Chapter 4

INDIA AS A MAJOR PLAYER

4.1 OVERVIEW OF THE INDIAN ECONOMY

4.1.1 Increasing Export Competitiveness

According to the most common approach to assessing competitiveness (i.e., the index of revealed comparative advantage), India has maximum comparative advantage in (in order) organic chemicals; cotton; articles of apparel; accessories not knit or crochet; and nuclear reactors, boilers, and machinery. In 2003, iron and steel emerged as one of India's most competitive sectors.

The World Economic Forum's 2004/05 Global Competitiveness Report has two indices: the growth competitiveness index and the business competitiveness index. The growth competitiveness index measures the capacity of an economy to achieve sustained economic growth over the medium term. The index comprises technological capacity, quality of public institutions, and quality of the macroeconomic environment. In contrast, the business competitiveness index, examines the microeconomic basis of a nation's per capita GDP that is sustainable in the long term, comprising the degree of company sophistication and the quality of the national business environment. Both measures show that India is relatively well placed, in the middle, higher than other South Asian countries (Table 4.1).

4.1.2 Growing Importance of Asia as an Export Destination

The destination pattern for India's exports changed remarkably in the 2000 to 2004 period. The importance of developing countries as markets for India's exports has increased considerably since 2000

(Table 4.2). Although most major Indian exports are still destined for the United States, exports to Asian countries have increased sharply since 2002, largely driven by the improved macroeconomic performance of Asian economies and the consequent increase in demand. Sri Lanka and Bangladesh were among India's top 10 export destinations in 2003/04. India's exports to Bangladesh grew twice as fast in 2004 compared to the previous year (Table 4.3).

Table 4.1 Competitiveness Indices Ranking

Competitiveness Index	Sri Lanka	Pakistan	Bangladesh	India
Growth competitiveness	73	91	102	55
Technology	81	87	100	63
Public institution	72	102	104	53
Macroeconomic environment	73	67	74	52
Business competitiveness	68	73	95	30
Company operations and strategy	69	67	97	30
Quality of the national business environment	67	75	94	32

Source: World Economic Forum. *Global Competitiveness Report, 2004/2005.*
Note: Smaller values indicate better ranks.

Table 4.2 Share of Developing and Asian Countries in India's Trade (%)

Exports	2000	2001	2002	2003	2004
Developing countries	43.38	43.75	44.19	45.78	53.48
Asia	20.65	23.15	23.49	25.36	28.31

Source: Direction of Trade Statistics, Yearbook, various issues.

4.1.3 Shift in Composition as Import Restrictions Ease

The composition and structure of India's imports have changed since 1991 (Table 4.4). With the move from import substitution towards trade based on comparative advantage, the previous policy emphasis on determining which imports are essential and which are not, has diminished. The greater competitiveness of Indian industry has led to a decline in imports of low and medium-technology-intensive products. Simultaneously, imports of high

Table 4.3 India's Top 10 Export Destinations: India's Export Growth Rate and Destinations' GDP Growth

Rank	Country	India's Export Growth		Destination Country's Real GDP Growth	
		2003/04	2002/03	2003	2002
1	UAE	52.7	33.5	7.0	1.9
2	People's Republic of China	49.8	107.5	9.1	8.0
3	Singapore	48.9	46.2	1.1	2.2
4	Sri Lanka	43.4	46.0	5.5	3.9
5	Iran	40.1	158.8	5.9	7.2
6	Bangladesh	40.0	17.3	5.4	4.9
7	Indonesia	36.0	54.8	4.1	3.7
8	Italy	25.5	12.5	0.3	0.4
9	Hong Kong	24.4	10.4	3.3	2.3
10	Netherlands	21.9	21.3	-0.8	0.2

Source: Annual Report, Reserve Bank of India, 2003/2004.

Table 4.4 Structure of India's Imports 1990-2003

Item	Amount (US$ billion)			Share (percentage)		
	1990/91	1995/96	2002/03	1990/91	1995/96	2002/03
Bulk imports	10.8	14.3	24.1	45.1	39	39.3
Petroleum, crude and products	6	7.5	17.6	25.0	20.4	28.7
Bulk consumption goods	0.6	1	2.4	2.3	2.7	3.9
Edible oils	0.2	0.7	1.8	0.8	1.9	2.9
Other bulk items	4.3	5.8	4.1	17.7	15.8	6.7
Fertilizers	1	1.7	0.6	4.1	4.6	1
Non ferrous metals	0.6	0.9	0.6	2.6	2.5	1
Metalliferrous ores, metal scrap, etc.	0.9	0.8	1	3.5	2.2	1.6
Iron and steel	1.2	1.4	0.9	4.9	3.8	1.5
Non-bulk imports	13.2	22.4	37.3	54.9	61	60.7
Capital goods	5.8	10.3	12.7	24.2	28.1	20.8

(Contd.)

(Table 4.4 continued)

Item	Amount (US$ billion)			Share (percentage)		
	1990/ 91	1995/ 96	2002/ 03	1990/ 91	1995/ 96	2002/ 03
Machinery except electrical and electronic	2.1	3.9	3.4	8.7	10.6	5.6
Electrical machinery except electronic	0.9	0.4	0.6	3.9	1.1	1.0
Electronic goods	–	1.8	5.3	–	4.9	8.7
Transport equipment	0.9	1.1	1.8	3.9	3	2.9
Project goods	1.4	2.4	0.5	5.9	6.5	0.8
Mainly export related items	3.7	5.3	10.2	15.3	14.4	16.7
Pearls precious and semi-precious stones	2.1	2.1	6	8.7	5.7	9.9
Organic and inorganic chemicals	1.3	2.6	3	5.3	7.1	4.8
Others	3.7	6.8	14.3	15.4	18.5	23.3
Professional, scientific instruments, photographic	0.6	0.7	1.1	2.5	1.9	1.7
Coal, coke and briquettes, etc.	0.4	0.9	1.2	1.8	2.5	2.0
Total imports	24.1	36.7	61.4	100	100	100

Source. Report on Currency and Finance, 2002/2003, Reserve Bank of India.

technology intensive products and imports used for export production have increased. The import intensity of India's manufactured exports seems to be steadily declining; this reflects an increased ability to source inputs domestically rather than by importing them. At the disaggregated level, more subtle shifts in the composition of India's imports are visible. For instance, in the petroleum sector, imports have shifted from petroleum products to crude, thanks to a large increase in India's refinery capacity. India, in fact, transformed itself from net importer to net exporter of finished petroleum products in 2000/01.

4.1.4 Rise of Developing Countries as Suppliers

India's traditional import partners, Germany and Japan, are becoming less important while the importance of new partners in Africa and

East Asia are on the rise. The Commonwealth of Independent States (CIS) countries, ranked seventh in 1990/91, were not among the top 10 in 2002/03 (Table 4.5).

Table 4.5 Major Sources of India's Imports

Rank	1990/91		2002/03	
	Country	Share (%)	Country	Share (%)
1	USA	12.1	USA	7.2
2	Germany	8.0	Belgium	6.1
3	Japan	7.5	China	4.5
4	Saudi Arabia	6.7	UK	4.5
5	UK	6.7	Germany	3.9
6	Belgium	6.3	Switzerland	3.8
7	CIS	5.9	South Africa	3.4
8	UAE	4.4	Japan	3.0
9	Australia	3.4	Korea	2.5
10	Singapore	3.3	Malaysia	2.4

Source: Report on Currency and Finance, 2002/2003, Reserve Bank of India.
Note: Figures include petroleum, crude and products.

4.1.5 Increased Share of Trade in the Economy

The trade-to-GDP ratio increased from an average of less than 15 percent before reforms to 24 percent after reforms, rising consistently and reaching a maximum of 31 percent in 2002. During 1998-2002, India's trade grew at a rate comparable to those of many high-performing Southeast Asian and East Asian economies (Table 4.6).

4.2 INDIA'S TRADE WITH SAARC COUNTRIES

India consistently has a trade surplus with Bangladesh, Pakistan, Maldives, and Sri Lanka, the size of which as continued to grow in recent years. The picture is different for trade with Bhutan and Nepal. Nepal maintained a surplus with India from 1999/2000 to 2001. Bhutan registered a surplus from 1999/2000 until 2002/03, but posted a deficit in 2003/04. In July 2006, India and Bhutan

Table 4.6 Average Growth Rate of Trade in Selected Countries

Country	1992-2002	1992-1997	1998-2002
China	16.1	14.5	18.1
India	13.5	14.0	12.9
South Korea	12.4	14.0	10.5
Malaysia	9.1	13.4	3.9
Thailand	7.6	8.4	6.5
Philippines	6.9	13.2	–.6
Indonesia	5.2	10.6	–1.4

Source: World Bank, World Development Indicators, 2004.

signed a new accord on trade and transit that provides the land-locked Himalayan kingdom more entry and exit points for commerce.[1] The 10-year agreement also simplified the procedures for import and export between the two neighbours. It also provided for transit four new entry and exit points for Bhutanese goods including the port cities of Mumbai in the west and Chennai in the south, on top of 12 existing entry points. Two hydro-electric power deals were also signed, with energy-starved India pledging to import a minimum of 5,000 megawatts from hydro power-rich Bhutan by 2020.

