# South Asian free trade area and its impact on exports of SAARC LDCs to India

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*The paper analyses the role of South Asian Free Trade Area (SAFTA) in promoting the export expansion of the Least Developed Countries (LDCs) of SAARC to India. Using the concept of revealed comparative advantage, the paper proceeds to determine the export structure of the LDCs which exhibit trade in similar product groups by the concerned countries and that these product groups form an insignificant share of India's total imports from the world. Moreover, most of these product groups can be produced efficiently by India as well. The export expansion of LDCs under SAFTA on the basis of such product groups is further constrained by the inclusion of some of these products in India's list of sensitive items prepared for the LDCs. Accordingly, the paper proceeds to identify certain measures for increasing the exports of LDCs to India. Revamping India's list of sensitive items in respect of certain product groups, promoting intra-industry trade and realising the importance of joint ventures could be suggestive means for enhancing the exports of LDCs to India under SAFTA.*

***Key words:*** *South Asian Association for Regional Cooperation, South Asian Free Trade Area, Least Developed Countries, Product Groups, Revealed Comparative Advantage, List of Sensitive Items, Intra Regional Trade, Intra-industry Trade, Joint Ventures*

## Introduction

The South Asian Association for Regional Cooperation (SAARC) is a cooperative arrangement between the countries of South Asia. At the time of its formation in 1985, seven countries, Bangladesh, Bhutan, Maldives, Nepal, India, Pakistan and Sri Lanka constituted the members of SAARC. Of late, however, Afghanistan has also been introduced as a member, making SAARC a cooperative arrangement between eight countries. In the beginning, the need to forge economic cooperation among the signatories was not one of the primary motives for SAARC. However, in course of time, the need to liberalize trade and enforce economic cooperation among the members was recognized. The SAARC Preferential Trading Arrangement (SAPTA) came into force in December 1995 by the way of partial tariff elimination on certain commodities to be traded between countries. The preferential trading arrangement was carried forward through four rounds of tariff reduction but SAPTA was however not much successful in promoting intra regional trade. In the year 1999, a report submitted by the Group of Eminent Persons (GEP) charted out a roadmap for converting SAARC Preferential Trading Arrangement (SAPTA) into South Asian Free Trade Area (SAFTA) thereby attempting to move from partial to complete tariff elimination programme. The Agreement on SAFTA was signed on 6$^{th}$ January, 2004 during the 12$^{th}$ SAARC Summit held at Islamabad. It has been made operational from 1$^{st}$ January, 2006. Though the move to SAFTA was primarily aimed at economically integrating the members through increased trade, whether SAFTA would indeed be an improvement over SAPTA, is an interesting issue to be explored in this context.

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Instead of trying to analyse the prospects of trade expansion under SAFTA among all the members of SAARC which most of the existing literature have explored, this paper has a limited scope. It specifically tries to analyse whether SAFTA would be able to ensure greater gains for the Least Developed Countries (LDCs) of SAARC in terms of their increased exports to the largest relatively developed country of the region, India. The five LDCs of the region, Afghanistan, Bangladesh, Bhutan, Maldives and Nepal are in need of special consideration due to their vulnerable position. Based on the notion that increased exports by the LDCs to the largest market of the region, India, would be able to ensure greater gains for the former in terms of their faster economic growth, the paper evaluates the potential of SAFTA for increasing the exports of LDCs to India.

Before proceeding with the analyses, there are two issues which should be pointed out at the very beginning. First, due to presence of bilateral trade arrangement between India and the LDCs, Bhutan and Nepal, which permit duty free movement of goods between the countries concerned and which came into operation prior to the formation of SAFTA, certain provisions of SAFTA may not be applicable to trade between India and the two LDCs.[1] Due to this reason in the later parts of the paper, while assessing the role of SAFTA regarding the expansion of exports of LDCs to India, these two LDCs have been ignored. Nevertheless, Nepal and Bhutan have been included in certain parts of this paper which could help the reader in determining the capability of all SAARC LDCs in exporting to India. Second, though Afghanistan is now one of the members of SAARC, relevant data for the country is not available. Hence, this paper could not explicitly explore the trade potential of Afghanistan under the SAFTA regime through data manipulation. But where ever possible, suitable suggestions for export expansion of Afghanistan to India have been made.

**The SAFTA Agreement: Its Specifications for the LDCs of SAARC**

The Agreement on SAFTA gave due recognition to the fact that the LDCs of the region required special attention. Hence, it reserved certain differential treatments for the LDCs in order to ensure that the move towards free trade does not harm them.[2] Adopting such an approach over the long run would make certain that the benefit from free trade gets equitably distributed among the members of SAARC. Since, this paper is chiefly concerned about the LDCs of SAARC, this section briefly explores certain specifications of the Agreement regarding the LDCs.

To begin with, the Agreement allowed a longer time frame for import tariff reduction for the LDCs compared to the non LDCs. It adopted a gradual two phase procedure for tariff elimination. In the first phase, which was to be completed by 2008, the agreement on SAFTA would require

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[1] For instance, India's list of sensitive items for the LDCs of SAARC would not be applicable to India-Nepal trade as the bilateral trade agreement permit free movement of goods between them with only a few quota restrictions (Sawhney & Kumar, 2008: page 17).

[2] United Nations announced that it would graduate Maldives from the list of LDCs to become a developing nation on account of its significant growth. It is expected to graduate from the list of LDCs by January 2011.

the non LDCs, India, Pakistan and Sri Lanka to reduce import tariff rates to 20% and the LDCs, Afghanistan, Bangladesh, Bhutan, Maldives and Nepal to 30%. In the second phase, tariffs rates would be further reduced to 0-5% by January 2013 for the relatively larger non LDCs like India and Pakistan, by January 2014 for the smaller non LDC, Sri Lanka, and by January 2015 for the LDCs of the region.[3] In addition, the Agreement made provision for a list of sensitive items that are to be maintained by each country and on which tariff would not be eliminated. Maintenance of such a list of sensitive items by each country would enable them to protect the interests of the domestic stakeholders. The sensitive lists would be reviewed after every 4 years or earlier with a view to reducing the number of items on the list in succession. It is to be noted, India maintains separate lists of sensitive items for the non LDCs and the LDCs of the SAARC region, with relatively fewer items in the latter list. Article 11 of the Agreement on SAFTA mentioned certain other special and differential treatment for the LDCs of the region, specifically designed to take care of the fact that the LDCs could gain from the cooperative arrangement with the non LDCs. Among others, the provision of technical assistance by the non LDCs, adoption of direct trade measures by the non LDCs to enhance the exports of LDCs, compensation by the non LDCs for the loss of customs revenue following tariff reductions by the LDCs, are parts of the Article 11.[4]

Whether the provisions of Article 11 are meaningfully exercised to benefit the LDCs, is an interesting matter of discussion. However, this paper would largely refrain from such discussions and instead try to evaluate the potential of SAFTA through commodity coverage of the arrangement.

