, transport equipment, cement, fruits and vegetables and coal.	Raw jute, glycerin, leather, fabric yarn, Jamdani sarees, etc
Bhutan	Machinery and Instruments; Manufactures of Metals; Transport Equipments; Primary and Semi-finished Iron and Steel; Electronic Goods.	Primary Steel, Pig Iron based items; Inorganic Chemicals; Wood and Wood Products; Non-ferrous metals; Man-made filament/spun yarn
Maldives	Plastic and Linoleum Products; Drugs, Pharmaceuticals and Fine chemicals; Rice (other than Basmati); Machinery and Instruments; Paper/Wood Products.	Metalifers Ores & Metal Scrap; Printed books, newspapers, journals; Professional instruments,. except electronic; Machinery except electrical and electronic; Artificial resins, plastic materials, etc
Nepal	Petroleum Products; Transport	Iron and Steel; Man-made

	Equipments; Drugs/ pharmaceuticals/ fine chemicals; Glass/Glass wares, Ceramics/Cement; Machinery and instruments; Primary and semi-finished iron and steel, etc.	filament/spun yarn; Essential oil and cosmetic preparation; Artificial resins, plastic materials; Other textile yarn, fabrics,, made-up artificial; Non-ferrous metals etc.
Pakistan	Organic chemicals, cotton, plastics and articles thereof, rubber and articles thereof, iron & steel, sugar and sugar confectionery, edible vegetables, mineral fuels etc.	Edible vegetables, cotton, edible fruits &nuts, organic chemicals, sugar & sugar confectionery, copper and articles thereof, man-made staple fibers, lead and articles thereof, wool and woven fabrics etc.
Sri Lanka	Petroleum products, transport equipment, cotton yarn, fabrics, made-ups, sugar, machinery and instruments, paper/wood products.	Spices, non-ferrous metals, metaliferous ores and metal scrap.

(Source: DGCI&S Data, Government of India)

A tabular statement of major commodities that are exported to India over the period 1997-98 to 2005-06 can be seen in Annexure 2. It is apparent from this statement that the export baskets of SAARC members have diversified over the years. It may be difficult to clearly establish that the diversification is only on account of FTA with India and could be attributed to their global export diversification. However, given the fact that most of the countries have strong export interest in India, the bilateral FTAs would have played some role in such diversification.

Though several studies (Kemal[5] 2002; Baysan, Panagariya and Pitigala[6] 2006) have raised doubts over the trade complementarity among SAARC members and the economic logic of SAFTA, others have identified that despite the pattern of revealed comparative advantage being quite similar across SAARC Member countries, there is some trade complementarity

[5] Kemal A.R, Musleh-ud-Din, Abbas Kalbe, Qadir Usman (2002): A plan to strenthen regional trade cooperation in South Asia (Trade, Finance and Investment in South Asia, edited by T.N.Srinivasan).
[6] Baysan T, Panagariya A, Pitigala N (2006): Preferential Trading in South Asia, World Bank Policy Research Working Paper – 3813.

among them (Mukherji[7] 2005). It has been pointed out the trade potential in each of the SAARC Country, for example Bangladesh's export potential is in a variety of fish products, vegetables, tea and mate, jute fibers, fertilisers, leather, textile yarn, cotton fabrics, woven, made up articles of textile materials, floor coverings, etc. India's export potential is more diversified and has been identified in meat, rice, fruits and nuts, coffee, spices, animal feed, oilseeds, stone and gravel, iron ores and concentrates, crude vegetable materials, a number of chemical and pharmaceutical products, pig iron and flat rolled products, machinery and transport equipment, etc. Nepal has export potential in oilseeds and oleaginous fruits. Pakistan's potential exports to the region consist of sugar, molasses, honey cotton, and surgical instruments. Sri Lanka's export potential to the region includes synthetic rubber, raw or processed textile fibers, rubber articles, wood manufactures, residual petroleum products, etc.

In another study, Mukherji[8] had identified a number of products with high potential trade between pairs of SAARC countries on the basis of supply capabilities and market size. Some of the products with India as a supplier and Bangladesh as a market, included cotton-not carded or combed, petroleum oils, and denim fabrics of cotton, etc. Bangladeshi products with high export potential for the Indian market included urea, anhydrous ammonia, bovine and equine leather, etc. Similarly, as a supplier to the Sri Lankan market, the potential export products of India included petroleum oils, diamonds non-industrial, denim fabrics of cotton, etc. On the other hand, Sri Lanka's potential export products to the Indian market included diamonds, non-industrial parts and accessories of automatic data processing machines, diamonds-non-industrial un-worked. Pakistan's export potential for the Indian market included instruments and appliances used in medicine, petroleum oils from bitumen, cotton not carded or combed, etc.

From the Table 4 it is apparent that the items exported by India to an individual SAARC Member country are different than the items which are imported to India from them. However, there are certain sectors where the two-way trade is taking place (e.g. iron and steel products, machinery and equipments and yarns & fabrics). This scenario can be best explained by the fact that each country is exporting to the other a specialized product (at

[7] Mukherji I.N. (2005): Regional Trade Agreements in South Asia, South Asian Yearbook of Trade and Development, CENTAD.
[8] Mukherji I.N. (2000): Charting a Free Trade Area in South Asia: Instruments and Modalities.

different 6 or 8-digit HS Level). This may also mean that the industries in these countries are also in a process of establishing a backward-forward linkage amongst themselves. In one way this explains that there is an existence of some complementarity between India and other SAARC Nations.

Likewise there is an existence of services trade in the SAARC region, especially between India and its neighbouring countries. Most of this trade is through informal channel. There is no official statistics on sector-wise services trade, but the fact that the nationals of Bangladesh, Bhutan and Nepal travel to India for education or medical treatment is well known. Workers of Bangladesh come to India to do skilled/unskilled work. Studies have shown that the SAARC Member Countries have revealed comparative advantage in different sectors covering transport, travel and other services (Mukherji 2005[9]). It is observed that while Pakistan and Sri Lanka have comparative advantage in transport services, Maldives has this advantage in travel and tourism, while India's advantage lies on other services which are essentially IT and IT enabled services (ITES).

Analysis of India's Trade in Items under the SAFTA Negative Lists

SAFTA has been instrumental in increasing trade between the countries of the region under the provisions of the FTA Agreement. Table 5 below shows the import and export of India under the tariff preferences offered in SAFTA. The figures in parenthesis depict the percentage of negative list imports/exports in the total bilateral imports/exports. The trade between the countries under preferred rates can be calculated by the following method: total bilateral import/export and import/export under the Negative List of respective countries. The same can be summarised in the following manner:

Table 5: Trade Coverage Analysis of SAFTA Sensitive List

(Value in US $ million.)

Country	2004-2005	2005-2006	2004-2005	2005-2006

[9] Mukherji, I.N. : Regional Trade Agreements in South Asia, South Asian Yearbook of Trade and Development (2005), CENTAD

	Imports to India in NL	Total bilateral imports	Imports to India in NL	Total bilateral imports	Exports from India in their NL	Total bilateral exports of India	Exports from India in their NL	Total bilateral exports of India
Bangladesh	14.03** (23.6%)	59.37	22.14** (17.4%)	127.03	1225.26 (75.1%)	1631.12	1205.59 (72.4%)	1664.36
Bhutan	26.89 (37.8%)	71.00	45.65 (51.4%)	88.71	7.46 (8.8%)	84.58	7.89 (7.9%)	99.17
India	x	X	X	x	x	x	x	X
Maldives	0.02 (3.8%)	0.61	0.03 (1.5%)	1.98	22.33 (46.9%)	47.61	37.5 (55.5%)	67.58
Nepal	159.39 (46.1%)	345.83	191.58 (50.4%)	379.85	486.29 (65.4%)	743.14	635.77 (73.9%)	859.97
Pakistan	44.5 (46.8%)	94.97	117.15 (65.2%)	179.56	79.92* (15.3%)	521.05	145.11* (21%)	689.23
Sri Lanka	159.86 (42.2%)	378.4	311.52 (53.9%)	577.7	741.66 (52.5%)	1413.18	1110.18 (54.8%)	2024.67

The values in parentheses indicate the percentage trade coverage in the Sensitive List with regard to the total bilateral trade.
** - The actual export trade coverage for Pakistan would be lesser as preferential imports are allowed on the positive list of 1075 items in Pakistan.*

*** - In actual practice the market access given by India to Bangladesh is more than above, as India has given TRQ on textiles to Bangladesh.*

Note - The actual preferential market access by India to the LDC members would be more than estimated above, as the data reflects imports on all items that were listed in the Agreement. While issuing the Customs Notification, India has voluntarily cut down few items from its Sensitive List for LDCs.
(Source: DGCI&S Data, Government of India)

It is apparently clear from the above that the SAARC members are still very conservative in trading among themselves. In case of India, since it has a better and more favourable trade regime with Bhutan, Nepal and Sri Lanka under the Bilateral Trade Agreements (BTAs), the coverage of trade in Sensitive List is merely indicative and has no bearing on the actual trade flows between them and India. India has given maximum preferential market access to Maldives (98.5 percent of the total exports to India in 2005-06), followed by Bangladesh

(83.6 percent of the total exports to India in 2005-06). However, Maldives and Bangladesh have not given meaningful preferential market access to India as the coverage of preferential trade (India's exports to them) are 44.5 percent and 25.4 percent respectively, during the same period. From the above it would also appear that Pakistan has given to India more better preferential market access than what India has offered to Pakistan (79 percent *vis-à-vis* 44.8 percent) . This however, may not reflect a true picture since the actual exports from India to Pakistan is governed by Pakistan's import policy regime of positive list of 1075 items only. Therefore one would need to examine carefully the trade coverage on these 1075 items.

For India, between 2004-05 and 2005-06, the share of non-negative list exports to countries other than Bangladesh and Bhutan decreased, as depicted by the export figures of the table. In both periods India has allowed greater preferential market access than it received from countries like Bangladesh, Nepal, Maldives and Sri Lanka. On the other hand, Pakistan and Bhutan had lesser preferential market access to India than they conceded in the same period.

