



Asia-Pacific Research and Training Network on Trade  
Working Paper Series, No. 73, July 2009

## Prospects of economic cooperation in the Bangladesh, China, India and Myanmar region: A quantitative assessment

*By*

*Md. Tariqur Rahman and Muhammad Al Amin\**

---

\* Both authors are Research Associates at the Centre for Policy Dialogue, Bangladesh. This paper was prepared as part of the Asia-Pacific Research and Training Network on Trade (ARTNeT) initiative. They participated in the ARTNeT Capacity building workshop on trade research in June 2008. The technical support of the United Nations Economic and Social Commission for Asia and the Pacific is gratefully acknowledged. The opinion figures and estimates are the responsibility of the authors and should not be considered as reflecting the views or carrying the approval of the United Nations, ARTNeT and the Centre for Policy Dialogue. Any remaining errors are the responsibility of the authors, who can be contacted at [tariq@cpd.org.bd](mailto:tariq@cpd.org.bd) and [alamin@cpd.org.bd](mailto:alamin@cpd.org.bd), respectively.

**ARTNeT is aimed at building regional trade policy and facilitation research capacity in developing countries. The ARTNeT Working Paper Series disseminates the findings of work in progress to encourage the exchange of ideas about trade issues. An objective of the series is to get the findings out quickly, even if the presentations are less than fully polished. ARTNeT working papers are available online at [www.artnetontrade.org](http://www.artnetontrade.org). All material in the working papers may be freely quoted or reprinted, but acknowledgment is requested, together with a copy of the publication containing the quotation or reprint. The use of the working papers for any commercial purpose, including resale, is prohibited.**

## Executive Summary

This paper quantifies the economic impact of Bangladesh, China, India and Myanmar (BCIM) economic cooperation and compares it with the alternative option of expanding South Asian Free Trade Area (SAFTA) with China and Myanmar. The paper examines the macro-economic performance of the individual countries and the current level of trade among the BCIM member countries at the regional level. In addition, the paper attempts to explore the level underlying rationale, peripheral benefits and primacy of forming BCIM rather than expanding SAFTA. In a quantitative analysis, a SMART simulation shows that, the merchandise trade in the BCIM region would increase by US\$ 5.7 billion, US\$ 4.1 billion and US\$ 2.7 billion under full, moderate and partial tariff liberalization, respectively. On the other hand, trade would total US\$ 12 billion, US\$ 9 billion and US\$ 5 billion in case of adding China and Myanmar to SAFTA. The paper identifies most trade potential products for the BCIM region under full tariff liberalization. Finally, it explores the logic of forming BCIM even though the quantitative results support the expansion of SAFTA to include China and Myanmar. It explores the fact that the strength of the BCIM region lies in expanding cooperation along with north-east India, south-west China, Bangladesh and Myanmar in the case of forming a subregional development hub or quadrangle with expanded cooperation in the transport, energy and tourism sectors. This quadrangle may have large potential for enhancing economic growth by increasing intraregional trade among the member countries and will have a positive impact both on economic and on human development in the region.

## Contents

|  |    |
|--|----|
| 1. Introduction .....  | 1  |
| 2. Importance of BCIM economic cooperation and rationale for the study ..... | 2  |
| 3. Literature review.....  | 4  |
| 4. Tariff profile of BCIM vis-à-vis SAFTA + China + Myanmar region .....     | 5  |
| 5. Data and methodology .....  | 7  |
| 6. Results and prospects.....  | 8  |
| 7. Conclusion .....  | 14 |
| References .....   | 15 |
| Annexes .....  | 16 |
| Annex I. World integrated trade solution and SMART.....                      | 16 |
| Annex II. Scenario-wise trade impact of BCIM.....                            | 18 |
| Annex III. Potential products for the region under full liberalization ..... | 33 |

## List of tables

|  |    |
|--|----|
| Table 1: Macroeconomic overview of the SAFTA + Myanmar + China region in 2006 ..                               | 2  |
| Table 2: Pattern of intraregional trade in BCIM.....   | 3  |
| Table 3: Pattern of intraregional trade in SAFTA + Myanmar + China.....  | 3  |
| Table 4: Average tariff rate (unweighted in percentage) in the BCIM region in 2007 .....                       | 6  |
| Table 5: Average tariff rate (unweighted in percentage) in the SAFTA + China +<br>Myanmar region in 2007 ..... | 6  |
| Table 6: Scenario definition for simulation .....  | 8  |
| Table 7: Effects of BCIM economic cooperation under three scenarios.....                                       | 9  |
| Table 8: Effects of SAFTA + China + Myanmar economic cooperation under.....                                    | 10 |

## List of figures

|   |    |
|---|----|
| Figure 1: Effects of BCIM economic cooperation under three scenarios .....                      | 10 |
| Figure 2: Effects of SAFTA + China + Myanmar economic cooperation under three<br>scenarios..... | 11 |

## 1. Introduction

The BCIM forum is a Track-II initiative<sup>1</sup> that was floated in 1999 and comprises Bangladesh, China, India and Myanmar. It is an effort primarily by the non-government sector of the member countries to influence policymakers, business people and government representatives in boosting regional cooperation by transferring it into a growth quadrangle or Regional Economic Development Area (REDA).

The idea of Growth Zones in development economics and the success of existing growth zones – the Greater Mekong Subregion (GMS) and the southern China Growth Triangles, and the Growth Triangle comprising Johor State of Malaysia, Singapore and the Riau Islands of Indonesia – inspired the non-governmental sector of those countries to initiate a debate on forming a BCIM growth zone. It has been argued that formation of growth zones or REDA will initiate a faster economic growth process by increasing the possibility of efficient use of the region's unused resources (ESCAP, 2002).

Resource endowments in the BCIM region vary from country to country, which supports the precondition for the formation of this type of regional integration. China and India have comparatively better technology, a more efficient labour force, and improved physical and commercial infrastructure. On the other hand, Bangladesh and Myanmar have a large unskilled and semi-skilled labour force as well as basic and intermediate technology.

On the other hand, these countries are already involved in different trade agreements with each other on a bilateral or regional basis, e.g., SAFTA, the Asia-Pacific Trade Agreement (APTA) and the Bay of Bengal Initiatives for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC). Hence, in the case of analysing the potentiality of this new regional initiative, it is necessary to compare BCIM with another possible alternative regional cooperation initiative, SAFTA + Myanmar + China..

This paper attempts to assess the potential economic gains of this regional cooperation initiative in real terms by quantifying the likely economic effects, such as “trade creation” and “trade diversion” together with “revenue and welfare effects”, with the help of a partial equilibrium analysis. In addition, using a gravity analysis, the direction and magnitude of trade flow of this region are assessed with regard to population, per capita income, border area and maritime distance. The paper also justifies this initiative by comparing it to the alternative option of incorporating China and Myanmar with SAFTA instead of forming another regional bloc. To assess this alternative, the benefits of SAFTA + Myanmar + China have been calculated in comparison with the proposed BCIM perspective.