**Review of Studies on the Prospects of a Free Trade Area in South Asia**

SAFTA has been launched with the ambition of liberalizing trade among the SAARC countries by progressing beyond a preferential trading arrangement. However, several economists had different opinions about the formulation of a free trade agreement in South Asia. Before proceeding further, a brief review of such studies would be of worth in this paper. Srinivasan (1994) asserts that the total trade would increase by 3% of GDP for India, by 59% of GDP for Nepal and in between for other countries, if tariffs on intra-South Asian trade are completely removed.[5] Pigato et al. (1997) using Global Trade Analysis Project (GTAP) model tried to assess the net welfare effects of a regional trading arrangement. They showed creation of a

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[3] In addition to tariff barriers, for the introduction of free trade into the region, the Agreement also stressed upon the identification of all forms of non tariff barriers and other discriminatory practices such as para tariff barriers during the first year of the implementation period. These should be phased out over the next 9 years by the LDCs and over 7 years by the non LDCs (Gupta, 2002: page 97). In addition, removal of structural impediments, harmonization of customs procedures and documentation , banking facilitation, improvement in port and transport facilities and facilitation of other trade related services, were recognized (Udagedera, 2001: page 25).

[4] For detailed discussion see Article 11 of Agreement on South Asian Free Trade Area.

[5] The composition of countries in South Asia as studied by Srinivasan (1994) are somewhat different from the composition of SAARC. But such discrepancies would not substantially alter the conclusions of Srinivasan (Wadhwa, 1999, 216).

free trade area in South Asia "*would be highly desirable*" and "*economic gains would be significant, especially for the smaller countries*" (Pigato et al., 1997, page 2). On the other hand, Bandara and Yu (2001) using the same GTAP model found that with tariff elimination in SAARC region, India would be the only country to realize significant welfare gains. The smaller countries such as Sri Lanka would see only marginal welfare gains and Bangladesh would lose.[6]

Some theorists are of the view that South Asia hardly satisfies the pre-conditions which are necessary for a Free Trade Area (FTA) to become fully operational. In this context, it is worth mentioning that the economic theory recognizes a number of criteria for the likely success of a FTA (Krueger et al., 2004). These include,

*(1)* *Geographic Proximity*: FTAs among closely situated countries have a high probability of success due to reduced transportation and communication costs.

*(2)* *High Pre-FTA Tariffs*: If the initial tariff rates are high then a similar percentage reduction in rates would ensure greater gains.

*(3)* *High Intra-Regional Trade*: The members of a FTA should be important trading partners before entering the arrangement.

*(4)* *Presence of Trade Complementarities*: There would be better prospects for intra-regional trade if the commodity groups produced in the region overlap or are interdependent.

*(5)* *Low political Tensions among the Member Countries*

*(6)* *Low Non Tariff Barriers*

South Asia satisfies only the first two criteria for the formation of a possible FTA while the other criteria go largely unrecognized (Krueger et al., 2004). Various studies have established the fact that the intra-regional trade of SAARC is very low. The intra-regional exports remained in the range of 4-5% of the region's total exports to the world as per World Development Indicators 2005, World Bank. It is to be noted, this estimate is based upon official trade data. The region is characterized by high degree of informal trade among the regional members which obviously is not captured by the official data. The actual estimate of intra-regional trade could be somewhat different if it is possible to incorporate the estimates of trade through informal channels. Pohit and Taneja assert that informal trade of India with the neighbouring countries of Nepal and Bangladesh would be at least as large as formal trade. In fact India, given its geographical size and location, trades illegally to a considerable extent, with all other SAARC countries (Taneja, 1999). Such illegal trade takes place in order to avoid not only

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[6] Welfare gains are measured by a combination of allocation efficiency gains, terms of trade effects and several other components. Allocation efficiency results from "increased access to cheaper imported goods and increase in gains from consumption" resulting from the removal of all tariffs. Terms of trade effect results from the changes in the prices of exports due to increased imports from tariff elimination. The study reveals that the smaller countries such as Bangladesh and Sri Lanka would loose from inefficient resource allocation under the framework of SAFTA. Sri Lanka would however gain from terms of trade effect which in effect would improve its total welfare marginally. But Bangladesh would loose from terms of trade effect which implies total welfare loss for the country (Bandara & Yu, 2001, 20-22).

tariffs but also port charges, warehouse charges, insurance etc. In addition, weak infrastructure in the form of poor warehousing facilities raises the cost of higher volumes of trade through formal channels, which induces informal trading (Pohit & Taneja, 2000). Several authors claim that the estimates of intra-regional trade would increase considerably if such informal trade could be brought within the ambit of formal trade. However, measurement of informal trade could be subject to errors and even if it could be measured somehow, the volume of intra-regional trade would not increase to a great extent (Pitigala, 2005).

The region is also characterized by poor trade complementarities.[7] Further, political tension and mistrust is inherent among the SAARC members, particularly between India and Pakistan and this could substantially hamper speedy implementation of SAFTA. An article in The Hindu on January 25, 2007 notes, till date Pakistan has refused to agree on a free trade with India and insists on trading with India on the basis of only a positive list which includes over 1000 items. Non tariff barriers still exist in various forms and account largely for low intra-regional trade.[8]

However, Krueger et al. (2004) express doubts about the fact that even the first two criteria might not actually ensure successful implementation of SAFTA. In their paper they summarize two factors commonly cited for this. Firstly, while geographic proximity could definitely account for the probable success of a FTA, it might also lead to political tensions and disagreement among the countries concerned. In fact this is what has happened in the South Asian region and could in effect impede the realization of the arrangement (Bandara & Yu, 2001). Further, geographic proximity does not always ensure increased intra-regional trade. For instance, Nepal and Bhutan are situated very close to each other but they hardly trade amongst themselves. Poor logistics and infrastructural facilities could be one of the reasons for it. Secondly, though high pre-FTA tariffs exist in the SAARC region, the goods that are meant for complete tariff liberalization under SAFTA are not highly traded within the region (Krueger et al., 2004).