The trade deficits of other countries with India, has been one of the most contentious issues in South Asian economic integration. However, India's exports and imports are highly diversified compared to those of the smaller countries. In addition, India's scale of production is large, and smaller partners often use its production and export base to overcome short-term imbalances in domestic production. For example, in May 2005, Pakistan, in an attempt to meet domestic demand and bring down prices, allowed private traders to import meat and vegetables directly from India without duty. A trade deficit is therefore a natural outcome of dependence on a larger country. Another important aspect of the sustained trade deficit is that most of India's major imports are in the semi manufacture category. The rest of the region has neither the capacity nor the comparative advantage in this product category,

1 *The Daily Star*, July 29, 2006.

and this is reflected in the meagre share of the rest of the region in India's imports. For example, although India imports 70 percent of its sugar from the region, these imports account for only 0.4 percent of India's total global imports.

4.3 TRADE INTENSITY FOR INDIA IN BILATERAL TRADE WITHIN THE REGION

The trade intensity index provides some additional insights into the prospects for economic integration in South Asia. A change in the value of the index over time indicates whether two countries are experiencing an increased or decreased tendency to trade with each other. An increasing tendency may reinforce prospects for further integration while a decreasing tendency diminishes such prospects.

The trade intensity for India was calculated against the other SAARC economies for six different years between 1980 and 1997. The study found that the dependence SAARC members on trade with India had actually increased over time. This evolving relationship between SAARC countries and India is confirmed when trade intensity is calculated for 1996-2003. For all three countries except Pakistan, the trade intensity index is greater than one and is increasing; indicating that the bilateral trade flow between these countries and India is greater than what was expected given their relative importance in world trade.

India's "real" trade intensities, normalised for geographical proximity with other South Asian countries, are stronger than implied by its bilateral trade shares. In 1998, India and Sri Lanka's trade was more than three times what would have been expected on the basis of their shares in world trade; India's trade with Bangladesh was more than five-and-a-half times what would have been expected, and India's trade with Nepal was eight times more than that had been expected on the basis of the countries' shares of world trade.

4.3.1 Trade Policy

It is a generally accepted principle that it is the country of origin which provides the Rules of Origin (ROO) certificate. However, in case of exports to India the Assistant Collectorate of Customs has to be satisfied as to whether a particular export item complies with the ROO criteria. The delay in assessment sometimes takes 10 to 12 days or in some cases, even longer. Both Bangladeshi exporters and the Indian importers suffer from lack of transparency in the rules. For example, an export consignment of battery from Bangladesh was refused preferential entry to India when the rules were interpreted as having restrictions on imports of non-rechargeable batteries.

Only a year after the final removal of import licensing, a new tariff reduction process started in 2002/03. This new programme focused on industrial tariffs. There were three major omissions:

- Agriculture, livestock, fisheries and processed foods (HS 01-24).
- Textile fabrics and clothing products, about half of which continue to be protected by specific tariffs.
- A few important manufacturing sectors, notably the auto and fertilizer industries.

For most industrial goods, there was an especially large tariff reduction in 2004/05. 90% of industrial tariffs are now at 15%, far lower and far more uniform then they have ever been in the past 50 years. From the perspective of SAARC countries including Bangladesh, these changes meant that Indian domestic markets for most manufactured goods were highly competitive, with domestic prices being on par with world prices. Concurrently, it is likely to be difficult for the SAARC countries to penetrate the Indian markets, even with complete exemption from Indian tariffs under bilateral or multilateral free trade arrangements such as those proposed under SAFTA.

In contrast to industrial tariffs, tariffs on "agricultural" products (defined in the broad sense to include fisheries, livestock and livestock products, agricultural products and processed foods) were left out of the new tariff reduction programme: in 2005/06, which on average was about 40%, almost three times the level of non-agricultural tariffs.

Just before the withdrawal of import licensing from textiles and garments in April 2001, the government imposed specific duties

on a large number of textile fabrics and garments, in order to protect domestic producers against low priced import competition. At present these tariffs are the greater than the standard 15% rate, or the specific amount (usually Rupees per meter or per kg, or per garment). This system was designed to make it nearly impossible for other developing countries with strong textile and garment industries to compete in India. It also had the effect of excluding the products to which the specific duties are applied, from subsequent reductions in ad valorem tariffs.

4.3.2 Comparative Tariff Structure

A comparison of the prevailing tariff structure in India with the tariff structures of other developing countries reveals that India has some of the highest *applied* rates, even though India's *bound* rates, in accordance with the Uruguay Round, are similar to those of other developing countries in South Asia (Table 4.7). India's applied tariffs on agricultural and non-agricultural goods are higher than those of other developing countries — even those of other South Asian countries with higher bound rates than India (e.g., Pakistan and Bangladesh).

4.3.3 Opportunities for Trade

India is a huge market for several exporting countries around the world. However, the import partners for India are largely the developed nations as the country's key lacking is capital goods etc. However, with such a vast population there is a market for food items such as Cereals, cereal items, Edible Oil, Pulses, Sugar. Pakistan is a reputed country for exporting these items. Traditionally, India has not relied upon its SAARC members for the imports of such products although many of them can produce them efficiently. This fact notwithstanding, the nation continues to protect its industries with both tariff and non-tariff barriers much to the dismay of its neighbours like Bangladesh, Nepal and the like.

4.4 NON-TARIFF BARRIERS FACED BY INDIA IN SOUTH ASIA

Although formal protective import licensing has been abolished, a number of GATT compatible import controls that act as protective

Table 4.7 Country Profile of Tariff Structure

Country	Bound Tariff (%)			Applied Tariffs (%)		
	All goods	Agricultural goods	Non-agricultural	All goods	Agricultural goods	Non-agricultural
India[b]	49.8	114.5	34.3	29.0	36.9	27.7
Argentina[c]	31.9	32.6	31.8	14.2	10.3	14.8
Bangladesh[c]	163.8	188.5	35.7	19.5	21.7	19.2
Brazil[b]	31.4	35.5	30.8	13.8	11.7	14.1
Chile[c]	25.1	26.0	25.0	6.0	6.0	5.9
China[b]	10.0	15.8	9.1	12.4	19.2	11.3
Indonesia[d]	37.1	47.0	35.6	6.9	8.2	6.7
Malaysia[a]	14.5	12.2	14.9	7.3	2.1	8.1
Pakistan[c]	52.4	97.1	35.3	17.1	20.4	16.6
South Africa[b]	19.1	39.8	15.8	5.8	9.1	5.3
Thailand[a]	25.7	35.5	24.2	16.1	29.0	14.2

Source: A. Mathur and A.S. Sachdev, 2005.

Note: [a]Applied tariff rates for 2001, [b]Applied tariff rates for 2002, [c]Applied tariff rates for 2003, [d]Applied tariff rates for 2004.

non-tariff barriers, or have the potential to do so, continue to operate in South Asia. India faces the following non-tariff barriers in South Asia:

- Pakistan's longstanding ban on Indian imports which are not included in the, very limited, positive list of 771 items.
- Pakistan's Trade Related Investment Measures (TRIMs), applied to its auto industry since 1998 in a bid to encourage the use of local content. Although Pakistan phased out other local content requirements by December 2003, per the requirement of WTO, it applied for a three year extension on the local-content programme in its auto industry until December 2006.
- Bangladesh's restrictive list of products that can be cleared only at certain port and inland customs posts. Concordantly, the transport costs incurred to reach authorised customs posts, impedes legal bilateral trade significantly.
- Bangladesh's restrictions on agricultural products (chicks, eggs, salt), packaging materials, and textile products. Nearly 40 percent of quantitative restrictions in Bangladesh apply to textile products.

- Sanitary and Phytosanitary and technical regulations to limit imports and protect domestic producers, such as those that prevent or restrict imports of second-hand goods into Pakistan.

4.5 BILATERAL AND MULTILATERAL AGREEMENTS IN SAARC

A number of bilateral trade accords link India with other South Asian economies:

- **Sri Lanka**: A free trade agreement with Sri Lanka that came into effect in 2000, had boosted trade between the two countries significantly. The balance of trade, in 1999 favoured India 11 to 1, by 2002 had tilted somewhat toward Sri Lanka, and favoured India by 5 to 1. In fact, India was the fifth-largest destination for Sri Lankan exports in 2002, compared to a rank in the 20s in the mid-1990s. India is the largest source of imports for Sri Lanka, accounting for 14 percent of all imports. As a direct result of the free trade agreement, Sri Lanka has become a popular destination for Foreign Direct Investment (FDI) because many countries now see Sri Lanka as providing a window of opportunity to the huge Indian market. The agreement is becoming an economic partnership that includes liberalisation of services.
- **Nepal**: India signed a free trade agreement with Nepal in 2002, building on the Indo-Nepal Trade and Transit Treaty of 1996. The 2002 agreement's duty-free provision encouraged Indian joint ventures to operate in Nepal. The volume of exports from Nepal increased, enabling Nepal to register a trade surplus with India in some of the years that followed the inception of the treaty. India is Nepal's principal trading partner, accounting for 40 percent of Nepal's total trade, as well as being Nepal's largest industrial collaborator and foreign investor. Almost 200 Indo-Nepalese joint ventures operate in Nepal, and Indian investments account for 36 percent of total FDI in the country.