The paper is divided into seven sections. Section 1 explores the importance of the proposed BCIM economic cooperation and rationale for the study, while sections 2 and 3 review the literature and the tariff profile of BCIM vis-à-vis SAFTA + China + Myanmar. Section 4 reviews the data and methodology used. In section 5, the findings of the gravity model and SMART simulation are given. This section also describes some important products that have high trade potential for this regional bloc. Section 6

---

<sup>1</sup> “Track-II” initiatives are initiatives taken by the non-governmental sector, whereas initiatives taken by the government sector are known as “Track-I” initiatives.

discusses the other rationale for forming BCIM as another regional cooperation initiative. Section 7 provides some policy recommendations for boosting this regional cooperation.

## 2. Importance of BCIM economic cooperation and rationale for the study

Both proposed regional cooperation initiatives, i.e., BCIM and SAFTA + Myanmar + China, comprise very large markets, with a total gross domestic product (GDP) of around US\$ 3 trillion (as of 2006). In terms per capita GDP, the countries heterogeneous in nature, both within the BCIM region and in the SAFTA + Myanmar + China region; however, every country except Myanmar and Nepal has achieved a moderate level of growth (table 1).

Table 1 shows that there are differences in the contribution by each sector to total GDP for most of the countries. The services sector contributes most to national income, except for China where industry is the major source and for Myanmar where agriculture accounts for the largest portion of the national income. Again, although the share of international trade in terms of each country's total GDP provides an important contribution, this varies among the countries, with lowest ratio for Pakistan and the highest shares for Bhutan and China in 2006.

**Table 1: Macroeconomic overview of the SAFTA + Myanmar + China region in 2006**

| Indicator                     | Afghanistan | Bangladesh | Bhutan   | China    | India  | Myanmar | Nepal  | Pakistan | Sri Lanka |
|-------------------------------|-------------|------------|----------|----------|--------|---------|--------|----------|-----------|
| GDP (US\$ billions)           | 2.96        | 65.42      | 0.70     | 2 095.95 | 703.33 | 8.80    | 6.70   | 100.89   | 21.27     |
| Per capita GDP                | 143.00      | 419.41     | 1 086.34 | 1 597.77 | 633.74 | 174.00  | 242.48 | 634.50   | 1 069.66  |
| GDP growth                    | 6.50        | 6.63       | 8.47     | 10.70    | 9.20   | 2.90    | 2.80   | 6.92     | 7.35      |
| Share of GDP                  |             |            |          |          |        |         |        |          |           |
| Agriculture                   | 32.60       | 19.61      | 22.34    | 11.71    | 17.53  | 50.00   | 34.36  | 19.39    | 16.46     |
| Industry                      | 27.80       | 17.21      | 7.37     | 48.48    | 16.28  | 35.00   | 7.68   | 19.47    | 13.93     |
| Services                      | 39.60       | 52.48      | 39.77    | 39.91    | 54.58  | 15.00   | 49.31  | 53.41    | 56.47     |
| International trade-GDP ratio |             | 44.22      | 76.79    | 72.39    | 48.78  |         | 45.29  | 38.61    | 74.78     |

*Source:* World development Indicators, 2008, World Bank.

On the other hand, when conceptualized as a region, BCIM accounts for about 40 per cent of world's total population (2.62 billion persons in 2007) and about 7.5 per cent of total global GDP (about US\$ 3 trillion). The sectoral composition of GDP of these countries indicates that the presence of complementarities in economic activities can make cooperation beneficial. For example, in financial year 2007, the dominance of the industrial sector in China (49 per cent of total GDP), the agriculture sector in Myanmar (50 per cent of total GDP) and the services sector in India and Bangladesh (55 per cent and 49 per cent of total GDP, respectively).

Again, when looking at the trading pattern for these regions, some variation can be seen in their intraregional shares, although all shares of imports and exports at the regional level are increasing over time (tables 2 and 3). For the small economies, the regional countries are the most important sources of their imports and even their exports (e.g., Myanmar, Nepal and Bhutan). On the other hand, for the medium-sized economies (e.g., Pakistan and Bangladesh), regional countries are more important from the perspective of their imports compared with their exports to the same region, whereas for the two major economies, China and India, the regional countries are more important

from the export perspective compared to imports. However, again one distinguishing factor supports the formation of BCIM cooperation. Although SAFTA is already an established regional free trade agreement, whereas BCIM is only under consideration, the share of intraregional trade in terms of both exports and imports, the latter is gaining in importance compared to the previous one.

**Table 2: Pattern of intraregional trade in BCIM**

| Country         | Export to BCIM as % of world |       |       |       |       | Imports from BCIM as % of world |       |       |       |       |
|-----------------|------------------------------|-------|-------|-------|-------|---------------------------------|-------|-------|-------|-------|
|                 | 1990                         | 1995  | 2000  | 2005  | 2007  | 1990                            | 1995  | 2000  | 2005  | 2007  |
| Bangladesh      | 2.80                         | 1.79  | 1.08  | 1.96  | 2.39  | 8.06                            | 24.62 | 18.16 | 27.82 | 29.49 |
| China           | 0.96                         | 1.35  | 1.19  | 1.61  | 2.39  | 0.40                            | 0.45  | 0.66  | 1.53  | 1.58  |
| India           | 1.78                         | 4.14  | 3.91  | 8.36  | 10.41 | 0.57                            | 3.05  | 3.39  | 7.74  | 10.98 |
| Myanmar         | 19.10                        | 23.88 | 14.97 | 19.64 | 22.15 | 20.98                           | 30.11 | 19.73 | 32.27 | 37.21 |
| BCIM as a whole | 1.37                         | 1.91  | 1.86  | 3.04  | 4.40  | 0.96                            | 1.45  | 1.89  | 3.15  | 4.07  |

*Source:* Estimated from the International Monetary Fund Direction of Trade Statistics Database, 2008.

*Note:* Export data are taken as FOB and import data as CIF.