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[7] Complementarities in trade would arise if the exports of one country match with the imports of another country. This in effects implies that the commodity groups produced by the members of a regional trade arrangement should be overlapping or interdependent. Theorists recognize the fact that if the class of commodities produced in a regional grouping overlap to a large extent, there will be allocation of resources in the most efficient direction, opening up possibilities of greater intra regional trade (Lipsey, 1960, 498-99). An example of two closely related commodity groups produced by two countries in a regional trade arrangement would be iron ore and steel where iron ore could be used as an input in the manufacture of steel. In this case one country is more efficient in the production of iron ore and another country is more efficient in manufacture of steel. Hence, one country could specialize in the production of iron ore and another country could specialize in the manufacture of steel by securing iron ore from the other. This would result in efficient allocation of resources. On the other hand, garments and steel produced by two countries are absolutely unrelated commodities which limit the scope for gainful trade among countries. Pitigala (2005) using trade data for India, Pakistan, Sri Lanka, Nepal and Bangladesh demonstrated the presence of low trade complementarities and high degree of competition in their export structure.

[8] India imposes non tariff barriers on imports from other SAARC nations in the form of laboratory tests, chemical tests, packaging and certification.

The problems of poor port and transport infrastructure which add to road or port congestion, and complex customs procedures which act as non-tariff barriers contribute in raising the cost for exporters (Sawhney & Kumar, 2008). This encourages the exporters to seek export opportunities outside the region. Wilson and Ostuki (2005) estimated that if infrastructure of South Asia could be brought halfway at par with that of East Asia, intra-regional trade would increase by about 60%.

The effectiveness of SAFTA in terms of application of duty preferences for partner countries is further complicated by involvement of South Asian countries in several other trade agreements, within as well as outside the region (Sawhney & Kumar, 2008). For instance, India has bilateral trade agreements with Bhutan, Nepal, Sri Lanka and Afghanistan, which were made effective even prior to the establishment of SAFTA. So, India's sensitive lists for LDCs under SAFTA do not seem to be applicable as these bilateral agreements are in place (Sawhney & Kumar, 2008). Further, negotiations are underway for a proposed free trade agreement between India and Bangladesh, hopefully to be signed in the year 2011. Policy makers are of the opinion that such an agreement would be able to address the problem of huge trade deficit that Bangladesh has with India. India is also involved in Bay of Bengal Initiative for Multi Sectoral Technical and Economic Cooperation (BIMSTEC) which comprises of four other SAFTA members – Bangladesh, Bhutan, Nepal and Sri Lanka; and two ASEAN members – Myanmar and Thailand.

Thus, the studies attempting to analyse the impact of a free trade arrangement in South Asia, do not converge on a single conclusion. Some claim that it could be a success while others are sceptical about it. However, the subsequent discussions attempt to identify whether, the scepticism about the benefits to be realized from the process of tariff elimination within SAARC is indeed justified and if so, whether some measures could be devised to make SAFTA more meaningful for the LDCs. This paper does not directly evaluate the effectiveness of SAFTA through net welfare effects which several studies have addressed. Instead it tries to assess the gains from SAFTA through several other established indirect methods as discussed in the later sections.

**Comparative Advantage and the SAARC LDCs**

The classical theory of comparative advantage predicts that countries would stand to gain from trade if they specialize along the lines of comparative advantage. Thus, free trade would enable the countries to maximize their welfare and also increase the world output, if each country would specialize and be net exporters of goods in which they possess comparative advantage. In the context of this paper, it becomes necessary to look at the concept of comparative advantage because "*the basic principle of international trade is that, when the process of opening up starts through step by step dismantling of tariff and non tariff barriers, each country would start switching over to patterns of production in which it has maximum comparative advantage*" (Gupta, 2002, page 102). This is quite obvious as with the opening up of the economy, certain products which have been protected so long by tariffs and non tariff measures, would not be able to face competition from other countries. Hence, instead of trying to sustain its interest in the production of such commodities, it would be beneficial for a country to concentrate in the production of those commodities in which it possesses substantial comparative advantage (Gupta, 2002). Thus, section III, tries to examine whether the products in which the LDCs of the region possess comparative advantages, can be exported in increased amounts to India within the SAFTA framework.

**The Concept of Revealed Comparative Advantage and its Role in Evaluating SAFTA**

For defining comparative advantage of a country, trade theory takes into account the relative autarkic prices. If the relative autarkic price is less than the world relative price of a commodity then the country would have comparative advantage in it and hence would be a net exporter of that commodity. If the sign is reversed then the country would be a net importer of that commodity, as it has comparative disadvantage in its production. However, the measurement of comparative advantage using autarkic price relationships is problematic as trade statistics pertain only to the post trade situations (Bender & Li, 2002). As a result, relative autarkic prices are unobservable. Thus, identification of comparative advantage based on autarkic relative prices is not feasible (Benedictis & Tamberi, 2001).

To overcome this problem, most studies seeking to analyse the specialization pattern of countries, employ Revealed Comparative Advantage (RCA) Indices developed by Balassa (1965). The Index assumes that the true pattern of comparative advantage can be identified from the available data which relate to the post trade situation.

The RCA of country i for product j is measured by j's share in country i's exports relative to its share in world trade, and given by the expression,

$$RCA_{ij} = (X_{ij} / X_i)/ (X_{wj} / X_w)$$

where $X_{ij}$ and $X_{wj}$ are the country i's exports and world exports of commodity j respectively. $X_i$ and $X_w$ are the total exports of country i and the world respectively. If the index has a value less than unity, it implies that the country has revealed comparative disadvantage in the concerned product while a value greater than unity suggests revealed comparative advantage in the product. Yeats (1998, 81) suggests that "*countries with different RCA index profiles should have more mutually beneficial trade opportunities than those where a high degree of similarity exists*." He further asserts, if the number of sectors in which the country has comparative advantage is low and aggregate trade in those sectors is insignificant as well, there would be very little prospect for a regional trade agreement to succeed.

Some studies have attempted to consider the potential of regional trade agreements in South Asian region using RCA indices. For instance, Kemal et al. (2000) note, excepting India, all other South Asian countries enjoy comparative advantage in a relatively narrow range of similar products. In addition, all South Asian countries lack comparative advantage in "*capital intensive and high value added products*" (Kemal et al., 2000, 22). Pitigala (2005) rules out any significant gain from the formation of FTA in South Asia by noting that there is very little intra-regional trade in products in which the South Asian countries have comparative advantages.

Likewise, an attempt is made over here to verify whether SAFTA would be able to ensure better trade opportunities for the SAARC LDCs with India, using the concept of RCA. For this, it is preferable to look first at the products in which the SAARC LDCs reveal comparative advantages and the shares of such products in the total imports of India from the world. Larger share of such products in total imports of India would be able to guarantee better prospects for future trade between the LDCs and India within the purview of SAFTA.