From Table 5 it is evident that India experienced favourable terms of terms of trade with the rest of the countries of South Asia in both 2004-05 and 2005-06. Even though, India's trading partners are improving their exports to India, they are accounting for more imports from India as well, thereby widening the trade gap. The trade gap reduced, even though minimally, for Bangladesh and Bhutan between 2004-05 and 2005-06. The rest of the countries had higher negative trade gaps in the same period. Therefore there is huge potential to improve trade between South Asian countries.

The above estimates are only on the basis of trends of bilateral trade. However, the actual potential would be only known if the global trade volumes on the items in the Sensitive Lists are evaluated. For example, only about 1.5 percent of Maldives and 17.4 percent of Bangladesh exports to India are under Sensitive list. However, on these items Bangladesh or Maldives may have much greater value of global exports, then in that case, if these items are removed form India's Sensitive List, their exports to India may increase several times. To assess the significance of SAFTA for Bangladesh and Maldives and to assess the extent to which India provides meaningful market access to these LDCs, the global export values were examined and the top traded items were matched with India's sensitive list of SAFTA. The top 20 items at 6-digit HS level that India imports from Bangladesh and Maldives and their top 50 global export items were examined, in this regard. A comparison has been made with India's SAFTA sensitive list for LDCs. The list of these items is given in Annexure – III.

India's total imports from Bangladesh during the period 2005-06 were US$127.03mn. Top 20 items that were imported from Bangladesh amounted to US$60.16mn (47 percent of the total imports from Bangladesh). Out of these 20 items there are 10 items which are in India's sensitive list for LDCs under SAFTA. These 10 items constitute US$9.25mn and represent 7.28 percent of the total imports from Bangladesh. These figures reflect that substantial market access has been given to Bangladesh under SAFTA. However, this scenario changes if one looks at Bangladesh's global exports. The top 50 items of Bangladesh's global exports in the year 2004 (UNCTAD) constitutes US$6.7bn (81.11 percent of its global exports, US$8.26bn), mainly items of textiles & textile materials, and shrimp. Therefore, under SAFTA a preferential market access to Indian market on items where Bangladesh has global comparative advantage is limited. Out of these top 50 items, 31 items (comprising US5.7$bn, equivalent to 69 percent of their total global exports) are in India's sensitive list for SAFTA LDCs. Of these 31 items, on 29 items relating to textiles and textile products, India has given a preferential market access through TRQ of eight million pieces, the remaining two items are in effective Sensitive List. Bangladesh's exports of these two items are worth US$3.93bn, which is 47.5 percent of its total global exports. Removal of these items from India's sensitive list would entail larger market access benefits to Bangladesh.

A similar exercise was carried out for Maldives. Of their top 12 items which they export to India (US$1.98mn, comprising 100 percent of their exports) there is only one item which is in India's Sensitive List under SAFTA (insignificant import value). Maldives total exports is worth US$135.603mn and their top 27 items cover almost 100 percent of their total exports. There are only four items which are in India's Sensitive List and the total imports from Maldives is to the tune of US$0.861mn, i.e. 0.5 percent of its total global exports. Therefore, substantial market access is already available to Maldives under SAFTA.

From the above analysis, it appears very clear that reduction in the size of Sensitive List of India, especially the items relating to fisheries and textiles and textile products would provide larger benefit to Bangladesh. An analysis was also made on SAARC Members' global export commodities. Their respective global export and import composition can be summarized in the following manner.

Table 6: Global Export Composition of SMCs	
BANGLADESH	Garments and knitwear, ceramic tableware, frozen fish, jute and jute goods tea, urea fertiliser, leather and leather products
BHUTAN	Cardamom, gypsum, timber, handicrafts, cement, fruit, electricity (to India) precious stones, spices
MALDIVES	Fish, clothing
NEPAL	Carpets, clothing, leather goods, jute goods, grain
PAKISTAN	Raw cotton and textiles; rice; leather manufactures
SRI LANKA	Textiles and garments, tea, leather and footwear, diamonds and other gems, coconut products, petroleum products

Table 7: Global Import Composition of SMCs	
BANGLADESH	Capital goods, food grains, petroleum, textiles, chemicals, vegetable oils
BHUTAN	Fuel and lubricants, grain, machinery and parts vehicles, fabrics, rice
MALDIVES	Consumer goods, Petroleum products Intermediate and Capital goods
NEPAL	Petroleum products, fertiliser, machinery
PAKISTAN	Petroleum; machinery and transport equipment; food
SRI LANKA	Cotton and textiles, machinery and equipment, food and drink, consumer durables, petroleum

In view of the above, it would be important that while doing the exercise of removing items from its Sensitive List, India considers favourably removing the items which are being traded bilaterally as well as those which the other SAARC members are exporting globally. While doing this exercise one would need to evaluate if the bilateral FTA preferences given can be extended/multilateralised to SAFTA members (this of course may erode the preferential advantage of the bilateral partners) or at least removing the items from Sensitive List which are bilaterally traded and comprise in their global export composition.

Taking note of the fact that each SAARC Member is maintaining a large Sensitive List under SAFTA and it covers major traded items (for 2005-06 a maximum of 73.9 percent of India's total exports to Nepal and 65.2 percent of Pakistan's' total exports to India), a theoretical modeling was done using UNCTAD WITS. The modeling aimed at examining the effect (increase) on trade should there be no Sensitive List and that all the SAARC Members have eliminated duties under SAFTA. The simulation was carried out using WITS SMART to estimate the export gains to each SAFTA Member under these assumptions. For this simulation, the tariffs where used from UNCTAD TRAINS and trade data were taken from COMTRADE (2005). Only for India due to data discrepancies the data used was for 2004. After full tariff liberalisation, the export gains of each country was calculated, which is summarized in the following manner:

Table 8: SAARC Countries Export Gains After a Full Tariff Liberalisation

WITS SMART simulation estimations

(in US$ thousand)

Country of export	**Estimated Exports gains to**						
	Bangladesh	**Bhutan**	**India**	**Maldives**	**Nepal**	**Pakistan**	**Sri Lanka**
Bangladesh		1,742	359,032	183	258	31,983	3,871
Bhutan	638		40,592		273		1
India	22,502	35,668		462	185,877	40,029	192,465
Maldives	8		31,576		3	346	16,550
Nepal	896	139	186,814			830	1,048
Pakistan	7,472	233	109,833	1,809	514	0	9,752
Sri Lanka	1,456		213,771	3,671	26	8,079	

From Table 8, it appears that India will gain maximum if the total tariff liberalisation takes place on all products under SAFTA. However, under this simulation for exports to India, the biggest gainer would be Sri Lanka, followed by Nepal, Pakistan, Bhutan and Bangladesh. There is no other destination where the comparable export gains are available to these countries. It is worth noting that with Sri Lanka, Nepal and Bhutan; India has a more favourable bilateral free trade agreements hence they already enjoy a better preferential market access *vis-à-vis* other SAFTA members and perhaps these trade gains reflect the fact that trade gains are due to the bilateral agreements.

It may be noted that the gains derived from this kind of exercise are static in nature and they do not capture the growth of new sectors that can result in because of regional liberalisation.

The case in point could be illustrated by the exponential growth in exports of Vanaspati and copper from Sri Lanka to India under the bilateral FTA. Let us assume that this simulation can accurately predict the effect of trade on liberalization of all items in the Sensitive List of India. As per this model, the total increase in India's imports from SAARC members would be to the tune of US$477.003mn, which is only 0.25 percent of its current total global imports (2006-2007). Would it therefore be too worrying for India to remove the items from its Sensitive List, especially for items of export interest to the LDCs? Another issue which would need consideration is TRQ of eight million pieces for garments to Bangladesh. Given the fact that Bangladesh's principal item of global export is garments the figure of eight million pieces does not provide greater market access opportunity to the Bangladesh's exporters.

A similar situation may be noticed if one examines the sensitive list of other SAFTA member. It is therefore imperative that given its location, economic condition and size of its market, India plays a major role in making SAFTA a success by providing greater opportunities to other SAARC members, especially the LDCs. It is, therefore, very important that the scope of SAFTA is deepened by reducing the size of Sensitive List, unilaterally or after negotiations and widened to enable other members of SAARC to increase their share of exports to India as well as other SAARC members.

5. Role of India in SAFTA: What does the Literature Say?

Thought South Asia has not achieved the required economic growth and prosperity as compared to other economic regions such as Europe, North America and South East Asia, it has great economic strength in terms of its market potential (one third of humanity resides in this area) and in terms of the rich natural resources and capable human resources. South Asian countries, with the highest number of poor in the world, cannot afford to keep SAARC as a meaningless coalition. The need of the hour is to make SAARC a strong economic bloc, setting aside bilateral disputes. Under these circumstances, progress towards SAFTA is very important. To reap the benefits of increased regional trade, however, all SAARC states have to prepare themselves for the new challenges of the free trade area. The importance of India in ensuring the success of SAFTA is derived both from the country's geographic position at the centre of the region and the size of its economy. The studies show that without open trade involving India, the prospects of SAFTA being meaningful in enhancing trade is limited.

This view is reiterated by Mukherji[10] (2000) who underlined the importance of India in ensuring any South Asia wide regional arrangements through an exhaustive analysis of trade liberalisation under SAPTA. The analysis uses different criteria like the product coverage, trade value coverage, revenue forgone criterion depict the possible role of India in improving the intra- regional trade in the area. He contents that India has offered concessions on maximum number of products and may incur the maximum revenue loss due to the concession offered to other members of SAPTA.