4.5.1 Positive Implications of Parallel Bilateral and Regional Co-operation Initiatives

Bilateral trade agreements could set precedence for the regional trade agreement in several respects. In the case of the Indo-Lanka free trade agreement, the timeframe for tariff phase-out, rules of origin, and negative list were designed to accommodate the smallness of Sri Lanka's exports and the island's limited production capacity. If the regulatory framework in a regional trade agreement is designed to accommodate disparities between countries, a small country can gain from the agreement. This sets precedence for different rules of origin and sensitive lists for LDC and non-LDC members of SAFTA.

Some believe that bilateral agreements stall progress on regional agreements because what a country hopes to gain from a regional association it may often gain through a bilateral agreement. Sri Lanka, for example, already has access to India's large market through its bilateral agreement. The benefits of the bilateral agreements will be equivalent to those of the regional arrangement only if each country of the region signs a bilateral agreement with the other countries that are members of the regional trade agreement. In South Asia, all seven members of SAFTA will have to sign a bilateral agreement with each of the other six countries — a total of 21 agreements. Furthermore, because a regional agreement creates an integrated market, the market can offer potential economies of scale and links between member nations' markets. The creation of a free market of 1.3 billion people with rising purchasing power can be a significant benefit for all SAFTA members. A South Asian regional trade agreement could also alleviate the trade burden of landlocked countries that face high trading costs in transporting goods through a neighbouring country to reach a seaport.

4.6 BENEFITS OF SAFTA FOR INDIA

4.6.1 Trade Creation

As conceived, SAFTA aims to liberalise trade mainly through tariff concessions and elimination. Bandara and Yu (2003), using the Global Trade Analysis Project computable general equilibrium model, analysed the economic impact of SAFTA, and its potential gains, to the countries in the region. They found that only India would realise a significant welfare gain under SAFTA. India, with its initial high tariffs and biggest manufacturing sector, could be expected to emerge as the biggest winner, according to their analysis. In estimating the welfare gains resulting from more efficient resource allocation, they find that removing all tariffs improves access to cheaper imported goods and increases consumption. Thus, improved allocation resulting from trade liberalisation gives rise to welfare gains. Bandara and Yu also found that India's exports to other South Asian countries and export prices will increase in two sectors: textiles and apparel. Some possibilities for increased intra-regional trade are created, although they may be small in comparison with possibilities arising from unilateral trade liberalisation by all SAFTA member countries. There is strong evidence of trade creation in the region under SAPTA; with no trade diversion effect as far as trade with non-members is concerned. Batra (2004) used the augmented gravity model to estimate the trade potential for India and its trading partners throughout the world and more specifically India's partners in regional groupings such as SAARC. The model explains bilateral trade as a function of distance, economic size, contiguity, and cultural proximity as indicated by a common language and colonial past. The model uses Gross National Product (GNP) in terms of both purchasing power parity and current international US dollar value. For both versions of the model, estimates indicate positive trade potential for the SAARC region as a whole. The positive trade potential is mainly on account of trade potential with Pakistan when calculated according to Purchasing Power Parity (PPP) and only on account of trade potential with Pakistan when estimates are made using international US dollar value. The trade potential between India and Pakistan is estimated to be US$ 6.5 billion more than actual trade between these economies when the model uses GNP at current international US dollar value.

4.6.2 Trade Complementarities — Revealed Comparative Advantage Approach

The success of a regional bloc is often considered to be positively related to the diversity in the structure of comparative advantage of member countries. When participants have complementary areas of comparative advantage; they do not all have precisely the same sectors of comparative advantage. Several studies have analysed the nature and extent of revealed comparative advantage of South Asian economies. Most suggest a similarity in the pattern of comparative advantage and export interests, and most conclude that India, Bangladesh, Nepal, and Pakistan have comparative advantage in similar categories of food and livestock, basic manufactures, and miscellaneous manufactures. But in comparison with other South Asian countries, the range of products over which India has a comparative advantage is wide. The degree of trade complementarities has increased for Bangladesh and India and is higher than that of other countries in the region. A reasonable compatibility is also indicated between the trade structures of Sri Lanka and India. Interestingly, complementarity between India and Pakistan is higher than between other countries in the region. India has a comparative advantage in 41 of 97 sectors in the Harmonised System two-digit classification. Analysis of the correspondence between the structure of revealed comparative advantage for India and imports of the other SAARC member nations shows that India can meet the import demand for the region. For example, Pakistan imports cereals, milling products, malts, starches, sugars and confectionery, and textiles — all commodity groups in which India has a high revealed comparative advantage in the global market. None of these products, however, is sourced from India.

4.6.3 Potential Intra-Industry Trade between India and Other SAFTA Members

Gains may also accrue through intra-industry trade between India and the other SAFTA nations. Joint ventures and wholly owned subsidiaries that Indian entrepreneurs could set up in South Asian countries are:

- In Bangladesh, manufacturing of shirts (screen printed), tanned or crust hides, grains (finished), sacks and bags of other plastic, and other finished tanned leather.
- In the Maldives, manufacturing articles for conveyance or packing goods of plastics, air conditioning machines, and water pumps.

- In Pakistan, joint ventures in cane sugar and some chemical products.
- In Sri Lanka, the manufacture of printing and writing paper, plastic goods, and soap cutting and molding machinery.

Some scope for vertical integration at different stages of production in SAFTA member nations also exists in sectors such as textiles, leather goods, light engineering, rubber products, automobiles, and exploitation of bio-resources.

4.6.4 Industrial Restructuring

A liberalised investment regime under SAFTA can help South Asian countries exploit the efficiency-seeking restructuring of industries in the region. Regional co-operation and trade investment linkages can induce efficiency-seeking industrial restructuring through intra-South Asian FDI flows in the textiles and clothing sectors. The free trade regime under the India-Nepal free trade arrangement has facilitated the restructuring of production by certain companies that moved their production base to Nepal to serve the north Indian market as well as third-country exports. Examples include Dabur India setting up its production unit for fruit juices in Nepal. Evidence of efficiency-seeking restructuring is also evident from the India-Sri Lanka free trade agreement. These include Ceat India and production of automotive tires in Sri Lanka for markets in South Asia and beyond. These examples illustrate the potential for restructuring in South Asia. The potential for efficiency seeking restructuring that is inherent in the economic integration of South Asia can of course be expected to go beyond what is possible under bilateral agreements alone. Simultaneously, a regional accord may increase the international competitiveness of the region and attract FDI from outside the region.

4.6.5 Other Benefits

Regional economic integration through SAFTA may yield benefits that go beyond trade and investment. By forming a regional bloc, South Asian countries will have more leverage in the global trade system if they work out a common position on issues of mutual concern, keeping a long-term perspective in view. Many fear that the smaller, less developed countries will gain less through SAFTA than India and Pakistan. But experiences of other trading blocs and free trade areas demonstrate that smaller as well as larger trade partners gain. Concerns that Indian goods will flood the SAARC markets if trade is liberalised are unfounded. Both Bhutan and Nepal have received Indian goods and investment, and India is the most important export market for both countries. Evidence also does not support the hypothesis that a trade arrangement with a larger, more developed, country always works to the detriment of the smaller, poorer country. Not too long ago, Indian industry was reluctant to trade with China for fear of cheaper Chinese goods flooding the Indian market. However, trade volumes between India and China have increased tremendously. Concurrently, it is reasonable to assume regional economic integration can be beneficial for all.

4.7 INDIA'S MAJOR OPPORTUNITIES IN TRADE

It was observed that hitherto India's trade with SAARC nations was confined to 5 products. The 5 prominent items of India's exports include cotton yarn fabrics, made-ups etc, transport equipment, rice (other than *basmati*), machinery and instruments and drugs, pharmaceuticals and fine chemicals. In fact, the share of five prominent items in India's exports is around 51%.

4.8 INDIA AND BANGLADESH TRADE OPPORTUNITIES

The trade surplus India has with Bangladesh is, in many instances comes at the cost of development of the Bangladeshi economy. The back bone of the economy, the Small and Medium Enterprises (SMEs) is specially affected as many are even being forced to close down.

The only feasible solution is greater economic integration with Bangladesh. This can be achieved by giving priorities to a zero tariff access to the Indian market through investment cooperation, reduction and elimination of non-tariff barriers and added cooperation in the spheres of culture and tourism, education and health care. Formal and informal imports from India have been estimated to be over US$ 3 billion. This has created a huge trade imbalance

with India since imports far outweigh the exports. Bangladesh can reduce its trade imbalance by inducing India to be flexible on customs, tariff concessions and associated administrative procedures to facilitate unhindered flow of trade between the two countries and to address these issues on a priority basis. Negotiations with the Indian government on luxury tax levied by the Indian government on some Bangladeshi exports, strict measures on dumping of Indian goods into Bangladesh market at highly reduced price are in order.