Before we proceed further, it is worth noting that the computed RCAs would be an ideal representation of the actual comparative advantages of a country, if the indices could be measured in an environment where there are neither tariffs nor non tariff barriers. Distortions in the form of tariffs and non tariff barriers do not reveal a country's true export potentials (Yeats, 1998). The RCA indices presented in the following discussions are computed using the data for the years 1998 and 2007 when a considerable portion of exports and imports were subjected to such distortions. As a result, the computed RCAs might be somewhat different from the actual RCAs. This is one limitation of our study. When SAFTA becomes fully operational, with the removal of tariffs and non tariff barriers, we might expect the computed RCAs to more closely reflect the true RCAs of the SAARC countries.

**RCA Profiles of LDCs of SAARC**

Table 1 provides a comparative study of the number of products groups in which the SAARC LDCs reveal comparative advantages and disadvantages and the shares of such product groups in the total imports of India from the world. The indices are computed using commodity trade figures at 3 Digit SITC Rev. 3 obtainable from the UN COMTRADE database and the International Trade Statistics Yearbook.

**Table 1**
**Summary of RCA Profiles of LDCs of SAARC and the Shares of considered Product Groups in the Total Imports of India.**

| Year | Country | No. of Product Groups in which the country has RCA>1 | Shares of such Product Groups in India's total imports from the World (%) | No. of Product Groups in which the country has RCA<1 | Shares of such Product Groups in India's total imports from the World (%) |
|---|---|---|---|---|---|
| 1998 | Bangladesh | 21 | 3.73 | 117 | 42.82 |
| | Bhutan | 21 | 5.63 | 73 | 30.45 |
| | Maldives | 10 | 0.12 | 7 | 1.81 |
| | Nepal | 26 | 8.97 | 38 | 6.18 |
| 2007 | Bangladesh | 31 | 5.21 | 194 | 53.97 |
| | Bhutan | n.a. | n.a. | n.a. | n.a. |
| | Maldives | 7 | 1.46 | 6 | 1.37 |
| | Nepal | n.a. | n.a. | n.a. | n.a. |

*Note: (1) Indices computed as per the method described in the text.*

*(2) n.a. implies data not available.*

*(3) Though Afghanistan is currently one of the SAARC LDCs, it has not been included in the table due to non availability of data for any of the years considered.*

As evident from the table 1, in case of both Bangladesh and Bhutan, India's total imports consist chiefly of those product groups in which these two LDCs reveal comparative disadvantage. India imports very little of those product groups in which Bangladesh and Bhutan reveal comparative advantage.

From the available data it is possible to infer, Maldives would not be able to gain significantly through commodity trade with India as the products of its export interest constitute a very small segment of the total imports of India from the world.

The product groups in which Nepal reveals comparative advantage however has a higher share in total imports of India compared to the other countries. But the share is not high enough to ensure considerable export prospects to India from Nepal.

It might be of significance here to determine the types of commodities in which the SAARC LDCs have a revealed comparative advantage. Table 2 classifies the number of products groups in which the countries have RCA>1, into primary commodities and manufactures.

**Table 2**
**Number of Primary and Manufactured Product Groups in which the SAARC LDCs have RCA>1**

| Year | Country | Primary Product Groups | Manufactured Product Groups |
|---|---|---|---|
| 1998 | Bangladesh | 5 | 16 |
| | Bhutan | 15 | 6 |
| | Maldives | 5 | 5 |
| | Nepal | 11 | 15 |
| 2007 | Bangladesh | 11 | 20 |
| | Bhutan | n.a. | n.a. |
| | Maldives | 7 | 0 |
| | Nepal | n.a. | n.a. |

*Note:* *(1) n.a. implies data not available.*

*(2) Primary commodities include SITC 0,1, 2, 3, 4, 68, 667 and 971. Manufactures include SITC 5, 6, 7, 8 less 667 and 68 as per the classification adopted by UNCTAD.*

*(2) Though Afghanistan is currently one of the SAARC LDCs, it has not been included in the table due to non availability of data for any of the years considered.*

It would be evident from table 2, manufactures have a higher share in the list of product groups in which both Bangladesh and Nepal have RCA>1. In case of Bangladesh, some of these products are leather, textile yarns and fabrics, readymade garments and footwear. Nepal on the other hand has RCA>1 in dyeing and tanning extracts, textiles fabrics and yarns, floor coverage, readymade garments. These are all low skilled manufactures. Bhutan on the other hand, reveals comparative advantages chiefly in primary commodities. From the available data it might be possible to infer that Maldives too has a greater extent of comparative advantage in primary products. Aquatic products are the major primary commodities produced and exported in abundance by Maldives. Bhutan reveals comparative advantages in a variety of food items such as flour, vegetables, fruits and nuts, spices. Beverages, stone, sand and gravel, minerals, coal, ferrous waste and scrap, fuel wood and wood used for other purposes, are the other primary products in which Bhutan reveals comparative advantage. It might be of importance here to mention some of the manufactures in which Maldives and Bhutan have RCA>1. In case of Bhutan, the products are inorganic chemicals, essential oils, plywood, lime, cement, construction materials, iron and steel and furniture and bedding. Maldives on the other hand reveals comparative advantage chiefly in readymade garments.

The above analysis reveals that the SAARC LDCs exhibit comparative advantage on more or less similar product categories. For instance, Bangladesh, Maldives and Nepal reveal comparative advantages in garments and textile articles; Bangladesh and Maldives in aquatic products. Bhutan however has RCA>1 for a number of product groups which are different from other countries.

To summarize, the SAARC LDCs reveal comparative advantages in a narrow range of similar products. Further, the products fall either in the category of primary commodities or low-skill-labour-intensive manufactures which are not imported in large amounts by India. India imports more of those commodities from the world which are at a comparative disadvantage with the SAARC LDCs. Hence, following Yeats (1998), it is possible to conclude that the prospects for significant intra-regional trade expansion, in terms of boosting the exports of products from LDCs to India, are meagre indeed.