However, studies by Baysan et.al,[11] (2006), Pitigala[12](2005) and Srinivasan[13] (2001) draws from both existing literature and own analysis to argue that an economic case for a free trade area in South Asia is relatively weak due to reasons like the small size of the economies (other than India), lack of openness and higher transaction costs of doing formal trade. Baysan, et.al (2006), holds the view that political rather than economic reasons were behind the creation of the SAFTA, a view finds echo in other studies as well. The paper argues that the trade preferences under SAFTA may be more trade diverting than trade creating. In order to limit the potential adverse effects and maximize the benefits of SAFTA, the countries of the region are advised to:

- take steps to minimize the sectoral/product exceptions;
- have ‘rules of origin’ that are very liberal, simple, transparent, and remain the same for all products;
- have clear rules against tariff-rate quotas; and
- India and Pakistan move to MFN-based trade

[10] Mukherji, Indra Nath (2000), Charting a Free Trade Area in South Asia: Instruments and Modalities, in Srinivasan T.N., Trade, Finance and Investment in South Asia, Social Science Press:New Delhi
4 Tercan Baysan, et.al (2006) Tercan Baysan, Arvind Panagariya, and Nihal Pitigala(2006) PREFERENTIAL TRADING IN SOUTH ASIA, World Bank Policy Research Working Paper 3813, World Bank: Washington DC

[12] Pitigala, Nihal (2005) What Does Regional Trade in South Asia Reveal about Future Trade Integration?: Some Empirical Evidence, World Bank Policy Research Working Paper 3497, World Bank: Washington D C

[13] Srinivasan, T. N (2001). Preferential Trade Agreements with Special Reference to Asia . available at http://www.econ.yale.edu/~srinivas/PrefTradeAgreements.pdf

The analysis of the impact of bilateral trade within the region on the regional process is highlighted by case studies of India-Bangladesh trade (World Bank, 2006)[14] and India-Sri Lanka Bilateral FTA (Kelagama & Mukherji[15], 2007, Baysan et.al, 2006). The World Bank (2006) study asserts that Bangladesh is the only relevant beneficiary of India's LDC-only SAPTA preferences. It also tests the possible scenarios of trade and concludes that due to lower levels of economic liberalisation and productivity, Bangladesh may not register high growth of exports to India. The SAPTA tariff preferences did not enable Bangladesh to increase its exports to India as compared to its international competitors who faced higher tariffs. The findings of the study point to a genuine lack of comparative advantage for Bangladesh and in turn the other less developed countries of the region. Therefore, it is important that there are higher tariff reductions from India for the rest of the South Asian countries. in order the regional process to be effective.

On the other hand, an ex- post analysis by Kelagama & Mukherji, 2007 on the Indo-Sri Lanka Bilateral FTA (ISLFTA) records increase in two way trade during the period of analysis. The boom in preferential exports under ISLFTA resulted in India becoming the third largest export destination for Sri Lanka since 2003, where as it was only 16th largest in 2000. According to the authors, there is trade creation and entry of new goods into the Indian market through the preferential route offered by the ISLFTA.

Bysan et.al (2006) find that bilateral trade between India and Sri Lanka rose dramatically despite the apparent limited grant of preferences by the two sides, especially in goods covered by preferential tariffs. Much of the expansion of bilateral trade between India and Sri Lanka since the FTA comes from new products that were not previously exported by Sri Lanka to India at all. The paper vests the responsibility with the process of negotiation of FTAs, where in existing imports from the partner country face higher political economy pressures to be left out of the liberalization process and goods that the partner country does not supply at the time of the negotiations do not pose an obvious threat and therefore manage

[14] World Bank (2006), India-Bangladesh Trade, Trade Policies and Potential Free Trade Agreement, World Bank: Washington D C

[15] Saman Kelegama and Indra Nath Mukherji (2007) India-Sri Lanka Bilateral Free Trade Agreement: Six Years Performance and Beyond, Research and Information Systems for Non-Aligned and Other Developing Countries, Discussion Paper 119, New Delhi: RIS

to receive significant preferences. In fact the traditional exports items lost the share in total exports dramatically from 50 percent in 1999 to just 19 percent in 2002.

The analysis of the literature suggests a peculiar trend and forces one to conclude that South Asia could be a nadir of trade analysts. Almost all the ex-ante analysis like Pitigala(2005), Srinivasan (2001) and World Bank(2006) on trade within the region has been proven wrong by increased trade volumes in the successive years and ex-post analysis. This is further reinforced by the findings of the present study that also offers a preliminary analysis of trade data during the period SAFTA has been in operation.

From the above studies, it becomes amply clear that the trade analysts have a divided opinion on SAFTA. However, each analysis has taken into account the pre-SAFTA developments and the real evaluation could be made only when the actual trends of trade have become available. Despite having vast natural resources in this region, the failure to utilise them optimally and efficiently has led some analysts to believe that no trade complementarity exists amongst the SAARC nations. Another reason that substantiates this argument is the belief that SAFTA is in existence due to political objectives of SAARC and not due to the economic logic.

One would be encouraged to note that even the trade on items under the sensitive list is also growing. Therefore, if the objective of creating sensitive list was to protect domestic industry through retarding import growth, India's sensitive list has fallen short of their objectives. It further shows that there are inherent potential to trade within the region even if minimal impetus were offered in terms of reduced tariff. Therefore, it will be worth exploring accelerated reduction of tariff and elimination of negative lists under SAFTA to encourage trade in the South Asian region. However, the question remains whether this increase in trade is the result of diversion of trade from other regions or genuine trade creation, which needs further analysis and is beyond the scope of this paper.

The data shows that except for Pakistan, the major share of India's exports to the SAFTA countries is under the negative lists of respective countries. This can be viewed in two ways:

a) That the negative lists effectively captured the most traded items, and

b) The negative lists are ineffective in checking trade.

This provides an indication to the SAARC member countries that reducing the size of the sensitive list would be in the overall interest and has the potential for increasing intra-regional trade.

Other than protecting the domestic industries another major reason could be to minimise the likelihood of loss of revenue due to preferential tariff on highly traded items. Another reason given by some of the SAARC member countries is to attract investments on items in the sensitive list. During discussions, several delegations have expressed their views that an item is kept in their sensitive list so that inward investment flow in the future accrues to them. If tariffs are eliminated on these items, no FDI will come to them in these sectors. However, one of the reasons for the growth in the exports on items which are in the sensitive list could be attributed to the price comparative advantage that comes to SAARC member countries due to their geographical proximity. If the hurdles in the form of sensitive lists are eliminated, there could be higher volume of trade flows within the region, provided the SAFTA tariffs and import requirements remain lower compared to those for the rest of the world.

The studies have also pointed out that the RoO should be simple and easy to operate. To this effect, SAFTA has been successful in addressing this issue. The Product Specific Rules, which are complicated and often used as trade policy instrument, are only on 190 items, and on all other products the General Rule prevails. There is also a provision for lesser value addition threshold for LDCs (30 percent) and Sri Lanka (35 percent). There is no doubt that tremendous potential and opportunity exists in SAARC to promote intra-regional trade & investment flows. The advantage of geographical proximity has also not been optimally utilized so far. At the same time some of the impediments to the trade relate to the issues of non-tariff barriers and infrastructural bottlenecks. Despite all these factors, the fact of the matters is the volume of trade in SAARC is in rise for the last couple of years, which is a positive sign. The increased trade flows justify that the complementarity also exists among the SAARC nations in several sectors, however, one of the pre-conditions to make this grouping successful is to believe in themselves to trade among themselves.

The studies that point to the limitations of SAFTA also highlight the conditions that would be required for turning SAFTA into a successful regional grouping. From the diverse literature available, it can, therefore, be concluded that SAFTA does have significant trade potential, particularly in an environment which is increasingly becoming liberalised with the economies of the region opening up slowly to external competition. The potential, however, can be realized in a meaningful manner if the product exceptions are limited, NTBs to trade are removed and transaction costs reduced through simpler and transparent procedures, as is rightfully argued in some studies.

6. Non-Tariff Barriers: Addressing them to Ensure Secured Market Access

Non Tariff-Barriers (NTBs) are evolving as an area of serious concern to the developing countries. The benefits of reduction in tariffs may be impeded due to various non-tariff related barriers. Under the current Doha Round negotiations, removal/elimination of NTBs are now at the core of discussions, though the term "Non-Tariff Barriers" has not been clearly defined under the WTO. However, this is not to say that there is not any requirement for addressing these issues under the regional and bilateral trade liberalisation initiatives taken by countries. Whether under the MFN or preferential trade, existence of NTBs not only limits trade between the RTA members, unless addressed directly, they also defy the primary purpose engaging in the activity which is enhancing intra-regional trade between the treaty partners.

Table 9: Types of Non-Tariff Barriers	
i.	Import Policy Barriers
ii.	Standards, Testing, Labeling and Certification requirements
iii.	Anti-dumping & Countervailing Measures
iv.	Export Subsidies and Domestic Support
v.	Government procurement
vi.	Services barriers (including those on Movement of Natural Persons)
vii.	Lack of adequate protection to Intellectual Property Rights
viii.	Other barriers

Import Policy Barriers

One of the most commonly known NTB is the prohibition or restrictions on imports maintained through the import licensing requirements. Article XI of the General Agreement on Tariff and Trade (GATT) requires WTO Members not to impose any prohibitions or restrictions other than duties, taxes or other charges, whether made effective through quotas, import or export licences or other measures for any reason, other than specified exceptions. Any form of import licensing (other than an automatic license) is, therefore, to be considered as an import restriction.

Certain restrictions on imports can also be imposed in accordance with Article XX of the GATT 1994. Similarly, Article XVIII (B) of the GATT allows import restrictions to be maintained on grounds of 'Balance of Payment' (BOP) problems. Presently only six countries maintain import restrictions on account of BOP problems. They are: Bangladesh, Nigeria, Pakistan, the Philippines, Sri Lanka and Tunisia. Some agricultural products also suffer from quota regimes. These restrictions can be used as a tool to restrict the market access opportunities.

Standards, Testing, Labeling & Certification Requirements

The agreement on the application of SPS measures and the agreement on TBT, deal with the trade related measures necessary to protect human, animal or plant life or health, to protect environment and to ensure quality of goods. Standards, Testing, Labelling and Certification requirements are insisted upon for ensuring quality of goods seeking an access into the domestic markets but many countries use them as protectionist measures.

Both the agreements also envisage special and differential treatment to the developing country Members taking into account their special needs. However, the trade of developing country Members has often faced more restrictive treatment in the developed countries where barriers have often been raised against developing countries on one pretext or the other.

Anti-Dumping & Countervailing Measures

Anti-dumping and countervailing measures are permitted by the WTO Agreements in specified situations to protect the domestic industry from serious injury arising from dumped or subsidized imports. The way these measures are used may, however, have a great impact on the exports from the targeted countries. When used as protectionist measures, they act as some of the most effective NTBs. The number of anti-dumping investigations in the recent past has increased manifolds. Not every investigation results in the finding of dumping and/or injury to the domestic industry. But the period for which the investigations are on, and this period may be up to 18 months, the exports from the country investigated suffer severely. Anti-dumping and countervailing duties being product specific and source specific, the importers will prefer switching over to other sources of supply.