4.8.1 How Does SAFTA Impact Bangladesh's Export

It is necessary to examine sensitive lists of various members to assess our long and short term benefits. Currently, Bangladesh exports fish, vegetables, jute, tea, fertilizers, leather, readymade garments, handloom, medicines, processed food, consumer goods, cosmetics, handicrafts, and ceramics to other member countries. However, many of these items have been placed in the negative lists of various member countries. Items in such negative or sensitive lists do will not be included in the proposed tariff reductions under SAFTA. Hence, for a for long term benefit, Bangladesh has to expand its very narrow export list. Our exporters have to be bold and innovative if they are to capture the free trade market potentials of the region.

Bangladesh's principal trading partner in the region is India. As per India's sensitive lists, Bangladesh has been permitted to export jute and jute goods, leather and leather products, ceramics, fruit juice, fertilizers, vegetables under free trade. Furthermore, India has committed to allow about eight million pieces of readymade garments from Bangladesh under Tariff Rate Quota (TRQ).

Bangladesh's exporters have alleged that non-tariff and Paratariff barriers and bureaucratic wrangling had significantly hindered Bangladesh's exports to India in the past. According to the Indian Department of Commerce's statistics for 2005-2006, India's exports to Bangladesh amounted to $1.633 billion whereas Bangladesh's exports to India were only about $118.76 million. There was an enormous trade gap of some $1.5 billion. If the SAFTA provisions are implemented in its totality and Bangladeshi exports are given greater access to Indian market, it will provide a probable means to gradually bridge this gargantuan gap.

Pakistan has placed virtually all of Bangladesh's principal export items namely, jute, fabrics, woven and knitted garments, special woven fabrics, footwear and textiles on their sensitive list. According to Bangladesh's Export Promotion Bureau statistics, Bangladesh exported goods worth $46.17 million to Pakistan from July to March of FY 2005-2006.The main export items were raw jute and tea. Hence, in the short term, SAFTA would not enhance our exports to Pakistan.

Sri Lanka has included fish, leather and footwear on her sensitive list, while Bhutan has placed all our principal export items, except tea, on her sensitive list. Correspondingly, Nepal has included almost all our major export items on her sensitive list. Maldives has also included three of our major items on their sensitive list. At the moment Bangladesh has limited trade ties with these countries and inclusion of our major export items in their negative lists means, in the short term, the implementation of the SAFTA do little to boost our exports to these countries.

The intra-regional trade among the SAARC countries is still very low and is only about 4% of the overall trade of its member countries, compared to 37% among North American Free Trade Agreement (NAFTA) members, 67% among European Union (EU) members, and 38% among ASEAN members.

Once trade complementarities are established among the SAARC members, the intra-regional trade will inevitably increase. As the predominant market player, India has to take the initiative in the matter. The regional countries import 5% of India's total exports, but only 1% of India's imports are from these countries. New Delhi should lead the way by removing all existing non-tariff and Para-tariff barriers for implementation of the SAFTA in its totality.

Incidentally, all neighbours of India have been placed high on the latest "Failed State Index" (FSI) published by the Foreign Policy, a prestigious magazine, of the Carnegie endowment and the Foundation for Peace, both of which are based in Washington DC. Vulnerabilities of these states would inevitably carry a negative impact on India's development, concurrently, it would be in her

own interest to make them more stable through strengthening the economic integration under the banner of SAFTA.

Institutionally, the SAFTA will take at least six more months to be fully operational as the member countries have not yet prepared specific rules for individual products under "the rules of origin" that determine the tariff line. Furthermore, most of the members have not even issued customs notification of the implementation of SAFTA. Since five out of eight SAARC members are LDCs, it is necessary to finalise a mechanism to compensate them for the tariff reduction.

4.8.2 Tata's Withdrawal of $3 billion Investment from Bangladesh

In 2004, India's second largest conglomerate Tata Group proposed a US$ 2 billion investment on four large projects in Bangladesh. Tata planned to build two power plants, steel mill and fertilizer factory in the country, making it the single biggest investment in Bangladesh. The amount was revised and increased to US$ 3 billion as negotiations progressed with first the BNP-led government, and afterwards with the caretaker government in Bangladesh. The total foreign investment of $3 billion would have equaled all the foreign direct investments made in Bangladesh since 1972. It would have also created 8,000 jobs and reduced the India-Bangladesh trade gap significantly.

However, it is rather difficult to measure the benefits of such FDIs and it has been argued that the net benefit derived from Tata's gigantic investment might not be the same as claimed by the conglomerate. Some economists commented that the FDI should be evaluated not in terms of cash flows, rather in terms of "Net social benefit" and the costs should be measured in terms of "Economic prices" to reflect the opportunity cost.

That that context, many analysts raised eyebrows on one of the major requirements of Tata, a commitment of 20-year long gas supply at a concessionary price. Although Tata and the Indian media did sound like this whole project was to save a poor neighbor like Bangladesh, this difficult proposition on Tata's part made the process of approving the investment almost impossible. According to estimates Bangladesh has only 10 years of "proven and probable" discovered gas reserves. When this reserve runs out, the government would still be obliged to provide gas at the discounted rate, which would mean importing gas at higher rates and subsidizing it.

Many analysts called the Tata investment proposal to be basically a proposal to export Bangladesh's gas in another form. Under this form, the gas would be used to produce steel and fertilizer, much of which would be exported to India and other parts of the world. The proposed Tata investment was predatory in nature, according to some economists, aimed at taking away the limited amount of non-renewable mineral resource (namely gas and coal) that the country has.

There were other drawbacks of the proposal that came out in through various discussions. The steel industry is highly capital intensive and the several thousand jobs that it was to create was not astronomical by any means. There were also poor forward and backward linkages. The reach and width of the forward linkage was very limited because most of the steel and gas produced would actually be exported to India and other destinations. There was not much of a backward linkage either. All the machineries for the plants would basically come from outside. Very little input demand would be met from Bangladesh's domestic sources, other than, of course, gas and coal.

Also, one of the biggest influencers of this decision was the overall public sentiment in Bangladesh that has largely become Anti-Indian, given repeated issues of border unrest and water resource management, to name a few. The BNP-led government did not want to risk its popularity just before the election by allowing an Indian company to enter and play big stakes in the local market. The caretaker government also, on the verge of handing over the power to democratically elected government, hesitated to take such a bold decision and again, risk mass protest.

Eventually, it was easier for the governments to not risk hurting public sentiment and delay the discussion for better negotiation deals, instead of welcoming Tata for a project which may or may not have been beneficial in the long run.

Tata, on the other hand, was understandably not happy with the negotiation process and decided cancel the investment plan in

2006. According to Alan Rosling, executive director of the Tata group, one of the reasons for the pull out from Bangladesh was "the government's inability to guarantee (natural) gas supplies to the projects that the company had proposed. As a result the company found 'no prospect of taking these projects further."

4.9 INDIA AND SRI LANKA TRADE OPPORTUNITIES

A joint Study Group, appointed by the two Governments of Sri Lanka and India (2003) while noting the potential of regional power pool through an interconnected grid for Southern India and Sri Lanka, has recommended that "the interest of Indian companies to participate in future bids for coal-fired plants in Sri Lanka may be accentuated by the existence of a regional power pool. A regional power pool would also enable better management of peak-load demands on both sides, as well as enable faster recovery from disasters."

There are very strong possibilities of co-operation in other forms of energy as well. India can play an effective role in initiating Bangladesh and Sri Lanka into the trade in power. For instance, Bangladesh could set up a plant of 2000 MW primarily to supply power to Sri Lanka via India which can also share this power. There is already an example of East Talcher to Kolar to Trivandrum (2200 km) 500 DC system completed in 2.5 years.

4.9.1 India Sri Lanka Free Trade Agreement

The India-Sri Lanka Free Trade Agreement (ISLFTA) is an example of the regional economic cooperating that can be implemented within the SAARC countries. On the surface, India's offers to Sri Lanka appear generous. Yet, a closer examination of the data reveals that the products that Sri Lanka is capable of exporting to India are either excluded through the negative list or constrained by quotas. Being a small economy, the production structure of Sri Lanka is highly specialised. As such, even a small number of exceptions may be sufficient to constrain its potential exports.

The top 20 export products of Sri Lanka (to the world and not just India) account for 46 percent of Sri Lanka's total exports in 1999. India subjects 15 out of these 20 products to either a tariff rate quota (meaning the tariff preference applies only up to a pre-specified quantity of imports) or negative-list exception. The ROO and rules of destination requirements further restrict the exports. For example, apparel exports are not only subject to the tariff rate quota of 8 million pieces but at least 6 million of these pieces should be manufactured from fabrics of Indian origin exported to Sri Lanka from India. Likewise, exports of tea from Sri Lanka at the preferential tariff are not to exceed 12.5 million kilograms within a calendar year. Both products are also subject to a uniquely South Asian restriction that may be called 'the rule of destination.' Under this mechanism, the preference applies only if the products enter through specific Indian ports. Thus, the politics of exceptions is clearly stacked against the goods in which Sri Lanka is supposed to have a comparative advantage.