**Table 3: Pattern of intraregional trade in SAFTA + Myanmar + China**

| Country                    | Exports to SAFTA + Myanmar + China<br>(% of world) |       |       |       |       | Imports from SAFTA + Myanmar + China<br>(% of world) |       |       |       |       |
|----------------------------|--|-------|-------|-------|-------|--|-------|-------|-------|-------|
|                            | 1990   | 1995  | 2000  | 2005  | 2007  | 1990   | 1995  | 2000  | 2005  | 2007  |
| Afghanistan                | 14.57  | 22.30 | 45.86 | 43.24 | 46.48 | 19.91  | 19.20 | 30.83 | 46.20 | 45.65 |
| Bangladesh                 | 5.17   | 3.34  | 1.84  | 2.73  | 3.09  | 10.24  | 26.98 | 19.37 | 28.98 | 30.73 |
| China                      | 1.99   | 2.10  | 1.72  | 2.22  | 3.02  | 0.57   | 0.63  | 0.89  | 1.67  | 1.71  |
| India                      | 3.17   | 6.06  | 6.16  | 11.98 | 13.91 | 0.97   | 3.37  | 4.14  | 8.56  | 11.65 |
| Maldives                   | 13.99  | 22.63 | 18.14 | 17.42 | 9.74  | 14.07  | 13.62 | 23.30 | 19.51 | 12.44 |
| Myanmar                    | 23.59  | 26.32 | 15.95 | 20.71 | 23.41 | 21.14  | 30.24 | 19.88 | 32.42 | 37.29 |
| Nepal                      | 9.91   | 9.29  | 42.90 | 67.45 | 72.36 | 20.74  | 24.87 | 45.05 | 65.26 | 72.74 |
| Pakistan                   | 5.25   | 4.92  | 7.27  | 13.93 | 18.13 | 6.33   | 6.26  | 7.92  | 12.41 | 19.26 |
| Sri Lanka                  | 3.96   | 2.76  | 3.58  | 10.77 | 8.78  | 11.49  | 15.78 | 14.35 | 29.51 | 33.13 |
| SAFTA                      | 2.19   | 2.43  | 2.19  | 2.79  | 3.39  | 1.13   | 1.55  | 1.72  | 2.30  | 2.24  |
| SAFTA +<br>Myanmar + China | 2.67   | 3.05  | 2.72  | 3.71  | 4.56  | 2.21   | 3.21  | 3.00  | 4.27  | 5.36  |

*Source:* Estimated from the International Monetary Fund Direction of Trade Statistics Database, 2008.

*Note:* Export data are taken as FOB and import data as CIF.

Together with the economic factors, the strong cultural affinity, the closer geographical proximity and presence of a huge informal border trade among the countries also provide strong optimism for forming a regional trading bloc comprising BCIM. Again, BCIM cooperation is expected to help to revive the centuries-old Silk Road<sup>2</sup> running from Chittagong to Yunnan through Myanmar, a fact that will help to facilitate transit and thus trade among these countries. The potential benefit of utilizing the two ports of Bangladesh, i.e., Chittagong and Mongla, is a vast increase in trade and investment in this region and will be particularly useful to India in communicating with its “Seven Sisters” provinces, i.e., Arunacha, Assam, Manipur, Meghalaya, Mizoram, Nagaland and Tripura. .

<sup>2</sup> The Silk Road, or Silk Route, is an extensive interconnected network of trade routes across the Asian continent connecting East, South and West Asia with the Mediterranean world, including North Africa and Europe.

For the above reasons, this cooperation is expected to bring about a process that reveals growth potential for the region as a whole, and for north-east India, south-west China and the two least developed country members, Bangladesh and Myanmar, in particular. In this context, to foster BCIM cooperation and make the policy makers proactive it is felt that an in-depth analysis of the potential outcome of closer integration among the four countries should be carried out.

### **3. Literature review**

In the theoretical and empirical literature, attempts to identify the likely impact of forming RTAs on the member countries are mixed. Viner (1950), Leamer (1983) and Bhagwati and Panagariya (2006) concluded that Preferential Trading Arrangement (PTAs) were a “two faced” system. Ghosh and Yamarik (2004) found no evidence of trade creation or diversion for any PTAs. However, in the trade literature, it is generally argued that with close geographical proximity of the trading partners, and different stages of economic growth and specialization of production, there exists a possibility of welfare gain through mutual cooperation among them (Sayan,1998). Magee (2008) also estimated that regional agreements had significant anticipatory effects on trade flows among the member countries.

Using the case of seven RTAs from different regions, Coulibaly (2004) found mixed evidence. His study concluded that RTAs could be conceptualized as intra-bloc trade creators, where some are net trade creating, and some are net trade diverting. Baltagi, Peter and Pfaffermayr (2007) found that trade policy as reflected in RTAs had an impact not only on trade but also on foreign direct investment. In a study of the Greater Mekong Subregion Economic Cooperation, Krongkaew (2004) found that the potential benefits from this cooperation were large, although he identified some problems related to its implementation. Lee and Shin (2005) concluded that if an RTA involved geographically proximate countries (measured either by distance or by border), trade was likely to increase significantly among them. They concluded that the East Asian RTAs were likely to create more trade among members without diverting trade from non-members.

A gravity analysis of the Andean Community (AC) and MERCUSOR region by Carrillo and Li (2002) concluded that the presence of common borders and availability of land transportation would create 5.7 times and 3.1 times more trade between the countries, respectively, compared with countries that did not have those features. Roberts (2004), in analysing the effects of trade liberalization on the United States-Australia FTA, highlighted the facts related to reaching different conclusions, even contradictory ones in evaluating the effects of bilateral or multilateral trading arrangements when using a gravity model-based approach. For this malfunctioning of the gravity modelling approach, he identified the incorrect specification of models and omitted variable biases, which are, in most cases, the result of data unavailability. Cernat (2001) found that the South-South RTAs, i.e., the RTAs among developing countries, did not divert trade so much. He concluded that the removal of different “invisible” trade barriers, e.g., different steps to facilitate trade, could substantially enhance trade among those countries.

In evaluating the potential impact of the ASEAN-China Free Trade Agreement (ACFTA), which will come into effect from 2010, using the computable general equilibrium analysis approach, Doughyun and others (2008) reached the conclusion that

there was some “guarded optimism” for its role in strengthening economic cooperation among the countries concerned. Zhao and others (2008) quantified the economic implications of the ACFTA on merchandise trade flows among member countries and other trading partners, which implies that tariff reductions alone among regional and bilateral trade arrangements have very little impact on trade flows. They concluded that only under a multilateral liberalization would all member countries of a regional trade arrangement and the rest of the world experience any benefit.

Since the BCIM initiative is still under process, to date there have been very few studies that have attempted to quantify the potential gain and loss that would be generated as a result of the implementation of this initiative, especially any ex ante analysis; rather, almost all the papers are based on theoretical grounds of the regional trading blocs. Even with some political mistrust among some countries, together with a huge market size presence of diverse natural resources, a rich biodiversity and potentiality of enormous energy generation can transform the region into a Growth Zone (Islam, 2008). The similarities in culture and closer proximity among the countries can increase the potentiality of economic integration among South Asian countries (De and Bhattacharyay, 2007).

Again, the increase over time of trade complementarity indices (TCI) in the South Asian Association for Regional Cooperation region (for the four major economies of India, Pakistan, Bangladesh and Sri Lanka), gives grounds for strong optimism that greater opportunity will arise for intraregional trade. Therefore, a case can be argued for supporting BCIM formation as an entity, especially for the big economies of this regional cooperation initiative, i.e., China and India (Asian Development Bank, 2008). A study on BCIM economic cooperation by Rahman and others (2007) concluded that depending on the market size and the different stages of economic development, together with their proximity in terms of geographical location, a huge potential existed for trade and investment complementarities among BCIM countries. Using different trade indices, such as RTOI, GI and TII, they illustrated the scope of regional integration among those countries.