Export Subsidies & Domestic Support

Both export subsidies and domestic support have a great bearing on the trade competitiveness of other countries. While export subsidies have the effect of displacing exports from other countries into the third country markets, domestic support acts as a direct barrier against access to the domestic market of trade partners and also indirectly impinge on the export competitiveness of other's products into third country markets. Generally, the developing countries lack resources to grant subsidies or domestic support.

Procurement

Government procurement and bulk procurement policies followed by some of the countries act as an NTB, since they follow the peculiar purchasing practices in the government sector, which are neither transparent nor uniform.

Services Barriers

Some of the measures which fall in this category include restrictive visa regimes maintained by nation states, the local sponsorship requirement for visas, stringent and often discriminatory qualification and licensing/certification requirements and procedures in host countries, citizenship and nationality requirements for delivery of professional services, lack of transparency in standards and other mandatory requirements, etc.

Lack of Adequate Protection to Intellectual Property Rights

Lack of adequate protection to Intellectual Property Rights (IPRs) in some countries hurts the exports of other countries. For example, piracy of motion pictures, video cassettes, audio cassettes, computer software etc., is widely practiced in a large number of countries.

Other Barriers

Some of the other main NTBs are discriminatory on account of use of child labour, investment barriers, language barriers, Super and Special 301 measures under the Omnibus Trade Act by the US etc. In particular, use of labour and environmental standards is increasingly growing and has become a matter of serious concern in many countries.

Impact of NTBs

The WTO trade data report has recognized that developing countries are increasingly becoming important players in world trade. In the last decade, their share in world merchandise exports increased from 17 percent to 27 percent. Intra-regional trade within developing countries is also rising. Yet, existence of and increasingly strident use of NTBs hamper key developing country exports, making it difficult for them to take full advantage of the benefits of increasing global integration and trade liberalisation. Furthermore, it has been found that NTBs are most prevalent in merchandise products and sectors identified relatively frequently as having potential for helping spur and sustain future export growth of developing countries, viz. textiles and apparel, fish and fisheries products, chemicals and pharmaceuticals, information technology (IT) products, and electrical and other heavy machinery.

An analysis of the disputes in the WTO indicate that the NTBs that registered the highest number of disputes presented by developing countries pertain to trade remedies (43 cases), quantitative restrictions (18 cases), customs and administrative barriers (13 cases), and charges on imports (12 cases). There are also a not insignificant number of cases in the area of technical barriers to trade (TBTs, 9 cases) and government participation in trade (7 barriers). The number of cases against customs and administrative procedures increased fourfold in the period 2000-2004 with respect to the period 1995-1999. Substantial increases are also evident for cases on trade remedies (50 percent), charges on imports (50 percent), and SPS measures (100 percent). By contrast, cases regarding quantitative restrictions (QR) decreased significantly (by two thirds) during this period of time.

India, being a WTO member, can not use the non-tariff restrictions which are contrary to its WTO GATT obligations. Some of such regulations that India maintains are State Trading Enterprises, Tariff Rate Quotas (TRQs), technical standards and regulations, SPS, other health and (environmental) safety regulations, etc. Important regulations that govern imports under the present Foreign Trade Policy can be summarised in the following manner:

(i) **State Trading Enterprises:** The products which are traded in bulk, the imports are governed through the State Trading Enterprises (STEs). Some of the examples are urea and fertiliser, and refined petroleum products.

(ii) **Tariff Rate Quotas:** Items like powdered milk, crude sunflower and safflower oils, refined rape, colza and mustard oil; are allowed to be imported through global quota. These are compatible with India's WTO commitments under Agreement on Agriculture. Likewise preferential imports of tea and textile items under the ISLFTA; textiles imports from Bangladesh under SAFTA etc., are governed under TRQs. The TRQs allow only a limited market access opportunities to the exporting countries. The export procedures are cumbersome and time consuming and thereby making exports costly.

(iii) **Technical standards and regulations (administered by BIS):** These are used on approximately 150 products and product groups that are or have been on the list include food ingredients, powdered milk and other milk products, cements, steel tubes, steel sheets and other steel products, X-ray equipment, gas cylinders, dry batteries, electrical equipment, and household electrical appliances. The key deterrents to imports in this system are the obligation on the foreign manufacturer to establish an Indian office, the required visits to the foreign factories by BIS inspectors, and in the case of Indian importers, the requirement to establish their own testing laboratories and the discretion of the BIS to pre-certification of components and visits to the foreign factories. Apart from the cost of all these procedures, there is obviously considerable potential for delay when foreign visits and the establishment of Indian branch or liaison offices are involved. One obvious way to change this outcome would be action by BIS to accept international standards or standards in the exporting countries, through mutual recognition agreements with them.

(iv) **Sanitary and Phytosanitary (SPS) Rules:** India continues to maintain import licensing on approximately 500 items justified under the 'need to ensure human, animal or plant life or health'. Currently imports of nearly all livestock, agricultural, and food products require some kind of phytosanitary or sanitary certificate issued under the general supervision of the Ministry of Agriculture. Though these regulations reflect legitimate national concerns, they have considerable potential to restrict imports. It would be necessary that the Indian authorities do the risk analysis (as prescribed and allowed under the SPS Agreement) on priority basis on items that are of SAFTA members' export interests.

As has been discussed earlier, the tariff liberalisation on goods alone, as prescribed presently under SAFTA may not achieve the desired results more so because the intra-SAARC trade is approximately five percent of their total global trade. The fact that the intra-regional trade is less, illustrates that one would need to have a closer look to identify the exact reasons for such a low trade flow. Is it because of non-tariff barriers, lack of infrastructural support at border, lack of supply side constraints or any other reason? It is, therefore, very important that India identifies country-specific constraints and addresses through mutual cooperation.

7. India's Engagements in Other RTAs *vis-à-vis* SAFTA

In the past, India had adopted a very cautious and guarded approach to regional arrangements and was initially engaged in only a few bilateral/regional initiatives, mainly through Preferential Trading Arrangements like the Bangkok Agreement (signed in 1975 now known as 'Asia Pacific Trade Agreement') to exchange tariff concessions in the ESCAP region, the Global System of Trade Preferences (GSTP - signed in 1988) to exchange tariff concessions among G-77 member countries, and the SAARC Preferential Trading Arrangement (SAPTA - signed in 1993) to liberalise trade in South Asia. However, these engagements achieved limited results in terms of increasing trade volumes with the member countries. With its smaller neighbours like Bhutan and Nepal, India has free trade arrangements on a non-reciprocal basis mainly with a view to ensuring social, economic and political stability across the border. The first FTA was signed with Sri Lanka in 1998 and is in operation since March 2000. Here also Sri Lanka, being a small island neighbour, was given more flexibility in terms of the size of the negative list and the period of tariff liberalisation.

Recognising that RTAs would continue to feature permanently in world trade, India got engaged with its trading partners/blocs with the intention of expanding its export market and began concluding, in principle agreements for moving in some cases towards a CECA which covers FTA in goods (i.e. having a zero customs duty regime within a fixed time frame on items covering substantial trade and a relatively small negative list of sensitive items on which no or limited duty concessions are available), services, investment and identified areas of economic cooperation. Framework Agreements have already been entered into with a number of trading partners with specific road maps to be followed and specified time frames by which the negotiations are to be completed.

India has already concluded a CECA with Singapore, which has been implemented from August 01, 2005. Framework Agreement on Comprehensive Economic Cooperation between ASEAN and India, Framework Agreement for BIMSTEC FTA, India-Thailand Framework Agreement have also been signed and FTA on Goods, Services and Investment are under negotiation. Framework Agreements on economic cooperation followed by PTA have also been entered into with MERCOSUR and Chile. India is also engaged with Gulf Cooperation Council (GCC) and Mauritius for FTA/CEPA and. Separate Joint Task Force that have been set up to negotiate a CEPA between India and Korea and India and Japan.

India has also taken its trade relations with the European Union to new heights. During the 6th India-EU Summit held in New Delhi, it was decided to launch India-EU Joint Action Plan for Strategic Partnership. Within the Joint Action Plan, a High Level Trade Group (HLTG) was set up and it was mandated to explore ways and means to deepen and widen the Bilateral Trade and Investment Relationship. The HLTG was also tasked with examining the possibility of launching negotiations on a broad based Trade and Investment Agreement. It was also decided that HLTG would report to the 2006 India-EU Summit to be held in Helsinki in October, 2006. The 7th India-EU Summit held at Helsinki accepted the report of the HLTG and agreed that both sides move towards negotiations. India and EU are now negotiating a broad based bilateral trade and investment agreement.

The implications of SAFTA for India need to be viewed in this background of India's current engagements in several FTAs. While SAFTA, like any other FTA, has been entered into with a view to enhancing the regional trade and investment flows between the countries by providing better market access, the results would, *inter-alia*, depend upon the coverage and depth of engagement in other RTAs. In this regard, it may be worth mentioning that India has, in recent years, adopted a comprehensive approach towards RTAs. In all its RTAs it is negotiating FTAs in goods, services, investments, bilateral safeguards, bilateral disputes, etc. In these negotiations, through identified areas of economic cooperation it is pursuing its goal to address the issue of NTBs on its export interest items, by obtaining MRAs, equivalence and accreditation of its agencies etc. A summary of India's RTAs and their scope of coverage are as follows:

Table 10: India's RTAs: a summary			
Country	**Type of Agreement**	**Coverage**	**Date to achieve zero duty on goods**
Bhutan	Bilateral FTA, non-reciprocal	Goods	Already exists (no exclusion list)
Nepal	Bilateral, non-reciprocal	Goods	Already exists (Only a few items in exclusion list or imported to India under TRQ)
Sri Lanka	Bilateral FTA	Goods	India has established zero duty regime from 2003, SL to do in 2008. (exclusion List comprises 429 items at 6–digit HS, TRQ on tea and apparels)
	CEPA negotiations continuing	**Deepen** – i.e. reduce the negative list items	Negotiations are going on
		Widen - • Services • Investments • Economic cooperation, MRAs etc.	Negotiations are going on
Singapore	CECA	Goods, services, investment, MRAs etc.	Started in 2005, duty free regime by 2009. (Exclusion list comprises more than 5000 items at 8-digit HS)
ASEAN	CECA	Goods, services, investment, MRAs etc.	FTA in goods to be established first. Zero duty by 2011. (Exclusion list to comprise approx. 500 items at 6-digit HS)

The success of SAFTA as a result of India's future FTAs would depend on several factors such as the size of the negative lists in SAFTA *vis-à-vis* other negotiated FTAs; the timeframes for tariff liberalisation; the RoO criteria etc. It may very well be true that if India and its future FTA partners get a better preferential market access in each other's markets and the tariff liberalisation period is shorter, the SAARC members may be locked out of Indian market and the intra-SAARC trade flows would further decline. While several of India's ongoing engagements like ASEAN and BIMSTEC, cover free trade in goods, services and investment, SAFTA is constrained by the fact that it covers only trade in goods.