A similar story emerges with respect to the exports of India to Sri Lanka. Top 20 exports of India (to the entire world, including Sri Lanka) account for 42 percent of its total exports. Seven of these twenty products are subject to the negative-list exception (including one with zero MFN rate). Of the remaining thirteen products, four are subject to zero MFN tariff so that the preference is meaningless. Another product is subject to 5 percent MFN tariff on which 35 percent tariff preference results in a preference of 1.75 percentage points. The remaining seven products attract an MFN tariff rate of 10 percent on which the Indian products receive 3.5 percentage points preference that reduces the tariff rate to 6.5 percent.

Sri Lanka being significantly smaller than India, the share of the latter in the total imports of the former is, of course, much larger. This share had a slight upward trend during the 1990s, which was first accelerated in 1998 with unilateral liberalisation by Sri Lanka and then again in 2001 with the ISLFTA coming into effect. During 1998-2002, the share has gone up from less than 10 percent to more than 20 percent. Due to the efficacy of ISLFTA alone, there was an expansion from 12 to 21 percent during 2000-2002.

The critical question one must answer is how the trade shares rose dramatically, despite the apparent limited grant of preferences by the two sides. The answer lies in the fact that the political-economy pressures against preferences that generally operate against

the existing import from the partner country. Goods that the partner country does not supply at the time of the negotiations do not pose an obvious threat and therefore manage to receive significant preferences. And it is in these products, that the scope for trade expansion can be quite large.

Unless one can think of an alternative explanation, there is little doubt that the ISLFTA has lead to a significant increase in Bilateral Trade between the two neighbours. However, without further data, it is difficult to conclusively discern whether this expansion represents trade diversion from third countries or new trade that would not otherwise exist, a case of trade creation. It could also represent trade deflection, though this is less likely, unless the governments are failing to implement the ROO. The question whether the trade expansion represents trade creation or trade diversion is difficult to answer. For example, consider a product whose imports into India from Sri Lanka expanded rapidly. We must verify if India imported this product from outside prior to ISLFTA. If not, the expansion clearly represents new trade and hence trade creation. But in the more likely case that the product was previously also imported from outside countries, the determination is more difficult since we must then determine whether in absence of ISLFTA, India would have imported more of the product from outside countries.

4.10 INDIA AND PAKISTAN TRADE OPPORTUNITIES

India and Pakistan have the largest trade opportunities among themselves. This potential gain, however, is completely contingent on improvements in the political situation and bilateral relationship between the countries. Indeed there is a myriad of trade opportunities for both counties to take advantage of:

1. Pakistan imports coal, steel, iron and wheat from the West, China, and South Korea, when it could have secured these commodities from India at half the price.
2. After Pakistan prohibited jute exports to India, areas suitable for paddy cultivation were converted for jute cultivation in India. This situation can be changed again by arranging import of jute from Pakistan to meet India's needs, which would increase the marginal returns in both the sectors.

3. Pakistan imports iron ore from Liberia in Africa incurring high shipping costs, the same commodity can be obtained from India at a fraction of the cost and time.
4. Electric arc furnaces located in North India import steel-making scrap from all over the world as raw material. Such scrap can be easily sourced from Pakistan.
5. India produces long-staple cotton whereas it does not have adequate supplies of medium- and short-staple cotton that is grown in Pakistan. India can import these cottons from Pakistan to meet their local needs.
6. Effective regional integration would provide Pakistan with an opportunity to develop a thriving engineering industry. While Pakistan's own economy is not large enough to support much of this development, the opportunity to fill niches in the Indian market might just be the catalyst that can help the industry overcome this hurdle and achieve rapid growth.
7. Although railways were used by Pakistani exporters to send salt (rock) and dry dates to India and by Indians exporters to send soybean wastes to Pakistan, the traders from both sides continue to trade these items via Dubai, even after the suspension of the rail traffic. As a result, higher prices are being charged to consumers. Re-establishment of the rail routes will not only appease this pressure, but reduce lead time apart from prices.
8. People of Balochistan are more interested in trade with India. Large numbers of Balochistan's traders want to increase imports of cheaper and better goods from India in order to take advantage from their low cost of production.
9. The traders of Balochistan can also export dry fruits, herbs and fine quality cotton, presently produced in central and southern parts of Balochistan, and other products to India.

Textiles can be the mainstay of Pakistan's bilateral trade with India. Cotton and textile exports make up almost 66 percent of Pakistani exports to the world. The Pakistani textile industry has gone through a massive modernisation process during the past few years to prepare for the post quota regime beginning in January 2005 under WTO rules. Hence, Pakistan is in an ideal position to maintain its international competitiveness in this sector in contrast to the Indian textile industry, which is still lagging behind. Incidentally, informal trade taking place between India and Pakistan is estimated to be more than 4 times than that of official trade. The size of this informal trade approaches Indian Rs. 20 billion per annum if supplies received by India and Pakistan through third countries are taken into consideration. This results in greater lead time, as well as revenue losses for both the countries. Concordantly, if they take initiatives to implement direct trading practices in the above mentioned fields, it will help them to increase their revenues from trades, as well as maintain competitiveness in the increasing practice of just-in-time inventory management.

The SAARC region holds a lot of potential for trade and development. What it lacks is the integration to bring about mutual beneficial trade. If the potentials are properly availed by member countries, then trade can be a major driver to bring about economic prosperity.

India has a large role to play here. Since it is the biggest and the most developed economy in the region, it has developed a "big brother" attitude and looks down upon its regional trading partners. It looks towards the west for trade. Although it is true that there is a lot that the west can offer in terms of trade to India, its benefits from regional economic integration cannot be ignored. It is not only the smaller countries which will benefit from trade with India. India itself can engage in beneficial trade with its neighbours.

If India ignores the vast potentials that the region holds, then time will not be forgiving to its grave mistakes. There is tremendous enthusiasm among a number of non-member countries to engage in trade with the smaller SAARC countries. Once these countries move in to form strategic long terms alliances with the smaller countries, which is an inevitability rather than a possibility, India's long term trade potentials with the region will simply wither away. India will not be able to turn back time.

4.11 INDIA'S ROLE TO DEVELOP AND STRENGTHEN SAARC

Though South Asian countries have undergone major structural reforms and share of industrial sector has increased sharply, their industries are not diversified. With the exception of India and to some extent Pakistan, these resource constraints have prevented the South Asian countries from investing in high value-added exportable products and have made these countries dependent on industrialised countries for their capital goods and technology. The regional exports largely consist of raw materials and traditional products, such as textiles and garments, in fact, regional countries are direct competitors in the world export market for these products. The import requirements of the region mainly consist of capital goods and high-tech products. Concurrently, the trade pattern of the South Asian countries is tilted towards the developed countries which in turn have marred the growth of intra-regional trade.

The role of India in establishing economic co-operation among the SAARC countries is indisputable. The relentless pressures of globalisation are helping to break down the economic walls within the subcontinent such as the entry of China into the SAARC markets. Given the surging Trade Volumes, nothing less than a reversal of the economic partition of the subcontinent is now on the cards. India must bear the brunt of the responsibility for leading the region towards political, economic and social co-operation. The concept of co-operative security recognises the reality of profound interdependence among the South Asian countries in both the economic and security realms. The challenge now is to lend political energy to the process. Concurrently, there are a number of integral roles that India can, and need to play within the sub-continent:

- In order to improve economic integration among the SAARC countries India should change its political attitude. On several occasions, India has shown disinterest in involving itself with bilateral and multilateral trade agreements in several sectors only on the basis of political reasoning even though those sectors might have been of significant importance for the other SAARC countries.

  Political will is thought to be one of the most important factors in terms of pushing forward a growth zone like SAARC. This is precisely what is lacking in the region, and this has slowed the progress of SAARC and implementation of its objectives. The SAARC member countries have failed to fully implement the various provisions agreed under the SAPTA

  agreement even despite the fact that it has been six years since it was signed into effect. Establishment of a free trade zone planned for 2001 appeared to be an overoptimistic projection. Lack of political will is a major hindrance to the success of the planned growth zone and a major change in the mindset of the political leadership of the countries of the region is required in order to ensure successful economic integration within the zone.

  Political will is also essential for putting in place an enabling policy framework and establishing an integrated infrastructure in the region. In this regard, India can play a visionary role in bringing about regional integration whereby India must be motivated by "Economic Benefits" rather than being motivated politically. Only then, can SAARC become a meaningful venture, which will bring about economic benefit for all and this will, in turn help bring about peace among the neighbouring countries as the healthy economies will play a viable role to eradicate all sorts of social, political tensions.