Although extensive literature exists that attempts to estimate the possible effects of RTAs on the member countries vis-à-vis the impact on the non-member countries and on the world as a whole, relatively little attempt has been made to quantify the likely impact of economic cooperation within the BCIM region. This paper is aimed at reducing this shortage, despite its limited extent, by (a) quantifying the magnitude of potential trade and welfare effects of the region, both combined and individually, and (b) providing policy makers with some specific indications of the potential benefit of this regional initiative.

#### **4. Tariff profile of BCIM vis-à-vis SAFTA + China + Myanmar region**

Trade is now being distorted in the BCIM region, both by tariff and by non-tariff barriers. Even though Bangladesh and India are members of SAFTA, they do not have fully-fledged tariff liberalization in practice. Free trade among them is hindered by a large sensitive product list and a high prohibitive tariff structure. In 2007, India faced a 19.6 per cent preferential tariff in Bangladesh whereas the average most favoured nation (MFN) applied tariff rate was 13.7 per cent (table 4). On the contrary, Bangladesh faced a 16.5 per cent tariff in the Indian market. China, which has a relatively liberal market in this region, imposed 1.8 per



cent and 3.5 per cent tariffs on Bangladesh and Myanmar, in 2007, respectively. At that time, India faced a 9.5 per cent tariff in the Chinese market while the China faced a much higher tariff of 14 per cent in the Indian market. However, in 2007, Myanmar's market was the most liberalized, with Bangladesh and India facing 3.9 per cent and 3.4 per cent average MFN applied tariffs, respectively.

**Table 4: Average tariff rate (unweighted in percentage) in the BCIM region in 2007**

| Country    | Bangladesh    | China         | India          | Myanmar      |
|------------|---------------|---------------|----------------|--------------|
| Bangladesh | -             | 14.9<br>(9.3) | 13.7<br>(19.6) | 13.8         |
| China      | 11.7<br>(1.8) | -             | 9.5            | 9.2<br>(3.5) |
| India      | 16.5          | 14.0          | -              | 14.9         |
| Myanmar    | 3.9           | 4.5<br>(8.8)  | 3.4            | -            |

*Note:* Based on a simple average of MFN applied tariffs. Figures in parenthesis indicate preferential tariffs. Italicized data are for 2004.

**Table 5: Average tariff rate (unweighted in percentage) in the SAFTA + China + Myanmar region in 2007**

| Country     | Afghanistan  | Bangladesh     | Bhutan         | China          | India          | Maldives       | Myanmar      | Nepal          | Pakistan       | Sri Lanka      |
|-------------|--------------|----------------|----------------|----------------|----------------|----------------|--------------|----------------|----------------|----------------|
| Afghanistan | -            | 4.0            | na             | 5.8            | 6.1<br>(0.0)   | na             | na           | na             | 5.9            | 7.2            |
| Bangladesh  | 20.3         | -              |                | 14.9<br>(9.3)  | 13.7<br>(19.6) |                | 13.8         | 18.3<br>(22.7) | 16.8<br>(22.7) | 16.2<br>(19.3) |
| Bhutan      | na           | 25.2           | -              | 16.0           | 22.6           | 18.0           |              | 29.1<br>(37.2) | na             | 30.0           |
| China       | 7.5<br>(2.5) | 11.7<br>(1.8)  | 0.0            | -              | 9.5            | 4.4<br>(0.8)   | 9.2<br>(3.5) | 12.8<br>(1.7)  | 10.4<br>(4.3)  | 11.2           |
| India       | 16.1         | 16.5           | 22.4           | 14.0           | -              | 14.3           | 14.9         | 18.2           | 15.6           | 15.2           |
| Maldives    |              | 33.3<br>(14.2) | 25.0           | 22.1           | 20.6<br>(17.6) | -              | 13.3         | 22.14          | 19.1<br>(18.7) | 21.2<br>(17.1) |
| Myanmar     | na           | 3.9            | na             | 4.5<br>(8.8)   | 3.4            | na             | -            | na             | 6.9            | 10.0           |
| Nepal       | 5.0          | 14.3<br>(10.6) | 10.0<br>(13.5) | 12.85          | 12.2<br>(11.2) | na             | 8.3          | -              | 12.2<br>(8.3)  | 17.9<br>(12.6) |
| Pakistan    | 13.3         | 18.7<br>(16.8) | 6.8<br>(10.3)  | 14.6<br>(7.9)  | 11.2<br>(13.1) | 15.0<br>(12.0) | 11.7         | 14.2<br>(11.0) | -              | 17.3<br>(4.9)  |
| Sri Lanka   | 12.6         | 9.4<br>(6.1)   | 6.0<br>(5.4)   | 11.1<br>(14.0) | 10.5<br>(2.5)  | 12.3<br>(7.5)  | 9.8          | 11.4<br>(7.3)  | 11.5<br>(6.2)  | -              |

*Note:* Based on a simple average of MFN applied tariffs. Figures in parenthesis indicate preferential tariffs. Italicized data are for 2006 except Bhutan (2005) and Myanmar tariffs on Bangladesh (2004).

Horizontal lines indicate countries' own tariffs, whereas vertical lines indicate tariffs that the country has to face in different markets.

Similarly, the SAFTA + China + Myanmar region has high tariff (table 5) and non-tariff barriers for their neighbouring countries. In 2007, Afghanistan faced a relatively low tariff rate in China (2.5%) and Nepal (5.0 %) but high tariff barriers in Bangladesh (20.3%), India (16.1%), Pakistan (13.3%), and Sri Lanka (12.6%). Bangladesh faced a lower (1.8 per cent preferential rate) tariff in China but it was high in Pakistan (16.8%), Maldives (14.2%), Nepal (10.6%) and Sri Lanka (6.1%). Bhutan faced 22.4% and 25% MFN tariffs in India and Maldives, respectively. The biggest player, China, imposed a 9.5 per cent tariff on India while India imposed a 14 per cent tariff on China. China faced relatively high tariffs in Maldives (22.1%), Bhutan (16%) and Sri Lanka (14%), modest tariffs in Bangladesh (9.3%), Myanmar (8.8%), Pakistan (7.9%) and Afghanistan (5.8%). India faced a zero tariff in Afghanistan and 2.5% in Sri Lanka.

However, they faced high tariffs in Bhutan (22.6%), Bangladesh (19.6%) and Maldives (17.6%), and medium tariffs in Pakistan (13.1%) and Nepal (11.25%).