The SAFTA treaty is subject to some serious constraints, each of which may be viewed in comparison with India's future FTAs, to assess the relative importance of SAFTA. First, the Negative Lists of member countries are very long which points to the caution with which they are opening up their economies, notwithstanding the BoP Measures (Article 15) and Safeguard Measures (Article 16) incorporated in the text of the Agreement. This pre-empts a large volume of regional trade under the Tariff Liberalisation Programme.

Second, the timeframe for tariff liberalisation as envisaged under the Agreement is fairly long. The phase-out plan under the TLP provides the phase-out of customs of tariffs (zero to five percent) for all non-LDCs in 7 (2013) years from the date of implementation (2006). The phase-out period is eight years for Sri Lanka (2014) and for LDCs 10 years (2016). Noting the pace of trade liberalisation has been faster under various competing bilateral, regional and multilateral forays, the TLP under SAFTA could most likely become both irrelevant and redundant.

Third, the non-inclusion of services and investment similarly pre-empts a significant share of the intra-regional trade. A section on trade in services would be beneficial for SAARC members especially for the LDCs. Unlike the concept on trade in goods where generally exports are perceived as welfare enhancing, in services trade the import could be beneficial for any SAARC member especially the LDCs. For example, import of Indian teachers to Bangladesh or Nepal to teach English or Software programmes would be more cost effective and welfare enhancing to Bangladesh or Nepal compared to the teachers coming from developed countries. Similarly, opening up of branches of Indian business process outsourcing (BPOs) or Financial Institutions would create better employment and other business opportunities to them and the welfare aspect would be greater. Likewise an agreement on investments would facilitate the intra-SAARC investment flows in several sectors which would increase the manufacturing base of SAARC members, provide backward-forward linkage among industries in the region. It would also facilitate the transfer of technology, up-gradation of R&D activities etc.

Another implication which needs to be studied more seriously relates to India's attempt to get duty free market access through FTAs to other countries especially with whom presently the SAARC LDCs are trading heavily. In some of the markets (like EU, Japan and US) the SAARC LDCs are able to export majority of their products due to the duty-free quota-free market access. If India enters into FTA with them and starts getting duty free market access, the preferences of LDCs may be eroded. A case in point is export of textiles and textile materials from Bangladesh to EU under Generalised System of Preferences (GSP). Once India or other developing countries start getting equivalent concessions under FTAs, the exports of Bangladesh may get adversely affected and Bangladesh may be locked out of the market of EU.

On the basis of the WTO Hong Kong Ministerial decision, India is considering for granting unilateral tariff preferences to all the LDCs. This Scheme, however, may exclude certain items from the tariff concessions. It is not known when and how this Scheme will be implemented, but given the fact that the Indian Prime Minister has announced fast-tracking India's duty-free regime for SAARC LDCs, the time frame for tariff elimination under the unilateral scheme may be longer than for SAFTA LDCs. Therefore, the SAFTA window would be advantageous to Bangladesh and Maldives. It would also be interesting to see what would be size of exclusion list and RoO and what are the differences with SAFTA. Any similarity would though give advantage to Bangladesh in terms of time frame, but ultimately both the arrangements would harmonise after reaching the transition period of tariff liberalisation, at least on those items where the tariffs would be reduced to zero.

Another important point that is to be noted is India's tariff liberalisation on a multilateral basis, either unilateral or under WTO (after successful conclusion of Doha Round) would have a bearing on its FTA concessions including SAFTA as the difference between MFN applied duty and preferential duty would become lesser. Bangladesh, though at present poised against Nepal and Bhutan (as they are enjoying the duty-free market access to India), would get better market access against other trading partners or other LDCs of other regions, namely ASEAN. However, this situation would continue only till the transition period of each respective agreement. As the preferential tariffs on products would become zero to other

LDCs, all the SAARC LDCs would be poised at par with other LDC. At that time, though the SAARC LDCs would continue to have the advantage of their geographical proximity; to some extent, there would be erosion of their market access opportunities.

Notwithstanding the shortcomings of the SAFTA Agreement, there is immense potential for expanding trade within the region. South Asia, with a population of 1.4 billion, is expected to be the biggest free trade area of the world. The region has been experiencing a GDP growth rate of six to seven percent in the last five years. It has an increasing middle class of 400 million people – 200 million in India, 55 million in Pakistan, 45 million in Bangladesh, and 100 million in the other four member countries. All these indicators point to the immense potential for these countries to expand their intra-regional trade, as the path towards the goal of a free trade area and the pre-conditions under the SAFTA Treaty have been defined. However, given the fact that there are several shortcomings in the Treaty, the need of the hour is to identify them and rectify them to make the SAFTA a success. In order to prevent SAFTA form becoming a failure, it is necessary to learn lessons from other regional groupings, one such example is the AFTA. Coping with bilateral disputes separately, AFTA took product coverage, investment, services and dispute settlement simultaneously for opening up of regional trade.

8. Regionalism versus Multilateralism

India has always stood for an open, equitable, predictable, non-discriminatory and rule based international trading system. RTAs, in India's point of view, should be 'building blocks' towards the overall objective of trade liberalisation and should complement the multilateral trading system. Some of the studies have pointed out that many factors, some are explicitly stated and some are not so publicly admitted, have been responsible for the recent spurt in regionalism. These are:

- A desire to obtain more secure, quick and preferential access to major markets.
- The pressures of globalisation, forcing firms and countries to seek efficiency through larger markets, increased competition, and access to foreign technologies and investment.
- Governments' desire to maintain sovereignty by pooling it with others in areas of economic management where most nation-states are too small to act alone.

- Governments' wish to bind themselves to better policies and to signal such bindings to domestic and foreign investors.
- A desire to jog the multilateral system into faster and deeper action in selected areas by showing that the GATT/WTO was not the only game in town and by creating more powerful blocs that would operate within the GATT/WTO system.
- A desire to help neighbouring countries stabilises and prospers, both for altruistic reasons and to avoid spillovers of unrest and population.
- The fear of being left out while the rest of the world swept into regionalism, either because this would be actually harmful to the excluded countries or just because "if everyone else is doing it, shouldn't we"?

Political considerations also feature in the decisions to establish RTAs, especially when governments seek to consolidate peace and increase regional security as well as to acquire greater bargaining power in multilateral negotiations by first tying in partner countries through regional commitments.

India has been a late starter to FTAs, though it had been signatory to some of the very old Preferential Trade Agreements like GSTP (UNCTAD initiative) and Bangkok Agreement. These were signed to expand the market access for the developing countries on purely economic reasons. These agreements, however, did not enhance the market access opportunities for India. While some of the reasons given above are true for India others are not. SAFTA was signed to reach twin objectives of generating political goodwill as well as helping the neighbouring countries to prosper in the region by giving them greater market access. India's engagement with ASEAN is necessary given the present geo-political developments in East Asia and enhancing the trade and investment linkages between India and ASEAN. Its engagements with EU, Republic of Korea and Japan are with the aim to secure greater preferential market access to enhance its trade and investment flows.

From a development perspective, the WTO remains the best-available forum to discipline the use of trade-distorting policies. RTAs can complement the WTO efforts by cooperating on behind-the-border policies, especially on regulation-intensive issues such as services, trade facilitation, and the investment climate. Developing countries like India are likely to have the greatest success in harnessing trade for growth and poverty reduction if they adopt a threepronged strategy that involves autonomous liberalisation, active multilateralism, and open regionalism.

Apart from the debate about the reasons behind the recent surge in regionalism, there is another big debate in the current international trade literature about whether regionalism can help or hinder the multilateral trading system. The question is, whether regional trading blocks are “building blocks” or “stumbling blocks” of the multilateral trading system. It is interesting to note that most of the criticisms against the PTAs are labelled against the regional or bilateral agreements where a developed country is involved in the treaty.

However, many developing countries are now looking for RTAs among themselves just to avoid the frustration with the multilateral trading system. The dejection of developing countries about the functioning of WTO is not unnatural because since the implementation of the Uruguay Round agreements, these countries have not gained any meaningful increase in market access in the key areas where they have comparative advantage (textiles and agriculture). The overwhelming dominance of developed countries in the WTO decision making process has not helped the cause of developing countries either. Given the failure of WTO, it is clear that for developing countries the choice is between a multilateral trading system which is extremely unbalanced and PTAs, mostly South-South PTAs, which help these countries to expand market access without compromising on national policy autonomy.

It is not surprising that many developing countries are now looking for South-South PTAs to expand their market access. These RTAs are likely to be beneficial for developing countries because lower dependence on developed country markets will not only help these countries to resist the pressures of hegemonic economic powers but also it will help them forge and foster stronger South-South alliances at the multilateral trade negotiations. Given the fact that a clear North-South division has appeared in WTO, this is likely to have a strong impact on the multilateral trading system.

However, in India’s view still the rule based multilateral trading regime is the best option available to all the countries. RTAs are seen as ‘building blocks’ towards our overall multilateral process of trade liberalisation. It is not a substitute to globalisation rather a supplement to it. RTAs provide good opportunities to test the waters of the domestic industry as world over the RTAs have acted as healthy precursors to free trade. It provides a healthy and competitive environment to the industry as well as varied choice to the consumers. RTAs also provide opportunity to the government to reform its policies, especially those which are difficult in view of political set up of the country. Most of the debate leading to such comparison is not warranted, as they are trying to compare 'the best' – multilateral trading system to the 'second best' – the RTAs.