  One such case can be that India can allow Bangladesh to import electricity from Bhutan and Nepal which was declined before. If this initiative is taken then Bangladesh will be hugely profited as the energy cost in the industrial sector will decrease significantly. This will also benefit India who can import gas from Myanmar through a corridor on Bangladesh over which the pipeline for the imported gas from Myanmar can pass through Bangladesh to India.

- India can penetrate even more into the SAARC markets by striking bilateral and multilateral trade agreements which will be beneficial for all the countries. India can shift their focus from basic industries and focus more on heavy industries.

  If China is allowed to penetrate the SAARC markets any more, the results can be disastrous. China with its efficient human resources and technological know how are producing various goods ranging from capital goods to consumer goods at cheaper costs than that of the SAARC countries.

The resultant impact is that these markets are now flooded with Chinese goods. For instance if the market of Bangladesh is considered then it can be seen that the roads are full of CNG buses, the people are using cheap Chinese watches, calculators, the households are using Chinese televisions and so on. The dependence on Chinese products in the SAARC countries are gradually increasing and this is not economically beneficial for them. This dependency can be reduced if India can open its economy to the products of the other SAARC countries and in return benefit from the similar concessions.

- The communication and transport sector has been a problem child for the SAARC region over the years. This situation can be improved if all the countries agree to provide transits to each other for trade facilitation. India can play a major role in these developments by assessing the economic benefits from the transits and also setting up easier transit passes for the other neighbouring countries. This will reduce lead time of inter-state business and will increase overall trade efficiency. Also, the infrastructural bottlenecks, especially at the borders for surface based cargo, need to be studied in a project mode. From the findings of the study required measures in order to prevent these in the future can be undertaken.

  For example, Nepal's trade with other countries in the region depends on transit facilities provided by India. It is recognised that these facilities often involve high handling and transportation charges and delays in delivery, thus hampering the flow of trade between Nepal and its trading partners in the region. India can help Nepal in solving the problems and set an example of economic co-operation.

  There are no communication links between the South Asian countries and as such the production, consumption and trade patterns of potential trading partners within the region may not be known. There are hardly any ships which call on specifically for the export of South Asia to other regional countries. Similarly, inadequate trade facilitation mechanisms contribute to the unrealised potential of intra-regional trade in certain areas.

India's role here would be to:

- Play a leadership role in the establishment of regional communication.
- Explore opportunities and materialise the SAFTA commitment.
- Extend preferential treatment for Nepal in transit.
- Use Bangladesh land for business concerning seven sisters with transport provided by Bangladeshi transport industry.
- The countries of SAARC are lagging behind in the energy sector though there are scopes for improvement. Bangladesh, Bhutan, India and Nepal can develop and utilise a combination of thermal and hydropower more efficiently through a regional agreement. Such an approach would enable India and Bangladesh to use their coal and gas reserves more efficiently while allowing Nepal and Bhutan to develop their large untapped hydropower potential. Cooperation between India and Bangladesh can commence with small scale transfer of electricity (150-200 MW) from the East zone of India to the West zone of Bangladesh, at the same time Bangladesh may consider exporting 50 MW to Tripura from the eastern grid of Bangladesh. A pre-feasibility study in September 2000 for Bangladesh with USAID supports the viability of a 750 MW power project in the western region of Bangladesh. It was envisaged that 50 percent of the power generated could be exported to India. This would result in economic benefits for both the countries and their energy resources can be used more efficiently.
- The restrictive trade policies existent among the SAARC countries have been a major hindrance in the way of development. The tariffs which are charged on various goods imported from the neighbouring countries are generally high. On the other hand, it is generally believed that tariff concession under SAPTA regime are mostly offered on items that are of little export interest to the member countries. But there are also other structural problems which have led to this situation. India again has to take the initiative and break the norms. It can allow Bangladesh to import goods at a cheaper

tariff and also at the same time lift the embargoes on several products. This will benefit both the economies in the long run if the trade of goods is proficiently monitored.

Restrictive trade policies also cause the low level of intra-regional trade. The restrictions have been more severe on the export interest of South Asia. However, the South Asian countries have substantially liberalised their economies in the past decade. Some trade liberalisation has also occurred under the SAPTA regime, according to which almost 5000 products from all SAARC member countries are entitled to preferential duty treatment. The trade regimes of South Asia are still quite restrictive. There is, however, a general perception that the trade liberalisation episodes, including SAPTA, have not made any significant impact on intra-regional trade in South Asia. If tariff and non-tariff barriers are properly managed, trade would be triple the present status. India's role in such a case would be to reduce tariff and non-tariff barriers, reduce quantitative restriction and ensure free flow of labour force.

- Further economic co-operation can be achieved through opening of new trade areas among the SAARC countries. For instance, India has proposed to transit their goods by Bangladeshi carriers to the seven sisters overland Bangladesh. Certainly, Bangladesh will be able to accrue some financial benefits by ferrying Indian goods. But this can result in additional economic benefit, if the goods produced in Bangladesh could be exported to the seven sisters. On the other hand, these remote Indian states would also benefit as this would save time and extra-freight costs. Added to it, the Indian companies could also set up industries in Bangladesh to produce goods for supplying to their far eastern states. Moreover, such opportunities could as well contribute towards bridging the trade gap between the two countries.
- A coherent policy framework for sub regional FDI flows has to be in place. Since bilateral trade imbalance has become a constant feature in SAPTA, trade related joint ventures or other forms of FDI are to be considered to address this issue. Since India is the largest market in the sub-regions, Indian investments in other sub-regional countries with the objective of re-export to India is one possible instrument. The LDC's in the SAARC will also benefit from this initiative as this will increase their earnings.

- Dynamically in the SAARC context, where several countries have competitive advantage in the small industries, labour intensive products, India should make a gradual transition to higher value added, technology intensive products. Unless this progression is made there will be difficulty in greater sub-regional integration through trade. To some extent, it has already started to happen, India's export to SAPTA have a fairly high content of technology intensive products. The converse is not very evident, which needs consideration. India can help its neighbours through transfers of technological know how. This will, in addition, assist the SAARC countries to keep their markets free from goods of other dominant economies such as China.
- Regional Cooperation by joint ventures in textile industry has to be increased. One of the ways to improve competitive-ness and level of preparedness in the textile and clothing sector to meet the challenges in the post-MFA regime would be to identify the scope for horizontal specialisation within the region and subsequently facilitate industrial restructuring to meet this objective. According to an in depth research by The Research and Information System for the Non-Aligned and Other Developing Countries (RIS), India regarding textile industry shows that both Bangladesh and India can be highly benefited from textile industry by exchanging many products. There is a long list of products that can be exchanged and traded among all the SAARC countries (as has been discussed in the previous sections) where India is preferred to play the leading role.
- Improve Research and Development (R&D) infrastructure in the region. It has been observed that the South Asian countries are facing trouble with R&D in industries like software, pharmaceutical (WTO rule on the pharmaceutical industry ensuring partial protection of the pharmaceutical industry of Bangladesh will be lifted in 2016), chemical, and

energy sectors contributing to only 0.001% of total world wide R&D. India can take the lead in this respect and combine research specialists from different countries of the region to improve in these respects.

- India, which definitely has comparative advantage in automobile, technological, computer and engineering goods, can establish factories in the SAARC member countries to minimise the cost of production and also can have a good market in the region. India has a very large population and with a high and rapid economic growth has attracted FDI from automobile sharks like Ford, Toyota, Hyundai, and Chevrolet etc. Also software giants like Linux, Sun, and Microsoft Corporation use the country's brain but computer engineers and graduates in our country are suffering due to lack of exposure although they are perfectly capable. India can support us in this respect by establishing proper industrial and infrastructural support within the SAARC boundary. Most of the countries in the region do not allow Letter of Credit opportunity for intellectual properties; as a result our programmers and engineers are going for illegal subcontracting with other European countries and thereby losing money themselves in the process and depriving their motherland from earning foreign remittance.

The limited capacity of smaller countries of the region to generate exportable surpluses of the product in accordance with the specifications required has deterred intra-regional trade to a great extent. Even in the RMG sector, it is seen that Bangladesh, due to its low production capacity, cannot compete with giants like China and India. However, this is also a known fact that labour intensive industries hold high opportunity for Bangladesh as labour quality and labour maintenance cost are pretty competitive in the country. India can capitalise on this opportunity by:

- Identifying export and import patterns of the region.
- Extending production bases in light of comparative advantage in a consented manner.
- Increasing business in the region by extending regional co-operation and a joint committee to evaluate trade facility in the region.

- Lack of shared security perception. This is another issue hampering harmony in economic integration in the SAARC region. Countries here do not have common or shared political and strategic/security perception like ASEAN or EU. This situation persists because India defines security in relation to China's military force and Pakistan, in turn, assesses its security situation in light of India's position. This needs to be addressed by all the member countries not only India because, impact of this falls on co-operative efforts in a gamut of areas. Economic co-operation, although ideally should be de-linked from political and strategic issues, cannot grow to its full potential in a tense situation. For example, before reconciliation, most of Pakistan trade to India went through a third country.