**Hindrances to Free Trade due to the List of Sensitive Items**

Developing free trade between India and the LDCs of SAARC on the basis of products which could be supplied by the latter efficiently is questionable, as some of these items are included in the list of sensitive products prepared by India under the SAFTA Agreement for the LDCs of the region. As such, India would not be allowing duty free import of these products from the LDCs, in order to protect the domestic stakeholders. For instance, India rules out tariff elimination on a number of aquatic products even though Maldives reveals significant comparative advantage in these products. Similar argument can be put forward for Bangladesh which also reveals some comparative advantage in the production and export of aquatic products. Again, Bangladesh reveals comparative advantage in garments and textile fabrics, yet tariff elimination on these products has been ruled out by India. The table 3 provides a summary of the list of commodities which have been excluded from complete tariff removal by India and the respective names of SAARC LDCs who can produce these commodities efficiently (RCA>1). The products in which the LDCs reveal comparative advantage relate to the year 2007, the last year of analysis in this paper. The subsequent study does not consider Nepal and Bhutan due to the reasons stated at the beginning of the paper.

**Table 3**

**Products in the Sensitive List of India meant for the SAARC LDCs and the LDCs with RCA>1 on those Products.**

| Products in the Sensitive List of India | Countries with RCA>1 |
|---|---|
| Aquatic Products (particularly prawns, fresh or frozen fish) | Maldives and Bangladesh |
| Tea and mate | Bangladesh |
| Garments and textiles fabric materials | Bangladesh |
| Footwear | Bangladesh |
| Zinc oxides | Bangladesh |
| Lead waste and scrap | Maldives |

*Source: India's Revised Sensitive List under SAFTA for Least Developed Contracting States as on 1st June 2006. Though Afghanistan is currently one of the SAARC LDCs, it has not been included in the table due to non availability of data.*

The above table shows, India has refused to eliminate tariffs on a number of commodities in which Bangladesh and Maldives reveal comparative advantages (RCA>1). Hence, these two LDCs would not be able to increase their exports of such products to India within the purview of SAFTA Agreement.

Though Afghanistan could not be incorporated in the above table due to the non availability of data, it is still possible to identify certain product categories which might be facing hindrances to free trade with India within the framework of SAFTA. Afghanistan's primary exports constitute fresh fruits, dry fruits, carpets, precious stones, animal hides and skins. Certain fresh fruits like apple, cherries, peaches, plums, grape fruits etc. are included in India's list of sensitive items. Among dry fruits, dates, cashew nuts and walnuts figure in India's sensitive list.[9]

Thus, to sum up, not only the products in which the SAARC LDCs reveal comparative advantage constitute a very insignificant share of the total imports of India, the SAFTA Agreement through the list of sensitive items further ensures that there will be rather small opportunities to long term gainful trade between the SAARC LDCs and India.

**Possibilities for Expanding the Exports of LDCs to India**

It has been substantiated in the previous discussions that there are considerable similarities in the export structure of the LDCs of SAARC. This exists in addition to their meagre opportunities to trade with the most developed country of the region, India, within the purview of SAFTA. Nevertheless, it is of significance here to determine how and on the basis of what products the LDCs can look forward to enhancing their exports to the Indian market.[10] Once such products have been identified, the Agreement on SAFTA can modify its modalities to enhance the LDCs' exports to India.

**Identifying Products for Trade Enhancement with India**

Tables 4 list the commodities in which the SAARC LDCs reveal comparative advantages and simultaneously provide information on whether India reveals comparative advantage on those products. Afghanistan does not figure in this table due to the problem of non availability of data. The product groups in which the SAARC LDCs reveal comparative advantages (RCA>1) but not India, do have the potential for increasing the exports of the former to India. The study relates to the last year of analysis 2007. A somewhat similar approach has been adopted by Kemal et al (2000) in determining prospective products for intra-regional trade expansion. But while they considered trade enhancement among all the regional partners, here we proceed to determine only products for trade expansion between India and the LDCs.

[9] Fresh fruits like apples, apricots, pomegranates and dry fruits like walnuts, apricots and almonds have been granted 50% import tariff concession by India under its bilateral preferential trade arrangement with Afghanistan. But India's list of sensitive items under SAFTA further ensures that 100% tariff concession would not be allowed on such products which are essential in order to boost the exports of Afghanistan to India within the purview of SAFTA (Ministry of Commerce and Industry and SAARC Secretariat).

[10] As mentioned before, due to the presence of bilateral trade arrangement of India with Nepal and Bhutan this section would be concentrating exclusively upon Bangladesh and Maldives with whom India does not have any free trade arrangement.

**Table 4**
**Groups in which the SAARC LDCs Reveal Comparative Advantages & the corresponding RCA Indices of India for the Year 2007**

| SITC Codes | Product Groups | LDCs with RCA>1 | RCA Indices of India |
|---|---|---|---|
| 034 | Fish, fresh (live or dead), chilled or frozen | Bangladesh (1.31), Maldives (261.36) | 0.96 |
| 035 | Fish, dried, salted or in brine; smoked fish | Bangladesh (6.25), Maldives (267.78) | 0.23 |
| 036 | Crustaceans and molluscs, fresh, chilled, frozen, salted, in brine or dried | Bangladesh (29.62), Maldives (4.98) | 4.90 |
| 037 | Fish, crustaceans and molluscs, prepared or preserved, n.e.s. | Maldives (83.66) | 0.95 |
| 054 | Vegetables | Bangladesh (1.36) | 1.20 |
| 074 | Tea & mate | Bangladesh (2.75) | 8.14 |
| 081 | Feed stuff for animals (not including unmilled cereals) | Maldives (3.20) | 3.70 |
| 121 | Tobacco, unmanufactured; tobacco refuse | Bangladesh (2.52) | 3.58 |
| 263 | Cotton | Bangladesh (13.02) | 12.59 |
| 264 | Jute and other textile bast fibres | Bangladesh (904.69) | 2.59 |
| 265 | Vegetable textile fibres & waste of such fibres | Bangladesh (2.87) | 3.38 |
| 269 | Old clothing & other old textile articles; rags | Bangladesh (1.42) | 0.09 |
| 282 | Ferrous waste and scrap | Maldives (3.56) | 0.05 |
| 288 | Non-ferrous base metal waste `& scrap, n.e.s. | Maldives (3.49) | 0.12 |
| 292 | Crude vegetable materials, n.e.s. | Bangladesh (1.70) | 2.37 |
| 522 | Inorganic chemical elements, oxides & halogen salts | Bangladesh (1.10) | 0.62 |
| 562 | Fertilizers | Bangladesh (2.05) | 0.04 |
| 579 | Waste and scrap of plastic | Bangladesh (2.06) | 0.28 |
| 611 | Leather | Bangladesh (12.25) | 2.95 |
| 651 | Textile yarn | Bangladesh (6.33) | 5.94 |