Features that would guide the success of SAFTA relates to its coverage and scope. As has been stated earlier India's other FTA negotiations cover comprehensive coverage of services, investments and MRAs in addition to conventional goods agreements. Indian industry, especially in the goods sector steel, drugs and pharmaceuticals, chemicals and allied products, dairy and dairy products, textiles, automobiles, engineering items etc. have offensive interests. Similarly in services, market access for Mode 1 and Mode 4 has an ambitious agenda, including across the board horizontal commitments on sectors of its interest. In SAARC India being the largest economy will have a positive agenda on these issues. It is essential that the scope and coverage of SAARC is broaden to match the levels of other comprehensive FTAs that India is negotiating, or else SAFTA would lag behind those agreements. In the long run it would be disadvantageous to other SAARC members only as their other competitor countries would have an edge over them.

9. SAFTA and India: The Road to Success

Over the past decade, globalization and Asia's impressive economic performance, driven mainly by strong GDP growth of China and India, have created an unprecedented environment for the growth of intra-regional trade and investment. In the region Pakistan and Bangladesh have also registered high growth rates.

Trade and investment flows have played a crucial role in the economic integration of other regions of the world, and they have the potential to do the same in South Asia. The realities on the ground with respect to trade among the region's neighbours are, however, still sobering; left to themselves, they could continue to deter regional economic integration. In terms of intra-regional trade and investment in goods and services, South Asia lags far behind other regions. There have been several studies[16] on the economic gains that would accrue

[16] Mukherjee I.N.(2004): Regional Trade Agreements in South Asia, South Asian Yearbook of Trade and Development (CENTAD).

from SAFTA. Most indicate significant advantages to both India and 'smaller' countries, particularly Bangladesh and Pakistan. However, there is much variation across studies in the magnitude predicted for these advantages. Furthermore, these SAFTA gains are not large in either absolute or relative (to total exports) terms, because most models used in the free-trade policy simulations are constrained by the existing parameters – the current small volume of trade among these countries. As such, any computation of the response of trade to rapid GDP growth and liberalisation based on these volumes would not do justice to the potential impact of SAFTA.

Broadening the current SAFTA agreement beyond trade in goods to include areas of services and investment is equally important. Evidence from other regional groupings shows that investment flows play at least as significant a role as trade in promoting integration of economies. While free trade alone will yield gains, these are unlikely to be great. However, dynamic long-term effects can be significant, particularly if combined with aggressive trade-facilitation measures, removal of NTBs, opening up the services sectors and, in particular, liberalisation of the investment regime. The full realisation of the gains of freer trade and investment would also require continuous and massive investment in physical infrastructure to connect the region more efficiently.

India being the largest country in South Asia in terms of land area, population, and the size of its economy and being the most advanced country considering its industrial base can play a pivotal role in regional integration. But so far India has been slightly reluctant to play the lead role, perhaps due to her dilemma over such a role because of the possible conflict it may create in the SAARC process and the anticipated negative reaction to such a role by other members. Another reason can be attributed to India's relationship with Pakistan which at times had slowed down the overall progress. India seems to have changed its stance recently and has shown willingness to play a bigger role. The acceptance of the Mechanism for Compensation for Revenue Loss (MCRL) by India is one such instance. India, being the larger and relatively more developed economy, knew that it would bear the major chunk of the cost in paying compensation. India has also agreed to offer TRQ of 8 million pieces of garments at zero duty to Bangladesh and to the proposal of the LDCs for technical assistance in areas like capacity building in standards, product certification, training of human resource, improvement of legal system and administration, customs procedures and trade facilitation. One of the reasons cited for Bangladesh's textile exports not entering into the Indian market despite getting SAPTA concessions on these items related to mixed import duty structure on garments. This issue would be settled as the duties would be eliminated on such products under SAFTA and therefore, the specific duty would lose the relevance in SAFTA. This would provide greater opportunity to Bangladesh to export these items to India. The flow of trade would, however, depend on several factors like the RoO on these items, supply side constraints and infrastructural bottlenecks.

Many exporters from South Asian LDCs allege that India maintains some critical NTBs on their exports. For example, studies have indicated that many exporters from Bangladesh consider NTBs in India, not the tariffs in India, as the major constraint for their export expansion in India. Though such measures may be totally WTO compatible, the fact is that it creates difficulty to the exporters of neighbouring countries, causing irritation. Delays in testing and certification at border check points have more damaging impact on the export of perishable items. It would therefore be important for India to address such concerns in the spirit and goodwill of SAFTA. The customs procedures would need to be streamlined, testing facilities would need to be built at the border check points and the infrastructure at both ends of borders would need to be improved. Given its size and importance in SAARC, it is important that India provides technical and financial assistance for building these facilities at both the ends. India recognised these problems and even though efforts are made in this regard, the slow progress on these issues has caused dissatisfaction to India's neighbours especially the LDC members.

In order to give a thrust to the process of trade liberalisation under SAFTA, the announcement made by the Indian Prime Minister to reduce the items from its sensitive list voluntarily is timely and appropriate. Since India has a favourable balance of trade with the SAARC LDCs, it needs to give preferential market access in such a manner that this gap is reduced. It would therefore be important that items where the LDC members have global exports are removed from its sensitive list. The commitment in SAFTA is to bring the duties down to the range of 0-5 percent. Therefore a country can maintain its SAFTA preferential duties at five percent even at the end of tariff liberalisation period. This may deny substantial market access opportunities to the LDCs, as the preferential import duty of five percent may not provide them meaningful market access to other SAARC Member Countries. India's announcement to eliminate duties for LDCs under SAFTA with an advancement of its tariff liberalisation programme is another positive step.

10. Conclusion

In order to make SAARC a meaningful coalition and a strong economic block, substantial progress towards its economic integration is very important. SAARC countries, as geographically proximate neighbours need to take advantage of their close proximity to increase their trade and investment flows. The complementarities on different dimensions need to be explored so that the entire region progresses and the benefits are balanced.

India, being the largest economy in SAARC, its role is widely regarded as crucial in determining the effectiveness of SAFTA and therefore, it will have to play a pro-active and leading role in drawing the future agenda or the road map of SAFTA. In this regard, the following actions, if taken by India would give the much needed boost to intra-regional trade under SAFTA:

(i) India drastically cuts down the size of its sensitive list. The top global export items of LDCs are deleted during such pruning of the sensitive list so that effective preferential market access could be provided to them especially on items where they are globally competitive.

(ii) The issues relating to non-tariff measures should be addressed in a time bound manner. Fast track approach could be taken for finalising equivalence, conformity assessment procedures, mutual recognition agreements etc., through the identified agencies/institutions of the other SAARC members.

(iii) In cases where such agencies/institutions are not established, efforts for providing technical assistance and building capacity for setting up the agencies/institutions to be made. The possibility of providing financial support should also be explored.

(iv) Facilitate intra-regional trade through regional cumulation by encouraging sourcing of inputs from other SAARC members.

(v) Take efforts for promoting investments in other SAARC members especially the LDCs so that overall economic activity is generated and greater employment opportunities are created.

(vi) Provide better infrastructure and support at the boarder check posts of customs.

In order to promote intra-SAARC trade and investment flows, the SAARC Member Countries would also need to take necessary measures. To meet the above objectives the following recommendations are made:

(i) **Reduction of the size of sensitive list and time frame for tariff liberalisation:** The present size of the sensitive list is much larger than any successful RTA. To facilitate the intra-regional trade and investment flows it is important that the size of the sensitive list of each SAFTA member is reduced drastically. At the same time, the currently prescribed long time frame for tariff liberalisation needs to be shortened, implying advancement in the tariff liberalisation schedule.

(ii) **Duty free market access:** The present SAFTA treaty does not prescribe for a mandatory duty-free market access (the commitment is for bringing duties to 0-5 percent). It is important that all members decide to make it a duty-free agreement, as a duty reduction to five percent may deny adequate preferential market access.

(iii) **Regional cumulation:** The present RoO of SAFTA provides that in order to utilise the Regional Cumulation benefits the total regional value addition should be 10 percent higher than the normal value addition and the exporting Party should have a minimum value addition of 20 percent. A similar provision which existed in SAPTA did not stimulate intra-regional trade; hence a concept of full cumulation without any value addition obligation to the exporting Party be explored.

(iv) **Addressing non-tariff barriers:**: With the general decline in customs tariffs regionally and multilaterally, new forms of trade restrictions in the nature of non-tariff barriers are emerging, largely nullifying the space created by the former. The SAFTA text merely provides for the notification by Contracting States all non-tariff and para-tariff measures to their trade on an annual basis. Efforts should be made to eliminate all such WTO non-compliant barriers in a phased and time-bound manner.

(v) **Expanding the scope of SAFTA:** SAFTA must swiftly move towards deeper integration that characterises most recently emerging RTAs by moving beyond trade in goods. This calls for incorporating services, adopting a blueprint for a SAARC Investment Area and enacting agreements/protocols for trade and investment facilitation.

(vi) **Trade facilitation**: Studies[17] have pointed out that the cost of doing business through formal channels in the region is higher than through informal channels. The countries in the region could cooperate on bringing down the costs of trade. This will also generate positive externalities for trade costs with extra-union partners. Trade facilitation would thus pave the way to enhance the intra-SAARC trade. Moves should be initiated for standard setting and mutual recognition of standards through accredited testing laboratories. Setting up a time frame for the identification and where required, removal of NTBs that cause undue hindrance to the free movement of goods across borders would enhance the intra-regional trade and investment flows.

(vii) **Customs Cooperation**: The Customs Cooperation agreement has been signed by all the SAARC Members. It is important that timely implementation schedule for harmonisation of import/export documentation, customs procedures are done on priority. Other issue that needs to be addressed relates to harmonisation of national customs classification based on HS nomenclature. Efforts for simplification of customs clearance procedures and cooperation to resolve disputes at customs entry points are other issues which are required to be addressed on priority.

(viii) **Cooperation in infrastructure:** Another area of importance in SAARC is infrastructure. There can be issues of road and railway construction, building of bridges and telecommunication development in which the countries in the region have common interest. Of course, the SAFTA does not explicitly provide for it but may play a facilitating role. Preferential trade already tilts the balance in favour of intra-regional trade and such move would further facilitate the intra regional trade. Joint projects for development of ports and land customs infrastructure for facilitating movement of goods through shortest routes should be initiated on priority.