In the same year, Maldives faced tariffs ranging from 0.8 per cent in China to 18 per cent in Bhutan. During the same period, Myanmar, Nepal and Pakistan gained preferential market access in China, at 3.5 per cent, 1.7 per cent and 4.3 per cent, respectively. Myanmar faced tariffs in India, Bangladesh and Pakistan of 14.9 per cent, 13.1 per cent and 11.7 per cent, respectively. Nepal encountered the biggest obstacles in Bhutan (37.2%) followed by Bangladesh (22.7%), Maldives (22.1%) and India (18.2%) plus modest obstacles in the Sri Lankan (7.3%) and Pakistan (11%) markets. Pakistan faced high tariffs in Bangladesh (22.7%) and Maldives (18.7%) while those three countries faced relatively low tariffs of 5.9 per cent, 6.2 per cent and 8.3 per cent, respectively, in Afghanistan, Sri Lanka and Nepal.

From the above analysis, it can be deduced that although the overall tariff level is lower for the SAFTA region compared with that of the BCIM region, the level of intraregional trade of the latter is higher compared with that of the former. This also indicates that cooperation among the BCIM countries will further enhance trade.

## **5. Data and methodology**

To quantify the economic impact of regional cooperation among the countries of BCIM, a simulation exercise was conducted. A partial equilibrium SMART model developed by UNCTAD/World Bank was used to carry out this ex ante analysis.

To estimate the impact of full, moderate and partial liberalization on total trade, welfare and trade revenue earnings of BCIM countries (table 6), the SMART simulation technique focused on one importing market and its exporting partners, and assessed the impact of tariff change scenarios by estimating new values for a set of variables. To model consumer behaviour, SMART relies on the Armington assumption, which implies goods that are imported from different countries, although similar, are imperfect substitutes. In particular, the adopted modelling approach was based on the assumption of imperfect substitution between different import sources (different varieties). The relationship between changes in the price index and the impact on total spending was determined by a given import demand elasticity, i.e., the extent of the between variety allocative response to change in the relative price was determined by the Armington substitution elasticity.

To measure the impact of different trade policy options, and to anticipate the likely economic effects of various policy alternatives, three scenarios were constructed. The first scenario estimated the trade, welfare and revenue effects under full liberalization by assuming that the respective country would eliminate all existing import tariffs and provide duty-free access for all merchandise products from BCIM countries. On the other hand, the second and third scenarios estimated the trade, welfare and revenue effects under moderate and partial liberalization by assuming that the respective country would eliminate 75 per cent and 50 per cent import tariffs, respectively, from existing levels for all products from BCIM countries.

The prospects were assessed of another possible regional bloc in this region, which might be defined as SAFTA + Myanmar + China economic cooperation.

In the case of SAFTA + China + Myanmar, three alternative scenarios were estimated similarly to that for BCIM, i.e., the considered countries would cut 100 per cent, 75 per cent and 50 per cent tariffs from their existing levels, respectively, for their partner countries under different scenarios (table 6). The possible “total trade effect”, together with the “trade creation and trade diversion effect” and “welfare and revenue effect” of these two blocs were measured under the three different scenarios of tariff cuts considered for BCIM cooperation.

Import demand elasticity and import substitution elasticity were taken by default, which was determined by SMART model, whereas export supply elasticity was taken as infinity.<sup>3</sup>

Together with measuring different impacts for each country, the simulation identified the top 15 trade-generating products where negotiation efforts would need more attention to maximize the benefits of economic cooperation within the proposed region.

Data were extracted from WITS (base year data for tariffs is 2007) and extracted at the HS 6-digit level. The bound tariff rate was avoided in all cases.

Some limitations are noteworthy such as the fact that both the gravity and SMART models captured only static gains from trade. The study also considered only the free movement of goods and withdrawal of tariff barriers; however, the movement of services, capital and labour, and the removal of non-tariff barriers were ignored. The impact of non-tariff barriers was not quantified for simplicity purposes.

**Table 6: Scenario definition for simulation**

| <b>Scenarios</b><br><b>Region</b> | <b>Full liberalization</b>                 | <b>Moderate liberalization</b>            | <b>Partial liberalization</b>             |
|-----------------------------------|--|---|---|
| BCIM                              | 100% linear tariff cut from existing level | 75% linear tariff cut from existing level | 50% linear tariff cut from existing level |
| SAFTA+ China + Myanmar            | 100% linear tariff cut from existing level | 75% linear tariff cut from existing level | 50% linear tariff cut from existing level |

## 6. Results and prospects

The estimated changes in total trade, which is the summation of trade creation and trade diversion, and the effects on welfare, which is the change in the dead weight loss and the effects on trade revenue earnings, due to full, moderate and partial trade liberalization, are detailed below.

### (a) Trade effect

BCIM is expected to increase trade among member countries, but divert trade from non-member countries. Simulation results imply that the trade creation effect is almost double the trade diversion effect in all three scenarios. This means cooperation will generate more trade from more efficient partner countries rather than from the

<sup>3</sup> SMART assumes infinite export supply elasticity, i.e., the export supply curves are flat and the world prices of each variety are exogenously given, which is often called the price taker assumption.

substitution of less efficient non-partners. The change in total trade under the full, moderate and partial scenarios is some US\$ 5.7 billion, US\$ 4.1 billion and US\$ 2.7 billion, respectively (table 7 and figure 1). US\$ 3.8 billion, US\$ 2.7 billion and US\$ 1.8 billion, respectively, is from trade creation generated by using more efficient partner sources. The remaining US\$ 1.8 billion, US\$ 1.3 billion and US\$ 900 million, respectively, is from trade diversion. This indicates that the formation of BCIM cooperation has the potential for robust trade generation. The simulation results reveal that maximum gain in terms of change in total trade will be achieved under full liberalization, or 27 per cent and 52 per cent higher than under the remaining two scenarios; this is consistent with conventional trade theories that the more tariffs are removed, the more trade will be generated among the participating countries.

In the case of country-specific gains from this cooperation, the magnitude varies among the participating countries, depending on the size of their economies, i.e., the largest economy will gain the most and the smallest economy will share the least of the total gain from this initiative. India will gain the maximum benefit under all three scenarios – US\$ 3.6 billion, US\$ 2.7 billion and US\$ 1.7 billion. China will be the second highest beneficiary in this region, with US\$ 1.2 billion, US\$ 900 million and US\$ 600 million in trade gains under the three scenarios. Bangladesh will gain US\$ 700 million, US\$ 500 million and US\$ 400 million while Myanmar will gain US\$ 100 million, US\$ 5 million and US\$ 3 million under the three scenarios. The trade gain of the latter two countries is lower in absolute terms compared with their major partners, i.e., China and India, mainly due to their smaller market size.

