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Pruning India's Sensitive Lists under SAFTA: A Comment

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The article by Nisha Taneja et al, "An Approach to Prune India's Sensitive Lists under SAFTA" (EPW, 12 March 2011) presents the economic rationale for pruning India's sensitive lists under the agreement on the South Asian Free Trade Area (SAFTA) for Sri Lanka, Bangladesh, and Pakistan. The applicable sensitive lists consist of 331 items for Bangladesh, 215 for Sri Lanka and 910 for Pakistan at the six-digit level of the Harmonised System (HS). The items recommended for removal consist of those in the bilateral sensitive list but not under the SAFTA, items that cannot be supplied by the exporting countries to the world, items that have been de-reserved, items where India is competitive and items where neither India nor the exporting country is competitive.

This discussion seems to add to the approach that has been presented in the article. The particular case concerns India's sensitive list items for Bangladesh. The breakup of the original sensitive list maintained by India for the least developed countries is shown in Figure 1.

Figure 1: Distribution of India's Sensitive List Items for LDCs Section-wise
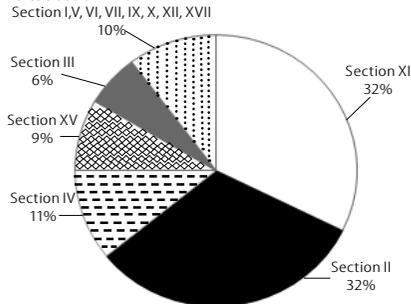
Section-wise details in Appendix.
Source: Based on author's calculations, data from the Ministry of Commerce.

The original sensitive list of 480 items, corrected for the operational concessions in 164 textile items, reveals an applicable list of 331 items for Bangladesh. It was observed that 32.3% of the sensitive list items were earlier in Section XI of "Textile and Textile Articles". Since 2008, after exemptions were offered to Bangladesh, this section now contains only 1.67% of the sensitive list items.

The Revealed Comparative Advantage (RCA) methodology is a useful tool to determine the items for removal from the sensitive lists. An additional rationale can be to observe the bilateral flows across the years to identify rising trends in India's import flows. Some of these items may be of strategic importance for food security or for protection to infant industries. It is imperative to ascertain other underlying reasons for the rising flows or if the existing protection to infant industries is redundant. A strong explanation for rising import flows can be that the item is a part of an integrated global value chain (GVC) or a global production network across countries. GVCs allow for diversification in product space, which has been shown to increase average unit values in trade flows and induce positive feedback for growth. This enables us to point to additional motivations for pruning certain sensitive list items. In view of this, studying GVCs can be essential for policy development for trade in south Asia. Identifying the sensitive list items that are a part of such chains can therefore be helpful as a proposition for future policy negotiations. Table 1 lists the competitive sectors for global production networks in south Asia that include textiles and garments, leather, food processing, pharmaceuticals and traditional medicines, and information technology software. Textile items have already been removed from the sensitive list for Bangladesh and the same can be done for Pakistan, as also pointed out by Taneja et al.

Table 2 shows the 12 items that have experienced the highest rise in India's import values from Bangladesh. None of them pertain to food security. Among the 12 items identified, four are food processing items. Therefore, it is possible that these items are a part of a nascent global production network or have the potential to fit into an integrated value chain in south Asia and may be considered for removal from sensitive lists.

In sum, it can be said that the economic rationale discussed by Taneja et al can be supplemented by additional reasons to develop well-functioning global production networks. The framework discussed here can be used for other SAARC nations as well. The removal of high tariff barriers for identified products for value chains and the reduction of associated transaction costs can therefore be a stimulus for developing trade policy in south Asia and capitalise on the existing synergies in intra-regional trade in the region.

Table 1: Competitive Sectors for Global Production Networks in South Asia (2007)

HS Codes	Commodity Description	Trade Competitiveness (%)	Average RCA for India
50–63	Textiles and garments	8	4
41–42	Leather	5.4	2.8
17, 23, 24	Food processing	4.2	3.4
30	Pharmaceuticals and traditional medicines	1.2	1
85	IT softwares	1.18	0.87

(i) The RCA indices use trade patterns to calculate the comparative advantage or disadvantage of a country in certain goods, calculated as a ratio of trade shares of the country of interest and that of the world. (ii) The competitiveness index is an indirect measure of international market power, evaluated through a country's share of world markets in selected export categories.
Source: Interactive Trade Indicators, Asia-Pacific Research and Training Network on Trade.

Table 2: Trade Values for India's Imports in Sensitive List Items for Bangladesh
($ million, at current prices)

	HS 6-Digit Code	Commodity Description	2006	2007	2008	2009
1	030269	Other fish fresh/chilled excl livers and roes	13.92	20.98	33.45	24.79
2	080290	Other nuts fresh or dried	4.85	3.27	4.13	5.27
3	190590	Other bread, pastry, rice paper and similar products	0.01	0.03	0.09	0.06
4	230210	Bran sharps and other residues of maize(corn)	0.001	0.01	0.3	0.43
5	230240	Bran sharps and other residues of other cereals	0.01	0.03	4.17	1.3
6	230650	Oil-cake and other residues of coconut/copra	0	0	0.01	0.16
7	240120	Tobacco partly or wholly stemmed/stripped	0.04	0	0	0.01
8	400121	Natural rubber in smoked sheets	0.001	0.01	0.12	0.97
9	400129	Natural rubber in other forms	0	0	0.001	0.04
10	400591	Plates sheets and strip	0	0	0.01	0.11
11	482110	Printed labels	0.01	0.03	0.11	0.15
12	720918	Flat-rolled products, in coils not further worked than cold-rolled (cold reduced) of thickness <0.5 MM	0	0	0.01	0.02
		Total imports from Bangladesh	228	257.02	313.11	254.66

The data is for the items showing the highest rise in growth rates between 2006 and 2009.
Source: Database of the Export Import Bank of India.

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