(ix) **Transit treaty:** Since there are some landlocked countries, there is a need to build institutional arrangement for movement of goods within SAARC region. Even for countries which are not landlocked, it may be economical advantage to transport

[17] Taneja, Nisha, Muttukrishna Sarvanathan and Sanjib Pohit. 2003. "India-Sri Lanka Trade: Transacting Environments in Formal and Informal Trading." *Economic and Political Weekly*, July 19, 3095-98.

goods through the land route, transiting through other SAFTA Member. Though India has bilateral transit treaties with Nepal, Bhutan etc., in order to facilitate the free movement of goods in SAARC region there is a need for a regional framework or treaty for promoting transit to promote unhindered movement of goods across borders. This would not only enhance the intra-regional trade but would also facilitate several economic activities in the region.

To make SAFTA a successful regional block, efforts made by India alone will not be sufficient and a collective developmental goal would need to be set up by all the SAARC member countries. A comprehensive action plan, therefore, is needed to make SAFTA a meaningful and effective regional trading block.

Annexure 1: India's Imports: SAARC and Global – A Comparison

(Value in US$ Mn)

Country	**1996-1997**	**1997-1998**	**1998-1999**	**1999-2000**	**2000-2001**	**2001-2002**	**2002-03**	**2003-04**	**2004-2005**	**2005-2006**
BANGLADESH	62.23	50.81	62.4	78.15	80.51	59.12	62.05	77.63	59.37	127.03
BHUTAN	33.78	13.44	6.13	18.01	21.09	23.92	32.15	52.37	71	88.77
MALDIVES	0.17	0.24	0.05	0.4	0.19	0.4	0.33	0.37	0.61	1.98
NEPAL	64.07	95.16	144.85	188.63	255.08	355.94	281.76	286.04	345.83	379.85
PAKISTAN	36.16	44.45	214.45	68.21	64.03	64.76	44.85	57.65	94.97	179.56
SRI LANKA	42.84	30.21	37.68	44.23	45.01	67.38	90.83	194.74	378.4	577.7
Total	**239.25**	**234.31**	**465.56**	**397.63**	**465.91**	**571.52**	**511.97**	**668.8**	**950.18**	**1354.89**
India's global imports	39132.41	41484.49	42388.71	49738.06	50536.46	51413.29	61412.13	78149.61	111517.44	149165.73
Percentage of total imports	0.61	0.56	1.10	0.80	0.92	1.11	0.83	0.86	0.85	0.91

Source: DGCI&S, Govternment of India

Annexure 2: Top 10 Commodities Exported to India

Country	1997-1998	2000-2001	2005-2006
Bhutan	Wood And Articles Of Wood; Wood Charcoal. (44)	Inorganic Chemicals; Organic Or Inorganic Compounds Of Precious Metals, Of Rare-Earth Metals, Or Radi. Elem. Or Of Isotopes. (28)	Iron And Steel (72)
	Inorganic Chemicals; Organic Or Inorganic Compounds Of Precious Metals, Of Rare-Earth Metals, Or Radi. Elem. Or Of Isotopes. (28)	Iron And Steel (72)	Inorganic Chemicals; Organic Or Inorganic Compounds Of Precious Metals, Of Rare-Earth Metals, Or Radi. Elem. Or Of Isotopes. (28)
	Iron And Steel (72)	Wood And Articles Of Wood; Wood Charcoal.(44)	Man-Made Filaments. (54)
	Salt; Sulphur; Earths And Stone; Plastering Materials, Lime And Cement. (25)	Beverages, Spirits And Vinegar. (22)	Animal Or Vegetable Fats And Oils And Their Cleavage Products; Pre. Edible Fats; Animal Or Vegetable Waxex. (15)
	Edible Vegetables And Certain Roots And Tubers. (7)	Salt; Sulphur; Earths And Stone; Plastering Materials, Lime And Cement. (25)	Wood And Articles Of Wood; Wood Charcoal. 44)
	Miscellaneous Chemical Products. (38)	Preparations Of Vegetables, Fruit, Nuts Or Other Parts Of Plants. (20)	Beverages, Spirits And Vinegar. (22)
	Miscellaneous Edible Preparations. (21)	Mineral Fuels, Mineral Oils And Products Of Their Distillation; Bituminous Substances; Mineral Waxes. (27)	Photographic Or Cinematographic Goods. (37)
	Products Of The Milling Industry; Malt; Starches; Inulin; Wheat Gluten. (11)	Man-Made Filaments. (54)	Miscellaneous Goods.(99)
	Lac; Gums, Resins And Other Vegetable Saps And Extracts. (13)	Plastic And Articles Thereof. (39)	Paper And Paperboard; Articles Of Paper Pulp, Of Paper Or Of Paperboard. (48)
	Mineral Fuels, Mineral Oils And Products Of Their Distillation; Bituminous Substances; Mineral Waxes.(27)	Coffee, Tea, Mate And Spices. (9)	Salt; Sulphur; Earths And Stone; Plastering Materials, Lime And Cement. (25)
Bangladesh	Other Vegetable Textile Fibres; Paper Yarn And Woven Fabrics Of Paper Yarn. (53)	Other Vegetable Textile Fibres; Paper Yarn And Woven Fabrics Of Paper Yarn. (53)	Inorganic Chemicals; Organic Or Inorganic Compounds Of Precious Metals, Of Rare-Earth Metals, Or Radi. Elem. Or Of Isotopes. (28)

	Inorganic Chemicals; Organic Or Inorganic Compounds Of Precious Metals, Of Rare-Earth Metals, Or Radio Elements. Or Of Isotopes. (29)	Inorganic Chemicals; Organic Or Inorganic Compounds Of Precious Metals, Of Rare-Earth Metals, Or Radio Elements. Or Of Isotopes. (28)	Other Vegetable Textile Fibres; Paper Yarn And Woven Fabrics Of Paper Yarn.(53)
	Fish And Crustaceans, Molluscs And Other Aquatic Invertebrates. (3)	Fish And Crustaceans, Molluscs And Other Aquatic Invertebrates.(3)	Other Made Up Textile Articles; Sets; Worn Clothing And Worn Textile Articles; Rags (63)
	Cotton. (52)	Edible Fruit And Nuts; Peel Or Citrus Fruit Or Melons. (8)	Fish And Crustaceans, Molluscs And Other Aquatic Invertebrates. (3)
	Fertilisers. (31)	Articles Of Apparel And Clothing Accessories, Not Knitted Or Crocheted.(62)	Wadding, Felt And Nonwovens; Spacial Yarns; Twine, Cordage, Ropes And Cables And Articles Thereof. (56)
	Raw Hides And Skins (Other Than Fur skins) And Leather (41)	Raw Hides And Skins (Other Than Fur skins) And Leather (41)	Copper And Articles Thereof. (74)
	Miscellaneous Goods. (99)	Other Made Up Textile Articles; Sets; Worn Clothing And Worn Textile Articles; Rags (63)	Edible Fruit And Nuts; Peel Or Citrus Fruit Or Melons. (8)
		Wadding, Felt And Nonwovens; Special Yarns; Twine, Cordage, Ropes And Cables And Articles Thereof. (56)	Electrical Machinery And Equipment And Parts Thereof; Sound Recorders And Reproducers, Television Image And Sound Recorders And Reproducers, And Parts. (85)
		Cotton. (52)	Animal Or Vegetable Fats And Oils And Their Cleavage Products; Pre. Edible Fats; Animal Or Vegetable Waxex. (15)
		Articles Of Apparel And Clothing Accessories, Knitted Or Crocheted. (61)	Raw Hides And Skins (Other Than Fur skins) And Leather (41)
Maldives	Products Of Animal Origin, Not Elsewhere Specified Or Included. (5)	Iron And Steel (72)	Iron And Steel (72)
	Iron And Steel (72)	Products Of Animal Origin, Not Elsewhere Specified Or Included. (5)	Copper And Articles Thereof. (74)
		Copper And Articles Thereof. (74)	Wood And Articles Of Wood; Wood Charcoal. (44)
		Aluminium And Articles Thereof. (76)	Aluminium And Articles Thereof. (76)

		Plastic And Articles Thereof. (39)	Animal Or Vegetable Fats And Oils And Their Cleavage Products; Pre. Edible Fats; Animal Or Vegetable Waxex. (15)
		Nuclear Reactors, Boilers, Machinery And Mechanical Appliances; Parts Thereof. (84)	Fish And Crustaceans, Molluscs And Other Aquatic Invertebrates. (3)
		Articles Of Apparel And Clothing Accessories, Not Knitted Or Crocheted. (62)	Beverages, Spirits And Vinegar. (22)
		Glass And Glassware. (70)	Tools Implements, Cutlery, Spoons And Forks, Of Base Metal; Parts Thereof Of Base Metal. (82)
		Articles Of Iron Or Steel (73)	Electrical Machinery And Equipment And Parts Thereof; Sound Recorders And Reproducers, Television Image And Sound Recorders And Reproducers, And Parts. (85)
		Electrical Machinery And Equipment And Parts Thereof; Sound Recorders And Reproducers, Television Image And Sound Recorders And Reproducers, And Parts. (85)	Miscellaneous Goods.(99)
Nepal	Animal Or Vegetable Fats And Oils And Their Cleavage Products; Pre. Edible Fats; Animal Or Vegetable Waxex. (15)	Animal Or Vegetable Fats And Oils And Their Cleavage Products; Pre. Edible Fats; Animal Or Vegetable Waxex. (15)	Animal Or Vegetable Fats And Oils And Their Cleavage Products; Pre. Edible Fats; Animal Or Vegetable Waxex. (15)
	Essential Oils And Resinoids; Perfumery, Cosmetic Or Toilet Preparations. (33)	Copper And Articles Thereof. (74)	Plastic And Articles Thereof. (39)
	Man-Made Staple Fibres. (55)	Essential Oils And Resinoids; Perfumery, Cosmetic Or Toilet Preparations. (33)	Miscellaneous Chemical Products. (38)
	Soap, Organic Surface-Active Agents, Washing Preparations, Lubricating Preparations, Artificial Waxes, Prepared Waxes, Polishing Or Scouring Prep. (34)	Man-Made Filaments. (54)	Iron And Steel (72)
	Pharmaceutical Products (30)	Man-Made Staple Fibres. (55)	Essential Oils And Resinoids; Perfumery, Cosmetic Or Toilet Preparations. (33)