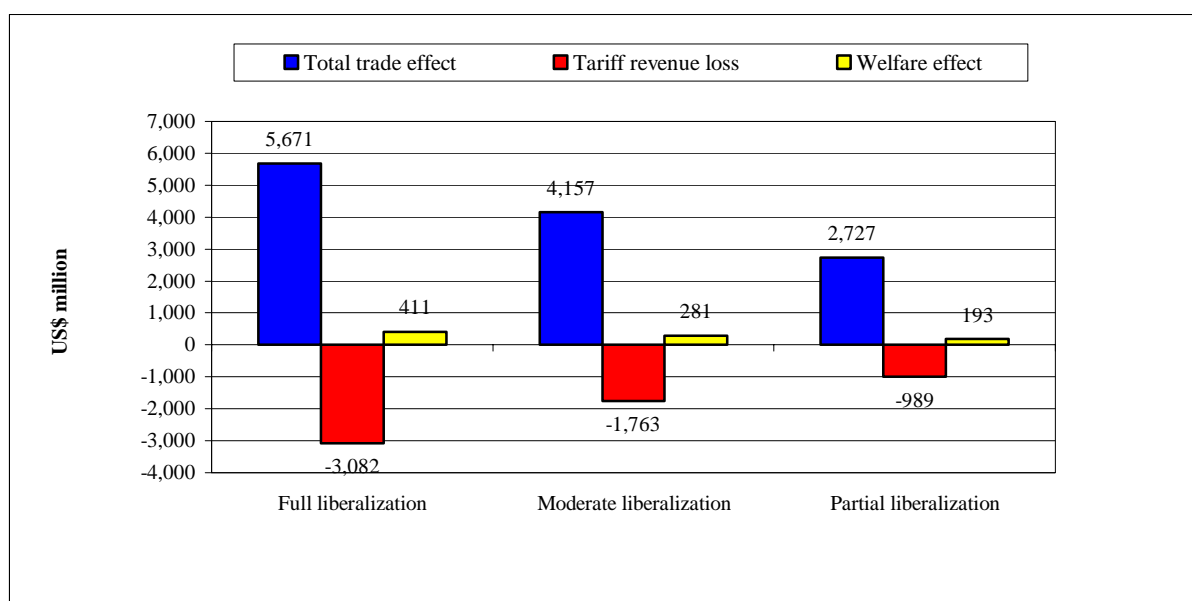
**Table 7: Effects of BCIM economic cooperation under three scenarios**

(US\$ million)

| Scenario                | Total trade effect | Trade diversion | Trade creation | Tariff revenue loss | Welfare effect |
|-------------------------|--------------------|-----------------|----------------|---------------------|----------------|
| Full liberalization     | 5 671              | 1 859           | 3 812          | -3 082              | 411            |
| Moderate liberalization | 4 157              | 1 384           | 2 773          | -1 763              | 281            |
| Partial liberalization  | 2 727              | 902             | 1 825          | -989                | 193            |

Source: Simulation Results

**Figure 1: Effects of BCIM economic cooperation under three scenarios**



The trade creation effect is always higher than the trade diversion effect for all countries under all three scenarios, i.e., the formation of economic cooperation will divert less trade from rest of the world and create more trade among partner countries. The amount of trade diversion is almost 50 per cent lower than trade creation under the three alternative scenarios considered.

The SAFTA + China + Myanmar scenarios reveal expected results (table 8 and figure 2). Due to the involvement of more countries, this cooperation would generate more trade than BCIM. The simulation results reveal that the expansion of SAFTA with China and Myanmar would generate US\$ 12 billion, US\$ 8.9 billion and US\$ 5.9 billion in trade under the full, moderate and partial tariff liberalization scenarios.

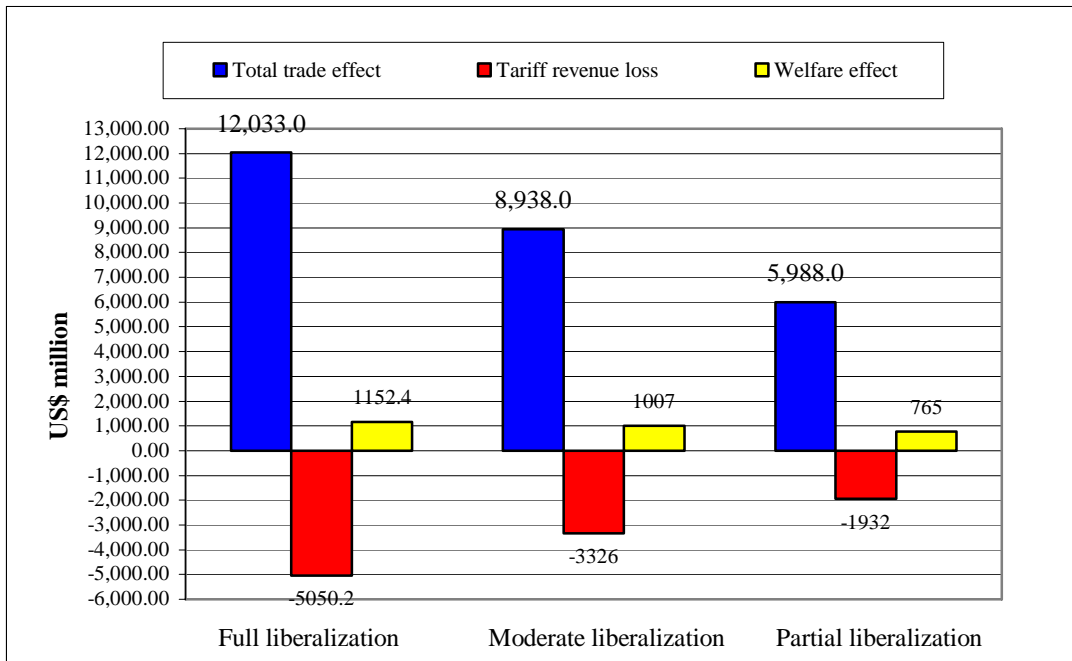
**Table 8: Effects of SAFTA + China + Myanmar economic cooperation under**

(US\$ million)

| Scenario                | Total trade effect | Trade diversion | Trade creation | Tariff revenue loss | Welfare effect |
|-------------------------|--------------------|-----------------|----------------|---------------------|----------------|
| Full liberalization     | 12 033.0           | 2 546.0         | 9 486.0        | -5 050.2            | 1 152.4        |
| Moderate liberalization | 8 938.0            | 1 906.0         | 7 032.0        | -3 326.0            | 1 007.0        |
| Partial liberalization  | 5 988.0            | 1 283.0         | 4 699.0        | -1 932.0            | 765.0          |

Source: Simulation results

**Figure 2: Effects of SAFTA + China + Myanmar economic cooperation under three scenarios**



(b) *Welfare effect*

The welfare gain for BCIM region is US\$ 411 million, US\$ 281 million and US\$ 193 million under full, moderate and partial tariff liberalization scenarios. The gain under full liberalization is 32 per cent and 53 per cent higher than the moderate and partial liberalization scenarios, respectively. The highest welfare gain will be achieved by India (US\$ 268 million, US\$ 197 million and 139 million) and the lowest by Myanmar (US\$ 5 million, US\$ 2.3 million and US\$ 2 million) in all scenarios. Bangladesh is the second highest welfare gainer in this region (US\$ 70 million, US\$ 51 million and US\$ 37 million) while China is the third (US\$ 68 million, US\$ 31 million and US\$ 15 million). Welfare gains for SAFTA + China + Myanmar scenario are US\$ 1.1 billion, US\$ 1 billion and US\$ 700 million under the three respective scenarios.