India's role in such a case would be to:

- Prepare a common security strategy for the region.
- Keep the borders open for formal trade.
- Enhance border relationship with all the countries.
- Employ common groups from different countries for security at borders.

4.11.1 Bureaucratic Delay in Implementation of SAFTA

The creation of a free trade area is the sin qua non of any regional organisation. After years of deliberations, the thirteenth SAARC Summit, held in Dhaka in November, 2005, had somewhat hurriedly launched the SAFTA, but various contentious issues remained unresolved. All these issues surfaced at the SAARC Foreign Ministers Conference.

The SAFTA, as per the 2006 summit declaration, officially started from July 1, but it is mostly on paper. It was expected that the mid-annual Dhaka meeting would give the much-needed political boost for its smooth implementation. However, the sharp divergent perceptions of the two largest economies, India and Pakistan, were too deep rooted for the meeting to overcome.

After the first round of meetings of SAARC standing Committee of Foreign Secretaries, the Indian foreign secretary, at a press conference, accused Pakistan of violating the SAFTA agreement. He alleged that "though Pakistan signed the agreement which covers all tariff lines excepting the sensitive (negative) list, it has issued a notification which limits SAFTA tariff concessions for India only on items on the existing bilateral positive list" and he thought that this action was a "clear violation of the SAFTA agreement's Article 23." Earlier, the Indian side had alleged that Pakistan restricted 773 Indian items despite having ratified the SAFTA without any reservation.

The Pakistani foreign secretary, at a separate press conference, countered the Indian allegation by saying that SAFTA has necessary institutional mechanism to resolve such bilateral trade disputes and politicised. He also maintained that their bilateral trade differences were in no way hindering the implementation of the SAFTA among other SAARC members.

The Pakistani foreign minister also claimed that despite inclusion of various items in their sensitive list, India's exports to Pakistan have increased manifolds during recent years but Pakistan's exports to India did not register any appreciable increase due to stiff tariff structure and non-tariff barriers applied by India.

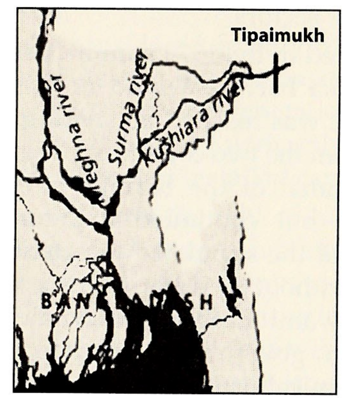
Despite extensive discussions at the Foreign Minister-level, the issue could not be resolved. The meeting merely noted Indo-Pakistan divergent perceptions and passed it on to the SAARC commerce ministers to settle before the next summit.

Among other issues, the Dhaka meeting decided, in principle, to grant observer status to the United States, South Korea, and the European Union. They would be invited to attend the next SAARC Summit in India next April. The last summit had earlier decided to admit Afghanistan as a full member and China and Japan as observers. The Afghan foreign minister attended the Dhaka meeting as a special guest. The meeting also approved the Regional Poverty profile 2005 for the eradication of poverty in the region, but there was no concrete progress in making the SAARC Development Fund (SDF), created about three years ago, operational. Where ASEAN and EU have already gone into Economic Union this region is still paper fighting for Integration. India needs to quicken the process and as the largest economy, provide the required supports and benefits as early as possible.

In summary it can be said that India has diverse avenues which it can pursue in order to improve the economic and political situation among the SAARC countries. But the political relationship of India with its neighbours especially with Pakistan is playing a major role in obstructing regional integration and hence the progress of the SAARC economy. India on the other hand, is losing out on the optimum benefit that it could have obtained if "Economic" interests were pursued rather than the "Political" ones for the greater benefit of its own nation and SAARC.

4.12 INDIA-BANGLADESH POLITICAL TENSION REGARDING TIPAIMUKH DAM

The Tipaimukh Hydroelectric Project is being constructed near the confluence of Barak and Tuivai rivers, in Manipur, India and within 100km of Bangladesh border. Costing over Rs 5,000 crore, the 164 meter high dam will have a firm generation capacity of approximately 400 MW of electricity.



While Hydroelectric projects are typically considered greener than other power generation options in short term, it has significant long-term impact to the environment like changes in the ecosystem, destroying nearby settlements and changing habitat conditions of people, fish and wildlife. Especially in the densely populated countries like India and Bangladesh, where rivers are lifelines, projects like Tipaimukh will create adverse effect to a huge number of population and their habitats.

No wonder right from the start this project faced protests from potentially affected people in India, and from the downstream neighbor Bangladesh. The people of Manipur have been fighting legally to stop the project but have so far been unsuccessful. The Indian government is going ahead with the plan. The Sinlung Indigenous People Human Rights Organisation (SIPHRO) of India said that "the process for choosing it (the project premises) ignored both the indigenous people and the recommendations of the WCD (World Commission on Dams)."

Water sharing issues with India are not new to Bangladesh. The inhabitants of Bangladesh are still experiencing the bitter effects of Farakka dam. Completed in 1970 by India, the Farakka Barrage, around 18 kilometres upstream of Monohorpur, also seemed a rather innocent venture by India at just 'saving the Calcutta Port from silting.' But the reality was felt by the Bangladeshis over the next few decades as the entire south-western region of Bangladesh was affected due to the dearth of water. The country also faced long term losses in the agricultural, fisheries, forestry, industry, navigation and other sectors.

After being assured in the 1974 summit between the two countries that the Farakka barrage would not be put into operation before an agreement was reached on sharing the dry season flow of the Ganges between the two countries, Bangladesh allowed India to test the feeder canal of the barrage in 1975. India commissioned the barrage but continued unilateral diversion of the Ganges flow, beyond the stipulated test period. The barrage had been operational without a water-sharing agreement till 1997, before the then Awami League Government finally managed to make the Indian government concede. In the meanwhile, Bangladesh's economical activity and ecological health had been hugely affected.

And now, the construction of Tipaimukh Dam threatens to affect north-eastern Bangladesh the way south-western Bangladesh had been affected by the Farakka. Despite India's insistence that the dam has only been built to generate electricity and a lukewarm response from the government in power, in Bangladesh, citizens and environmentalists feel extremely concerned and many have vowed to resist the construction at all costs.

The Indian government recently resumed construction of the Tipaimukh on the Barak River, just a kilometre north of Jakiganj in Sylhet, which resulted in the recent, renewed interest on its affects. The construction work was stalled in March 2007 in the face of protests within, (people of the Manipur state of India are slated to be worst-affected) and outside, India for not following international conventions about the international rivers. The completion of the dam in 2012 will virtually dry up the Surma and the Kushiara rivers, thus choking the north-eastern regions of Bangladesh, say experts.

4.13 DETAILS OF THE PROJECT

To be located 500 metres downstream from the flowing rivers of Barak and Tuivai rivers, the Tipaimukh dam lies on the south-western corner of the Manipur State of India. The rock filled structure, with a central impervious core, has a height of around 180 metres above the sea-level. Its reservoir will have a storage water capacity of 15,900 million cubic meter with a maximum depth of 1,725.5 meter.

Although originally considered, to only contain the flood water in the Cachar plains of Assam, the emphasis of the dam was also later placed on hydroelectric power generation. The dam will have an installation capacity of 1500MW with only a firm generation of 412MW (less than 30 per cent of installed capacity).

Tipaumukh Dam was first thought of in 1954 when the government of Assam requested its construction to the Central Water and Power Commission of India for ways to manage floods in the Barak river basin. The commission surveyed and rejected three sites by 1965 on two grounds. The sites were geologically unsafe and large-scale submergence of cultivable land made it economically unviable.

The North-Eastern Council of India intervened and after discussion with Assam, Manipur and Mizoram, the states through which the river flows, the Central Water Commission began investigations in 1977. In 1984, it identified a new site. The dam, it was then estimated, would cost Rs 1,078 crore. The project was shelved as it did not have the requisite environmental and management plans.

In 1995, the Brahmaputra Board, responsible for managing the water of Brahmaputra and Barak river basins in India, carried out studies and revised the plan totalling the estimated cost to Rs. 2,899 crore.

People of Manipur began to take notice as the completion of the dam would immediately result in their eviction from the area where they had lived for the past hundred years. In order to appease them, environment minister Kamal Nath assured that resettlement issues would be taken care of and nothing would be done in haste, in 1995. In 1995, chief minister Rishang Keishing made a statement declaring that the state cabinet did not approve of the dam.

In 1998, the Manipur assembly passed a resolution not to implement the project. However, in 1999, the central government handed over the project to North-Eastern Electronic Power Co-operation (NEEPCO) under circumstances, which many social organisations allege are questionable. They claim that during a spell of the president's rule, imposed in 2001, the governor approved the project.

Then in 2003, the Public Investments Board and the Central Electricity Authority of India cleared the project by which the costs had been revised to Rs 5,163.86 crore by NEEPCO.