	Coffee, Tea, Mate And Spices (9).	Plastic And Articles Thereof. (39)	Man-Made Staple Fibres. (55)
	Wadding, Felt And Nonwovens; Spacial Yarns; Twine, Cordage, Ropes And Cables And Articles Thereof. (56)	Soap, Organic Surface-Active Agents, Washing Preparations, Lubricating Preparations, Artificial Waxes, Prepared Waxes, Polishing Or Scouring Prep. (34)	Beverages, Spirits And Vinegar. (22)
	Other Vegetable Textile Fibres; Paper Yarn And Woven Fabrics Of Paper Yarn. (53)	Articles Of Iron Or Steel (73)	Salt; Sulphur; Earths And Stone; Plastering Materials, Lime And Cement. (25)
	Man-Made Filaments. (54)	Coffee, Tea, Mate And Spices. (9)	Coffee, Tea, Mate And Spices.(9)
	Preparations Of Cereals, Flour, Starch Or Milk; Pastry cooks Products. 19	Pharmaceutical Products 30	Articles Of Iron Or Steel 73
Sri Lanka	Iron And Steel (72)	Coffee, Tea, Mate And Spices. (9)	Animal Or Vegetable Fats And Oils And Their Cleavage Products; Pre. Edible Fats; Animal Or Vegetable Waxes. (15)
	Coffee, Tea, Mate And Spices (9).	Copper And Articles Thereof. (74)	Copper And Articles Thereof. (74)
	Pulp Of Wood Or Of Other Fibrous Cellulosic Material; Waste And Scrap Of Paper Or Paperboard. (47)	Plastic And Articles Thereof. (39)	Electrical Machinery And Equipment And Parts Thereof; Sound Recorders And Reproducers, Television Image And Sound Recorders And Reproducers, And Parts. (85)
	Rubber And Articles Thereof. (40)	Iron And Steel (72)	Coffee, Tea, Mate And Spices. (9)
	Animal Or Vegetable Fats And Oils And Their Cleavage Products; Pre. Edible Fats; Animal Or Vegetable Waxex. (15)	Electrical Machinery And Equipment And Parts Thereof; Sound Recorders And Reproducers, Television Image And Sound Recorders And Reproducers, And Parts. (85)	Rubber And Articles Thereof. (40)
	Man-Made Filaments. (54)	Nuclear Reactors, Boilers, Machinery And Mechanical Appliances; Parts Thereof.(84)	Aluminium And Articles Thereof. (76)
	Nuclear Reactors, Boilers, Machinery And Mechanical Appliances; Parts Thereof. (84)	Paper And Paperboard; Articles Of Paper Pulp, Of Paper Or Of Paperboard. (48)	Articles Of Stone, Plaster, Cement, Asbestos, Mica Or Similar Materials. (68)
	Copper And Articles Thereof. (74)	Pulp Of Wood Or Of Other Fibrous Cellulosic Material; Waste And Scrap Of Paper Or Paperboard. (47)	Nuclear Reactors, Boilers, Machinery And Mechanical Appliances; Parts Thereof. (84)

	Zinc And Articles Thereof. 79	Animal Or Vegetable Fats And Oils And Their Cleavage Products; Pre. Edible Fats; Animal Or Vegetable Waxex. (15)	Wood And Articles Of Wood; Wood Charcoal. (44)
	Plastic And Articles Thereof. (39)	Rubber And Articles Thereof. (40)	Pulp Of Wood Or Of Other Fibrous Cellulosic Material; Waste And Scrap Of Paper Or Paperboard. (47)
The figures in parentheses indicate the Tariff Chapters based on the Harmonised System.			

Source: DGCI&S, Government of India

Annexure 3: India's Imports from Bangladesh

HSCode	Commodity	2005-06 US $ million	position in NL
281410	Anhydrous ammonia	39.18	
30269	Other fish fish/chld excl livrs & roes	7.37	
80290	Other nuts fresh or dried	2.91	NL
30420	Fish fillets(whether or nt minced)frzn	2.15	NL (APTA - 100%)
151620	Vegetable fats & oils & their fractns	1.42	NL
251710	Pebbles grvl brkn/crshd stone commonly usdfr concrte agrgts fr ro mtlng/rly/othr balast shingle & flint w/n heat-treated	0.98	
220290	Other sweetened flavourd waters	0.89	
170310	Cane molses rsltd frm extrctn/rfng of sugr	0.87	
150790	Other soya bean oil & its fractions	0.75	NL
340111	Soap and orgnc surface actv prdcts etc for tiolet use (incl medicated prdcts)	0.69	NL
252329	Other portland cement	0.55	
310420	Potassium chloride	0.46	
230990	Othr prpns of a kind used in anml feeding	0.36	NL
50610	Ossein & bones treated with acid	0.33	NL
30559	Other dried fish w/n salted nt smoked	0.3	
340119	Othr surface actv prdcts and prpns	0.23	NL
30613	Shrimps & prawns frozen	0.22	NL
230220	Bran sharps & other residues of rice	0.19	NL
152000	Glycerol, crude; glycerol waters & lyes	0.16	
200410	Potatoes prpd/prsvd, frzn	0.15	

Source: DGCI&S, Government of India

INDIA'S IMPORTS FROM MALDIVES (Total imports of 1.98 US $ mn)			
HSCode	**Commodity**	**2005-2006 US $ million**	**position in NL**
720449	Other waste and scrap	0.72	
720429	Waste & scrap of other alloy steel	0.41	
740400	Copper waste & scrap	0.41	
440399	Other wood in rough	0.16	
760200	Aluminium waste and scrap	0.16	
150410	Fish liver oils & their fractions	0.03	
220429	Wine of fresh grapes(excl sparkling wine)	0.02	NL
722611	Flt-rld products of silicon electrical stl grain-oriented	0.02	
820210	Hand saws	0.02	
30420	Fish fillets(whether or not minced)frzn	0.01	
854810	Waste & scrap of primary cells, batteries & electric acumulators,spent primary cells batteries & spent electric accumulators.	0.01	
999300	Special transactions & commodities not classified according to kind	0.01	

(Source: WITS, UNCTAD)

BANGLADESH EXPORT TO WORLD 2004 WITS Total value for all products US$ 8267482023			
Product Code	**Description**	**Trade Value ($ '000)**	**position in NL**
610910	Of cotton	1,171,789.889	NL
620342	Of cotton	752,464.388	NL
611090	Of other textile materials	576,527.693	NL
620520	Of cotton	407,792.437	NL
30613	Shrimps and prawns	355,716.212	NL
620590	Of other textile materials	330,932.551	NL
620462	Of cotton	326,417.422	NL
611020	Of cotton	200,533.210	NL
610510	Of cotton	187,679.262	NL
620349	Of other textile materials	161,955.611	NL
530710	Single	113,774.531	
620690	Of other textile materials	111,481.069	NL
611030	Of manmade fibres	110,055.640	NL
620333	Of synthetic fibres	100,972.397	NL
620343	Of synthetic fibres	100,188.703	
620630	Of cotton	100,134.625	NL
620469	Of other textile materials	99,549.238	NL
530310	Jute and other textile bast fibres, raw or retted	86,318.902	
610990	Of other textile materials	72,910.734	NL
410449	Other	70,092.895	
610590	Of other textile materials	69,702.207	NL
650590	Other	61,567.881	
310210	Urea, whether or not in aqueous solution	56,174.257	
580219	Other	55,337.885	
610610	Of cotton	54,485.018	NL
630229	Of other textile materials	52,577.609	
620452	Of cotton	49,225.379	NL
620339	Of other textile materials	48,878.539	NL
610342	Of cotton	46,252.384	NL
610821	Of cotton	46,167.547	NL
871200	Bicycles and other cycles (including delivery tricycles), not motorised.	45,231.899	
610711	Of cotton	44,117.265	NL
531010	Unbleached	43,968.710	
630510	Of jute or of other textile bast fibres of heading 53.03	43,453.256	
610339	Of other textile materials	43,369.876	
620463	Of synthetic fibres	42,985.867	NL
410711	Full grains, unsplit	42,042.442	
620439	Of other textile materials	40,301.202	NL
410719	Other	38,565.125	
70990	Other	38,007.526	NL
560710	Of jute or other textile bast fibres of heading 53.03	36,321.540	
620432	Of cotton	35,085.941	

281410	Anhydrous ammonia	34,536.225	
621111	Men's or boys'	33,601.038	NL
620332	Of cotton	33,370.107	NL
620920	Of cotton	33,305.051	NL
410799	Other	32,520.666	
271011	Light oils and preparations	31,221.047	
620433	Of synthetic fibres	30,589.111	NL
630231	Of cotton	29,733.420	NL

(Source: WITS, UNCTAD)

MALDIVES EXPORT TO WORLD 2004 WITS Us $ 135603308			
Product Code	**Description**	**Trade Value ($ '000)**	**position in NL**
30343	Skipjack or strip-bellied bonito	59,520.161	
30232	Yellowfin tunas (Thunnus albacares)	18,372.041	
160414	Tunas, skipjack and bonito (Sarda spp.)	15,378.271	
30559	Other	11,492.381	
30410	Fresh or chilled	10,751.770	
30342	Yellowfin tunas (Thunnus albacares)	7,014.269	
30234	Bigeye tunas (Thunnus obesus)	5,268.665	
230120	Flours, meals and pellets, of fish or of crustaceans, molluscs or other aquatic invertebrates	1,400.118	
30269	Other	1,276.921	
30799	Other	992.770	
30199	Other	788.667	
30110	Ornamental fish	687.573	
890190	Other vessels for the transport of goods and other vessels for the transport of both persons and goods	654.497	
740400	Copper waste and scrap.	637.487	
720429	Other	489.626	NL
30344	Bigeye tunas (Thunnus obesus)	232.139	
760200	Aluminium waste and scrap.	185.666	
30510	Flours, meals and pellets of fish, fit for human consumption	181.477	
30420	Frozen fillets	115.180	NL
30379	Other	74.742	NL
800200	Tin waste and scrap.	24.599	
150410	Fish liver oils and their fractions	24.373	
721790	Other	15.889	
30549	Other	13.420	
30233	Skipjack or stripe-bellied bonito	4.928	
460290	Other	1.506	NL
210410	Soups and broths and preparations thereof	1.450	