(c) *Revenue effect*

Because of the tariff cuts, all countries will lose tariff revenue. The tariff revenue losses are 54 per cent, 42 per cent and 36 per cent of total trade gain under the three alternative scenarios. Among the countries, India would lose the highest revenue in all scenarios. However, the trade earnings for India are 47 per cent, 57 per cent and 62 per cent higher than the revenue loss in the full, moderate and partial liberalization scenarios. The weighted net margin between trade gain and revenue loss for Bangladesh, China, India and Myanmar is 57 per cent, 55 per cent, 56 per cent and 56 per cent, respectively. This indicates that the partner countries will gain more or less equitable trade earnings and that earnings will be high enough to overcome revenue losses.

In the SAFTA + China+ Myanmar scenarios, tariff revenue losses are 42 per cent, 37 per cent and 32 per cent of total trade gain. In this case, India is the highest tariff loser

followed by China, Pakistan, Bangladesh, Sri Lanka, Nepal, Afghanistan, Myanmar, Maldives and Bhutan.

*(d) Potential products for the region*

The study identified the top 15 potential products under full liberalization scenario at the HS 6-digit level (see annex III) that have greater export potentialities in this region. For Bangladesh, grain splits, leather, in the dry state crust, goats or kids, and manmade and synthetic fibre inhibit a higher trade potential in the Chinese market, whereas urea, anhydrous ammonia, lead acid, vegetable fats, jute and textile products have greater complementarities in the Indian market. China has greater export potential for accessories, plain weave, woven fabrics, transmission apparatus, with reciprocating internal combustion piston engine, super phosphates and denim in Bangladesh. In addition, coke and semi-coke of coal, other organic compounds and raw silk have greater potential for China in the Indian market while cigarettes, beer made from malt, plastic furniture, polyester staple fibres, colour and manmade fibres are potential products for Myanmar's market.

For India, buses or lorries, light oils and preparations, denim, wheat, colour, tractors, semi-milled or wholly-milled rice, and paper and paperboard have greater potential in Bangladesh. On the other hand, cotton, aluminium oxide, polyethylene, polypropylene, smoked sheets (rubber, balata, gotta-percha, guagule, chackle and similar gums), cathodes, parts and accessories of machines, ethylene, and grain splits have potential in the Chinese market while buses and lorries, shampoos, polypropylene, stainless steel and ballpoint pens have greater access in Myanmar. For Myanmar, fuelwood, other wood, husked (brown) rice, broken rice, semi-milled or wholly-milled rice, worn clothing and colour have greater potential in the Bangladesh market. Smoked sheets (rubber, balata, gotta-percha, guagule, chackle and similar gums), natural rubber and flour have potential in the Chinese market while smoked sheet (rubber, balata, gotta-percha, guagule, chackle and similar gums), chemicals, coniferous and non-coniferous plants, and bamboo will provide better access in the Indian market.

## **7. Additional rationale for forming BCIM as another regional cooperation initiative**

*(a) India-Pakistan conflict in SAFTA*

Conflict between India and Pakistan over a number of issues is acting as a hurdle in achieving the full potential of SAFTA. Since India is the largest economy in the region and Pakistan the second largest economy, their proactive cooperation is needed to enable SAFTA to advance further. However, despite having been long established, SAFTA yet has to make any significant impact on accelerating intraregional trade. Given this situation, trade economists have concentrated on exploring other prospective regions; one strong candidate for such cooperation within this region could be BCIM.

*(b) Prospects for a sub regional growth quadrangle in BCIM*

Together with free trade, the proposed BCIM region has huge potential for cooperation in investment in the transport, energy and tourism sectors.

(i) *Transport*

The transport sector could be another potential area of cooperation, given the fact that the land-locked status of some of the BCIM members, i.e., north-east India and south-west China. Under the circumstances, Bangladesh could play a critical role by providing easy access to global markets for these areas. In this regard, all the countries concerned could gain tremendously if an integrated transportation network could be established within the region, as this would boost trade and investment through the reduction of transaction costs.

An added advantage of the region is that it lies at the crossroads between East Asia and South-East Asia on the one hand, and South Asia on the other. The region could use its strategic location within Asia to build links with other regions, and could gain immensely from such cooperation. Chittagong port could serve as the sea outlet for a huge hinterland that would cover southern China and north-east India States. Chittagong port could evolve from a national port to a regional entrepôt (Mustafiz and others, 2007), the importance of which would increase even further with the construction of the “deep sea port” by Bangladesh.

(ii) *Energy*

The BCIM region has huge natural and mineral resources. The south-western provinces of China (Sichuan, Guizhou and Yunnan), the north-eastern States of India (“Seven Sisters”) and Myanmar have huge reserves of natural gas. In addition, this subregion has rich reserves of coal, petroleum and manganese. Cooperation among the countries concerned may help to encourage joint initiatives in constructing industries and attracting intraregional investment. The region also has substantial water resources that could be employed in generating hydroelectricity to accelerate the industrial sector of this region. In this regard, the BCIM region has an opportunity to establish a regional forum to assess electricity generation capacity and mechanisms, and suggest the forms and norms of electricity cooperation for BCIM.

(iii) *Tourism*

Tourism is another area of great potential through which the member countries could reap benefits through subregional cooperation. A number of tourist destinations in this region, particularly in India, China and Bangladesh, have beautiful landscapes, rich biological resources, age-old history and a wide range of cultural diversity that could attract tourists both from the region and from around the world. By facilitating easy travel among the member countries, this subregional cooperation could also play a critical role in developing eco-tourism and religious tourism by fostering connectivity between the member countries. Through the expansion of tourism within the region, the member countries would be able to collect more revenue and investment may therefore be increased (Mustafiz and others, 2007).



## 7. Conclusion

Although the overall findings detailed in this paper provide strong grounds for motivating policymakers in the countries concerned to form another new regional economic bloc, the results need to be interpreted carefully. One major limitation is the downward bias of the overall findings, especially for ex-ante analysis, as the simulation considers only merchandise trade and does not take into account the presence of the huge informal trade among these countries.

However, to turn this initiative into an economically beneficial regional bloc for the populations of this region, together with tariff reductions for regional imports, the following areas are worth focusing on the immediate term:

- (a) As BCIM is a Track-II initiative primarily taken by academicians, businesspersons and civil society organizations – including researchers – more awareness-building activities are needed to build greater consensus among policy makers of these countries as well as the public, in order to create pressure on the decision makers in the government sector;
- (b) To reap the benefits of a reduction in transportation costs, the immediate realization of the “Trans Asian Railway” is necessary, together with progress of the “Asian Highway”, with the financing assistance from multinational donor agencies;
- (c) India should play a proactive role in terms of its political and economic commitments in effective operationalization of this regional initiative;
- (d) The possibility of gas and electricity trade within the region, especially between Bangladesh and Myanmar, should be taken into consideration within the framework of this regional cooperation.