Currently, the information fed to the Indian public details that the project is to be built primarily for flood control and power generation. Irrigation and other benefits will be spin-offs. Flood control will benefit some plain areas in Assam.

However, Manipur and Mizoram are likely to bear the brunt of submergence. But they are to equally share, as the central government stipulates to the Manipur government, 12 per cent of the power from the project, free of charge while the rest will be taken by NEEPCO.

4.14 IMPACT ON BANGLADESH

The direct impact of Tipaimukh dam is the drying up of the rivers Surma and Kushiara which join to create the Meghna, the river which breathes life to the eastern areas of Bangladesh. The adverse effects of environmental deprivation, economic crisis and drought could prove to be irreversible.

Sylhet region will be the worst hit area of Bangladesh; the dam's completion will disrupt agriculture, irrigation, drinking water supply, and navigation and ground water levels. Surma-Kushiara, and its 60 branch and distributaries support agriculture, irrigation, navigation, drinking water supply, fisheries, wildlife in numerous *haors* and low lying areas in the entire Sylhet division and some peripheral areas of Dhaka division. The river system also supports internal navigation, wildlife in haors, industries like fertiliser, electricity, gas etc. Around five crore people of Sylhet and Dhaka division will face problems as Surma and Kushiara will lose five feet water in the rainy season. Environmental degradation will take place massively, severely affecting weather and climate, turning a wet cooler environment into a hot uncomfortable cauldron, according to experts. Environmentalists in Bangladesh have even predicted that within 15 years after starting the project and withdrawing water from the Barak, there will be no water in the rivers.

Scarcity of water will also cause siltation on river beds. When high rainfall will occur in the catchments area of the dam, enormous quantity of sediment-laden flood water will be released. This will cause a severity of flood in the Surma and Kushiara channels, already raised for low flow. This will further raise the water level causing floods in adjoining additional areas.

Also, navigation in river channels in the Meghna will be affected due to depletion of water flow and consequent sedimentation and severity of flooding during the monsoon season. Surface irrigation will also be in danger. The Meghna-Padma river will have lower flow, accentuating saline backwater intrusion in the Padma channel.

The total agricultural sector of around 20 districts, directly and indirectly, will be affected. The Barak-Surma-Kushiara-Meghna river system stretches about 946 km. Around 669 km of this is in the Bangladesh portion. If India withdraws water, the fate of this whole river system will be threatened.

Many scientists, engineers and green activists feel that the completion of the Tipaimukh dam will increase the frequency of earthquakes in the adjoining region of both India and Bangladesh. The north-east region of India is one of the six major seismically active zones of the world that includes north-east India and suburbs, and Bangladesh. The huge reservoir of the dam will create pressure on the ground of this region which is already a high alert zone for earthquakes.

4.15 PROTESTS IN INDIA

The people of Manipur state protested from the very beginning of the dam's conception as they are to sacrifice the most. The unanimous verdict of the peoples' affirmation was that the Tipaimukh Multipurpose Hydroelectric Project is not for the people, by the people or of the people of the Manipur.

As has been pointed out by the intellectuals and experts of the state, the 900 km long Ahu (Barak River) is a constant source of the socio-political, economic and cultural sustenance for the indigenous Zeliangrong and the many indigenous and non-indigenous communities, who live along its course in India and Bangladesh. These cultures have grown up along these rivers over the past few centuries.

The mega-dam proposed at Tipaimukh (Ruonglevaisuo to the Hmar people) will smother this particular source of life for them while also affecting their culture, anthropology, ecology and economy. As per estimates of the authorities, the project will also totally affect 311 sq km area of the state. More than 40,000 people will be rendered landless as 16 villages at the Barak Valley will be submerged while around 90 villages will be adversely affected.

As such, academicians, politicians, students and civil society organisations have formed the Action Committee against Tipaimukh Project (ACTIP) to oppose the project which will further deepen the cracks in Manipur's already fissured society. The construction of the dam will also benefit some groups at the cost of others.

4.16 PROTESTS IN BANGLADESH

Bangladesh has been, rightly so, apprehensive about this massive project and having to bear the consequences as the downstream region. Engineers, environmentalists, scientists, intellectuals and other professionals have raised their voices against this project. Intentionally or not, the Environmental Impact Assessment (EIA) studies have not addressed the possible adverse effects of the

project on Bangladesh. In a situation where the Indian government itself is being blamed of not being transparent in its process with its own people, there is a reasonable concern among the people of Bangladesh. The opposition parties have urged the government to take necessary steps to prevent the construction of the dam. Several other organizations and groups have also demonstrated and organized press briefings to gather popular support against this project.

4.17 CURRENT PROGRESS

The Indian government and the media have been trying to pacify Bangladesh on Tipaimukh issue by assuring that Bangladesh will not be adversely affected by it. Indian High Commissioner Pinak Ranjan Chakravarty, at a press-conference in Bangladesh asserted that Tipaimukh is a hydro-electric multi-purpose project to produce electricity and referred the comments on possible damage to Sylhet region as empty slogans to gain political mileage. The High Commissioner of India also said that both Bangladesh and India were getting due share of waters as per the Ganges water treaty signed by the previous Awami League Government in 1996.

The Indian government also invited delegates from Bangladesh to visit the Tipaimukh construction site. The 10-member team went to India on July 29 to see the site of the proposed Indian project at Tipaimukh but could not land on the site due to heavy rain. However, the head of Tipaimukh dam site visit team, Abdur Razzaq mentioned that they were given the assurance from the Indian government that Tipaimukh project will not be for irrigation and no structure will be built in lower areas. India also assured to give Bangladesh information on how much water they will release from the river Barak in summer.

However, it has to be remembered that there is no international treaty. There is a UN convention on the non-navigation and uses of water resources. The convention has been approved and ratified by 17 countries so far and needs signing and ratification by 35 countries to be made into an international law. Hence, it can be difficult to implement legal bindings on India to prevent the construction. The process has to be achieved through negotiations and high-level meetings to achieve a solution that would be mutually beneficial. How India would cooperate and respond to the continuous pressure from Bangladesh, only time can tell.

4.18 INDIA'S POLITICS AND SAARC

India has maintained skilfully a good relation with most of the countries in the world since 1947. During the cold war India maintained a neutral relation with USSR and USA. It has a defence treaty with Russia and at the same time a commercial partnership treaty with USA. Now it has completed a civil atomic treaty with USA. In the same manner today India has a business share with Middle East, and is earning a significant amount of its remittance from the same while maintaining a military share with Israel. Seemingly India is very successful in building relation with most other countries of the world. On the other hand it always shows a big brother attitude toward it neighbours e.g., Nepal, Sri Lanka, Pakistan and Bangladesh in many bilateral issues. Why does India fail to build up a congenial relation with its neighbourhoods while maintaining a balancing relation with most other countries in the world? What would be the price for India for not maintaining a cordial relation with its neighbourhoods? In this scenario China can take the advantage of building relation with India's neighbourhoods, which would be a great fallacy for India in the long run.

The congress led government has been formed through a landslide victory in the election of May, 2009 in India. In various sates of India, especially the West Bengal, the dominance of Leftist parties has faced a threat for the very first time in the past 40 years. Due to the massive victory of Trinomul, the Leftist alliance only has 15 parliamentary seats. The number of parliamentary seats of BJP alliance has been cut down to 169. The election of 2009 clearly visualizes the expectation of India's citizens. They have rejected the conservative BJP alliance. The liabilities of harassment of minority Christian in Assam, the Dalit class in Bihar, minority Muslim in Gujrat and other states are not only to BJP but also to the Indian Government. Besides, the steps taken by the government towards the deprived Muslim citizens in Kashmir, aborigines in seven sisters, Gurkha people in Sikim and West Bengal (Karshiang, Darjeeling) have been proven ineffective to solve the real problems.

The government has given birth to massive mistrust through different suspicious measures. Though it is not collectively ignited yet, there is little certainty that there will not be an outburst in the future. As the minority and local strives in Kashmir, Punjab, Tamil Nadu, Bihar, Orissa, Monipur, Sikim and West Bengal are not given priorities by the Indian government, the people of these states may take extremism as the last resort.

How much respectful is India toward regional development will be seen now very clearly. India has made no remarkable progress in bilateral relation with Pakistan, Nepal or Sri Lanka in recent years. But present India government and Bangladesh government has an outstanding relation. Mujib and Gandhi families bear a close tie. Both the families have a long political history and they have significant contribution in the liberation of their respective countries. If India really wants to keep a good relation with neighboring countries, then Tipaimukh Dam, Bangladesh-India border crisis, and other bilateral conflicts remain as an acid test for India. It is probably the high time for India to assist Bangladesh bring forward and to create an example for other neighboring countries. If BJP forms government in India and Awami League led Bangladesh government changes, this equation may not be the same. Though there should be some measures from Bangladeshi leadership to convince India for regional development, Indian leadership bears the vital role. Awami League is co-operating with congress in many aspects. So India should play an important role to improve regional integration, and build up strong relation in this region.