*Contd.*

| SITC Codes | Product Groups | LDCs with RCA>1 | RCA Indices of India |
|---|---|---|---|
| 652 | Cotton fabrics woven | Bangladesh (4.23) | 2.99 |
| 654 | Other textile fabrics, woven | Bangladesh (5.81) | 3.98 |
| 657 | Special yarns, special textile fabrics & related products | Bangladesh (1.61) | 0.57 |
| 658 | Made-up articles wholly or chiefly of textile materials | Bangladesh (11.12) | 5.85 |
| 666 | Pottery | Bangladesh (4.73) | 0.19 |
| 735 | Parts for machine tools | Bangladesh (2.97) | 1.02 |
| 785 | Motorcycles, motor scooters & invalid carriages | Bangladesh (1.47) | 1.06 |
| 841 | Men, boys' clothing, not knitted | Bangladesh (53.47) | 2.45 |
| 842 | Women, girls' clothing, not knitted | Bangladesh (18.02) | 3.70 |
| 843 | Men, boys' clothing, knitted | Bangladesh (28.44) | 3.49 |
| 844 | Women, girls' clothing, knitted | Bangladesh (16.65) | 2.15 |
| 845 | Other textiles, apparels | Bangladesh (31.34) | 1.98 |
| 848 | Articles of apparel & clothing accessories of non-textile fabrics, headgear | Bangladesh (3.42) | 2.46 |
| 851 | Footwear | Bangladesh (1.75) | 1.62 |
| 892 | Printed matter | Bangladesh (1.26) | 0.49 |

*Note: (1) RCA indices of India computed as per the method described in the text using 3 digit SITC Rev. 3 data available from UN COMTRADE Database & International Trade Statistics Yearbook 2008.*

*(2) Values of the RCA Indices for the LDCs represented within brackets in the third column of the table.*

A study of table 4 suggests, there are certain product groups namely, fish (034, 035), old clothing and other old textile articles (269), inorganic chemical elements, oxides and halogen salts (522), fertilizers (562), waste and scrap of plastic (579), special textile fabrics and related products (657), potteries (666) and printed matter (892), which can be imported by India from Bangladesh. India can import fish (034, 035, 037), ferrous waste and scrap (282) and wastes and scrap of non ferrous base metals such as copper, nickel, aluminium, lead etc (288) from

Maldives.[11] It is to be noted further, though India reveals some comparative advantage in readymade garments (841, 842, 843, 844, 845), the value of its RCA indices for these product groups falls far below that of Bangladesh. Hence, there is still scope for developing trade between India and Bangladesh on the basis of such product groups.[12]

It is an area of further research, as to why RCA indices for certain product groups for the LDCs are different from India. For instance, Bangladesh reveals higher comparative advantage in textile fabrics and even higher in readymade garments than India. It is believed, Bangladesh has a lower labour cost and better economies of scale compared to India. According to the Apparel Export Promotion Council (AEPC), while the labour cost in India is 62 US cents per hour, it is only 27 US cents in Bangladesh. Moreover, on an average, Bangladesh has larger factories which are more productive as compared to India (Lorna, Fashion Industry Network Blog, comment posted September 26, 2006). Even Maldives has greater comparative advantage than India for most of the aquatic products. This is quite expected as Maldives is an island and fishing is the second largest industry in the country. The per capita production of aquatic products was 0.62 tonnes in the year 2005 in Maldives while in India it was merely 0.0061 tonnes. India is a vast country with diverse industrial structure. So despite having access to numerous inland water bodies and marine resources, the focused development of the fishing industry has not perhaps been achieved. Maldives on the other hand has concentrated on the development and up-gradation of its fishing industry which provides employment to roughly 50% of its population. Even Bangladesh in the year 2005 recorded a per capita production of 0.01 tonnes of aquatic products which is higher than India and hence the country's higher comparative advantage in some aquatic products compared to India is quite justifiable.[13] Moreover, the comparative advantage of Bangladesh in fertilizers could be explained by it huge reserves of natural gas. The per capita production of natural gas in Bangladesh in the year 2007 was about 99.52 cubic meters which is higher than the per capita production of India of about 28.18 cubic meters.[14] These are some of the points to be noted and perhaps future research could concentrate in evaluating the factors responsible for the above mentioned phenomenon.

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[11] Among waste & scrap of non ferrous base metals, waste and scrap of lead is included in India's list of sensitive items yet India reveals comparative disadvantage in it (consider item 288 in table 4). Among inorganic chemical oxides and salts, zinc oxide is incorporated in the list though India reveals comparative disadvantage in it (consider item 522 in table 4). Even certain aquatic products like frozen Hilsa fish, Ribon fish, Ghole fish, Croacker fish, are included in India's list of sensitive items though India does not reveal comparative advantage in them (consider item 034 in table 4).

[12] In this context, it is to be noted, Yeats (1985) pointed out that smaller countries tend to exhibit higher RCA values in a particular product than larger countries. Hence application of Balassa's Index of Revealed Comparative Advantage for inter country comparison might be misleading. It is an area of further research whether suitable modifications of the Balassa's Index would generate results contrary to those depicted in the text.

[13] Total production of aquatic products for the countries accessed from Global Production Statistics (online query), FAO.

[14] The data for total production of natural gas accessed from The World Factbook 2009, CIA. These are estimated values for the year concerned. Population data accessed from World Development Indicators, 2009.

In the context of the present discussion, it is worth noting that there are certain product groups, for instance, fruit and nuts, certain plastic products, textile yarns, woven cotton fabrics, which witnessed spectacular increase in exports from Bangladesh to India between the years 2003 and 2005 after 50% and above import tariff concessions being allowed by India on such products under SAPTA. During the same period with similar concessions being allowed, certain aquatic products particularly, fresh, frozen or chilled fish, from Maldives recorded quite high increase in exports to India. These products should perhaps deserve special consideration while exploring the possibilities of increased exports to India from the above two LDCs under free trade arrangement.

In effect, the LDCs of the region, Bangladesh and Maldives have some prospect for increasing their exports to India on the basis of the above mentioned product groups, within the purview of SAFTA.

**Means to Increase the Exports of the SAARC LDCs to India within the Purview of SAFTA**

It is now the primary concern of the SAARC Secretariat to explore ways to increase the trade of regional LDCs with India on the basis of the product groups mentioned above. Considering the presence of bilateral free trade arrangements between India and the two LDCs, Bhutan and Nepal, the SAARC Secretariat can look forward to ways for increasing the exports of the LDCs Afghanistan, Bangladesh and Maldives to India under SAFTA.

***Revamping the List of Sensitive Items***

First and foremost, India must revamp its list of sensitive items applying to imports from LDCs. Discussions above show that there are possibilities for importing fish, chemical oxides, garments and textile fabrics by India from Bangladesh. But these items are included in the list of sensitive products. Similarly, the potential exports of Maldives such as aquatic products and waste and scrap of non ferrous base metals are included in India’s list of sensitive items. Products like fresh fruits and dry fruits exported by Afghanistan are also incorporated in the list of sensitive items. Hence, eliminating these items from the list and permitting duty free entry of these products could perhaps enable these countries to export more to the Indian market.

***Intra-Industry Trade***

Simple duty elimination would not be able to guarantee increased trade between the LDCs and India as the countries have more or less similar export structure. Hence, it becomes necessary to determine ways in which it is possible to increase the exports of LDCs to India through these similar products groups. One possible means is through intra-industry trade. Accordingly, the countries specializing in similar products could still trade amongst themselves through the exchange of differentiated products of the same product group. This enables the countries to reap the benefits of economies of scale in production. Each country could specialize in the production of one or a few varieties or styles of the same product instead of different varieties and styles. This would keep the unit cost low for a country since, for a few products more specialized and faster machines could be developed (Salvatore 2001, 177). The country could then import other varieties and styles from other countries.[15] To determine the product groups on the basis of which intra-industry trade between India and Bangladesh could be developed, we consider only those product groups in which both India and Bangladesh reveal comparative advantages (RCA>1). Similarly for determination of intra-industry trade between Maldives and India, we consider only those product groups in which both of them reveal comparative advantages. Intra-industry trade in such commodities would be able to bring forth larger gains for both the participants. To identify the products on the basis of which India and the LDCs could involve in intra-industry trade amongst themselves, the following analysis makes use of the Grubel Lloyd Index developed by H.G. Grubel and P.J. Lloyd (1975). The Grubel Lloyd Index for intra-industry trade in product h between the countries i and j is stated as

$$B_{ij}^{h} = [\{(X_{ij}^{h} + M_{ij}^{h}) - \%X_{ij}^{h} - M_{ij}^{h}\%\} / (X_{ij}^{h} + M_{ij}^{h})]$$

where $X_{ij}^{h}$ is the exports of product h by country i to country j and $M_{ij}^{h}$ is the imports of product h by country i from country j. The index ranges between zero and 1. It takes the value zero when there are exports but no imports or vice versa implying complete specialization in trade by one of the countries and hence rules out the possibility of intra-industry trade. Higher the value of the index, greater the possibility of intra-industry trade between the concerned countries. The index takes the value 1 when the exports are exactly equal to the imports of an industry.[16] Table 5 tries to identify the possibilities for intra-industry trade between India and Bangladesh, based on the data at 3 Digit SITC Code Rev.3 for the year 2007 available from the UN COMTRADE database.

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[15] There is an extensive literature on the issue of intra-industry trade. Interested readers can refers to some of them e.g., Krugman (1979), Dixit & Norman (1980), Falvey (1981) for theoretical explanations of intra-industry trade.

[16] Wadhwa et al (1987, 46) identify several problems in the measurement of Grubel Llyod Indices. Firstly, "*the index is sensitive to the definition of industry adopted. In general, the more aggregative the product grouping, the greater the extent of overestimation of intra-industry trade.*" Such problems can be avoided by making use of the Grubel Llyod Indices at three digit SITC level of product grouping instead of one digit, which the present paper has attempted. Secondly, certain measurement problems arise when "*trade imbalances are very large at the level of industry being considered.*" This is ignored in the present analysis.

**Table 5**
**Index of Intra-Industry Trade between Bangladesh and India for the Year 2007**

| SITC Code | Product Group | Index |
|---|---|---|
| 036 | Crustaceans and molluscs, fresh, chilled, frozen, salted, in brine or dried | 0.672 |
| 054 | Vegetables | 0.000 |
| 074 | Tea and mate | 0.000 |
| 121 | Tobacco, unmanufactured; tobacco refuse | 0.000 |
| 263 | Cotton | 0.121 |
| 264 | Jute and other textile bast fibres | 0.004 |
| 265 | Vegetable textile fibres & waste of such fibres | 0.000 |
| 292 | Crude vegetable materials, n.e.s. | 0.041 |
| 611 | Leather | 0.995 |
| 651 | Textile yarn | 0.062 |
| 652 | Cotton fabrics woven | 0.095 |
| 654 | Other textile fabrics, woven | 0.079 |
| 658 | Made-up articles wholly or chiefly of textile materials | 0.147 |
| 785 | Motorcycles, motor scooters & invalid carraiges | 0.000 |
| 841 | Men, boys' clothing, not knitted | 0.363 |
| 842 | Women, girls' clothing, not knitted | 0.144 |
| 843 | Men, boys' clothing, knitted | 0.380 |
| 844 | Women, girls' clothing, knitted | 0.000 |
| 845 | Other textiles, apparels | 0.311 |
| 848 | Articles of apparel & clothing accessories of non-textile fabrics, headgear | 0.591 |
| 851 | Footwear | 0.138 |

*Source: UN COMTRADE Database. Note: (1) Indices calculated by the method described in the text.*

Thus, there are possibilities for developing intra-industry trade between India and Bangladesh on the basis of certain aquatic products, certain readymade garments, leather and articles of apparel and clothing of non textile fibres. Areas of intra-industry trade between Maldives and India could not be determined due to the non availability of relevant bilateral trade data. Since data for Afghanistan are unavailable, it would be difficult to suggest areas of intra-industry trade between India and Afghanistan based upon the Grubel Lloyd Index for intra-industry trade. The Agreement on SAFTA should try to identify particularly the above mentioned product groups and ensure the fact that intra regional trade among concerned countries could be enhanced on the basis of intra-industry trade in such product groups.

***Joint Ventures***

Joint ventures with buy-back arrangements could be viewed as another instrument for enhancing intra-regional trade in cases where trade complementarities are low and countries possess comparative advantage in more or less similar products. In fact joint ventures are believed to promote south-south cooperation as they enable mobilization of "*much needed capital, technology, entrepreneurship and organizational resources of the relatively more industrialized developing countries, for the lesser developed ones*" (Panchamukhi at al., 1990, 127). Such a measure by facilitating optimum mobilization of resources of developing countries, could promote mutually beneficial trade among them. In the process, joint ventures between countries can also create trade complementarities (INDLAW). Creation of such complementarities has the potential to boost trade between the countries concerned. Thus, based on the above arguments, promoting joint ventures within SAARC region has been viewed as one of the means for enhancing intra-regional trade. It is believed, only India in the SAARC region has the "*necessary experience, expertise, technology and capital to invest and set up joint ventures*" with other SAARC members (Dash, 1996). Hence, India could set up joint ventures with the LDCs Afghanistan, Bangladesh and Maldives, with a view to create trade complementarities. That is to say, these collaborative measures must create products which could be exported back to India by the LDCs.

For the success of the above strategy, the LDCs must possess some locational advantages for producing those products, which India itself does not possess. For instance, India is energy deficient while Bangladesh has huge reserves of natural gas. India could thus seek to enter into a collaborative arrangement with a Bangladeshi firm in order to produce a product which uses natural gas as its energy base. Sponge iron is one such product. Sponge iron produced in Bangladesh, could be exported back to India. It could then be used in the manufacture of steel by the Indian companies within India. Fertilizer is another product which India could look forward to for manufacturing in Bangladesh (Mukherjee, 2001, 40). Given the fact that Bangladesh reveals comparative advantages in textile fabrics, India could enter into joint ventures with Bangladesh in manufacture of these products in Bangladesh. In addition, the fact that Bangladesh has relatively higher comparative advantage than India in production of readymade garments, which could be explained by the country's lower labour cost and better economies of scale, it leaves behind the scope for joint ventures between India and Bangladesh for producing readymade garments. Joint ventures between Bangladeshi textile fabric and garments manufacturers and Indian textile and readymade garments machinery manufacturers can be viewed as some of the possibilities (Mukherjee, 2001, 40). The textile fabrics produced in the process in Bangladesh could then be exported to India for production of higher value added and more diversified manufactures. Complementarities in trade could be created in this manner.

Maldives on the other hand reveal comparative advantage in aquatic products and as pointed out in the beginning of this section, the country's comparative advantage in most of the aquatic products is significantly higher than India. Being an island country, the per capita production of fish is very large as compared to India. Hence, Indian food processing firms could look forward to setting up joint ventures with Maldives' fisheries industry. Raw materials by the Indian food processing firms can be acquired at a much cheaper rate and such joint ventures open up prospects for exports of higher value added products from Maldives to India.

Apart from Bangladesh, Afghanistan is another country in the SAARC region which is believed to have huge reserves of natural gas.[17] Hence, as in the case of Bangladesh, similar recommendations for collaborative arrangements between India and Afghanistan can be made for producing products which use natural gas as its energy base.

Thus, the Agreement on SAFTA should try to promote joint ventures in the above identified areas. However, the discussions above are merely proposals and perhaps extensive research is required to establish the effectiveness of possible joint ventures.

## Summary and Conclusion

The Agreement on SAFTA which superseded the SAPTA, has been launched with the ambition of forging further economic cooperation in the SAARC region. However, under the present circumstances, there are very little opportunities for securing added gains for the Least Developed Countries (LDCs) of SAARC in terms of their improved exports to India. The products in which the LDCs reveal a comparative advantage constitute a very small fraction of the total imports of India from the world. India imports more of those products in which the LDCs do not reveal comparative advantages. Although at the fourteenth SAARC Summit held in New Delhi on 03-04 April 2007, India promised tariff elimination on products importable from the SAARC LDCs by the end of the year, the fact that India is not a major importer of products produced efficiently by SAARC LDCs, particularly Bangladesh and Maldives, mere tariff elimination would not contribute much towards increasing the exports of LDCs to India. Further, the size and composition of India's list of sensitive items are such that it limits any possibilities for enhancing the exports of those products either from Bangladesh or from Maldives or from Afghanistan to India. Under such circumstances, concerted efforts are needed to ensure that export expansion occurs from the SAARC LDCs to India within the purview of SAFTA. Accordingly, subsequent discussions in this paper try to determine means

[17] The US Geological Survey and Afghan Ministry of Mines and Industry reported in 2006 that reserves of natural gas in northern Afghanistan range from 3.6 to 36 trillion cubic feet (Blank, 2006).

for making SAFTA more meaningful for the LDCs. First of all, it identifies the products, of which India is not an efficient producer but Maldives and Bangladesh are. It becomes necessary to eliminate these products from India's list of sensitive items, so as to increase the LDCs' exports to India on the basis of such products. Moreover, it is also necessary to exclude those products from India's sensitive list, in which the extent of comparative advantage of the LDCs is much greater compared to India. Further, it is crucial to give added importance to those products which witnessed spectacular increase in exports from LDCs to India under the preferential trading regime prevalent before the introduction of SAFTA. At the fourteenth SAARC Summit, India also committed to reduce the number of sensitive items considerably in respect of the LDCs. The SAARC Secretariat while preparing the new list of sensitive items, should give prior importance to such identified products. India in August 2008 agreed to eliminate 264 items from the initial list of 744 items but how far the new list complies with the requirements of the LDCs, is an interesting issue to be explored in the future. Secondly, since the countries reveal comparative advantages in more or less similar products, mere tariff duty elimination would not be able to ensure much increase in the LDCs' exports to India. Promoting intra-industry trade between India and the LDCs, is one way out. Thirdly, in the presence of low trade complementarities between India and the LDCs, encouraging joint ventures with a view to create trade complementarities between them, would be much useful. Such measures would perhaps help in increasing the shares of LDCs' exports to India and enable the former to reap the benefits of the free trade agreement.

Though not extensively explored in this paper, India must also look into the issue of non tariff barriers and other restrictive practices such as para tariff barriers and rules of origin and ensure that such barriers in any form must no longer hamper the free flow of goods from the LDCs to India. India must make sure that the products on which it guarantees zero import duty do not have to face unnecessary restrictions through unfair non-tariff and para-tariff measures or complex rules of origin. Though there exists some justification for imposing specific testing or certification requirements by the importing country, care must be taken to ensure that such specifications for India's imports from these LDCs must comply with the corresponding specifications for the same products produced domestically. But it would perhaps be unjustifiable to set these specifications at the level of the products imported from highly developed countries, say the USA.

As underdeveloped infrastructure and poor connectivity among the countries of South Asia is one of the reasons for hindrances to intra-regional trade, cooperation in the transport sector in the form of a common transport policy, as suggested by De (2005), might help in improving the communication facilities. Hence, it is also important on the part of LDCs to upgrade their infrastructure, ensure proper connectivity with India, and simultaneously encourage the development of appropriate managerial capabilities and higher skills among workers, so that they can readily meet the import demand of India. In this respect too, India can come forward for providing appropriate technical and financial assistance which would help in improving the trade participation of LDCs. India must also take appropriate steps in simplifying its customs and border procedures so that they do not create unnecessary hurdles for the LDCs, thereby encouraging the inclusion of more and more informal trade within the ambit of formal trade.

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