## References

- Asian Development Bank (2008). *Quantification of Benefits from Economic Cooperation in South Asia*. ADB/UNCTAD, Manila and Geneva.
- Baltagi, B. H., E. Peter and M. Pfaffermayr (2007). *Estimating Regional Trade Agreement Effects on FDI in an Interdependent World*, CPR Working Paper No. 100. Centre for Policy Research, Maxwell School, Syracuse University.
- Bhagwati, J. N. and Panagariya, A. (1996). *The economics of preferential trade agreements*. Washington, DC: AEI Press.
- Carrillo, C. and C. A. Li (2002). *Trade Blocs and the Gravity Model: Evidence from Latin American Countries*. Economics Discussion Papers 542. University of Essex, United Kingdom.
- Cernat, L. (2001). "Assessing regional trade arrangements: Are South-South RTAs more trade diverting?" Policy Issues in International Trade and Commodities Study Series, No. 16.
- Coulibly, S. (2004). "On the assessment of trade creation and trade diversion effects in developing RTAs". DEEP-HEC, University of Lausanne, Switzerland.
- De, P. and B. N. Bhattacharyay (2007). "Deepening India-Bangladesh economic cooperation: Challenges and opportunities", RIS-DP#130. Research and Information System for Developing Countries, New Delhi.
- ESCAP (2002). *Greater Mekong Subregion Business Handbook*", ST/ESCAP/2183. Trade and Investment Division, ESCAP, Bangkok.
- Ghosh, S. and Y., Steven (2004). "Does trade creation measure up? A re-examination of the effects of regional trading arrangements," *Economics Letters, Elsevier*, vol. 82, No.2; pp. 213-219.
- Islam, M. S. (2008). *Bangladesh-China-Northeast India: Opportunities and anxieties*" in ISAS Insights No. 36. Institute of South Asian Studies. National University of Singapore.
- Krongkaew, M. (2004). "The development of the Greater Mekong Subregion (GMS): Real promise or false hope". *Journal of Asian Economics*, 2004, vol. 15, No. 5, pages 977-998.
- Leamer, E. E. (1983). "Let's take the con out of econometrics", *American Economic Review*, 73, pp.31-43.
- Lee, Jong-Wha, I. Park and K. Shin (2005). "Proliferating regional trade arrangements: Why and whither?" International Trade 0501010, EconWPA.
- Magee, C. (2008). "New measures of trade creation and trade diversion," *Journal of International Economics* 75, pp. 340-362.
- Rahman, M., H. Rahman and W. Bin Shadat (2007). "BCIM economic cooperation: Prospects and challenges", CPD Occasional Paper No. 64. Centre for Policy Dialogue, Dhaka.
- Roberts, B. (2004). "A gravity study of the proposed China-ASEAN Free Trade Area". *The International Trade Journal*, vol.18, Winter 2004.
- Sayan, S. (1998). "Could regional economic cooperation generate trade creation and trade diversion effects without altering trade policies of members? Preliminary results from a gravity application to BSEC", Departmental Working Paper No. 9810, Department of Economics, Bilkent University, Ankara.
- Viner, J. (1950). *The Customs Union Issue* (out of print). Carnegie Endowment for International Peace, New York.
- Zhao, L., M. Malouche and R. Newfarmer (2008). "China's emerging regional trade policy", *Journal of Chinese Economic and Foreign Trade Studies*, vol.1, No.1.

## Annexes

### Annex I. World integrated trade solution and SMART

World Integrated Trade Solution (WITS) is software developed by the World Bank, in close collaboration with the United Nations Conference on Trade and Development (UNCTAD). WITS is both a gateway to trade and protection of raw data, and an analytical tool able to produce aggregated statistics and simulate the impact of tariff changes on the various tariffs structures as well as on trade flows, tariff revenues and welfare. WITS includes several databases provided by the United Nations, UNCTAD, the World Trade Organization and other sources.

SMART, the market access simulation package included in WITS, is a single market partial equilibrium modelling tool that contains built-in analytical modules that support trade policy analyses of, for example, the effects of multilateral tariff cuts, preferential trade liberalization and ad hoc tariff changes. The underlying theory behind this analytical tool is the standard partial equilibrium framework that considers the dynamic effects constant. As with any partial equilibrium model, it focuses on one importing market and its exporting partners, and assesses the impact of a tariff change scenario by estimating new values for a set of variables. It operates under the assumptions detailed below.

#### (a) *Export supply side*

The setup of SMART is that, for a given good, different countries compete to supply (export to) a given home market. The focus of the simulation exercise is on the composition and volume of imports into that market. Export supply of a given good (say bananas) by a given country supplier (say Ecuador) is assumed to be related to the price that it fetches in the export market. The degree of responsiveness of the supply of export to changes in the export price is given by the export supply elasticity. SMART assumes infinite export supply elasticity – that is, the export supply curves are flat and the world prices of each variety (e.g., bananas from Ecuador) are exogenously given. This is often called the price-taker assumption. SMART can also operate with finite elasticity – upward sloping export supply functions – which entails a price effect in addition to the quantity effect.

#### (b) *Demand side: The Armington assumption*

SMART relies on the Armington assumption to model the behaviour of the consumer. In particular, the adopted modelling approach is based on the assumption of imperfect substitutions between different import sources (different varieties), i.e., goods (defined at the HS 6-digit level) imported from different countries, although similar, are imperfect substitutes. For example, bananas from Ecuador are an imperfect substitute for bananas from Saint Lucia. Thanks to the Armington assumption, a preferential trade agreement does not produce a “big bang” solution, where all import demand would shift to the beneficiary of the preferential tariff.

Within the Armington assumption, the representative agent maximizes its welfare through a two-stage optimization process. First, given a general price index, the level of

total spending/consumption on a “composite good” (e.g., the aggregate consumption of bananas) is chosen. The relationship between changes in the price index and the impact on total spending is determined by a given import demand elasticity.

Then, within this composite good, the chosen level of spending is allocated among the different “varieties” of the good, depending on the relative price of each variety (e.g., more bananas from Ecuador are chosen, and less from Saint Lucia). The extent of the between-variety allocative response to change in the relative price is determined by the Armington substitution elasticity.

(c) *Trade effects*

In the SMART modelling framework, a change in trade policy (e.g., preferential tariff liberalization) affects not only the price index/level of the composite good but also the relative prices of the different varieties. Through the export supply elasticity, the import demand elasticity and the substitution elasticity, it will lead to changes in the chosen aggregate level of spending on that good as well as changes in the composition of the sourcing of that good. Both channels affect bilateral trade flows.

SMART reports the results of any trade policy shock on a number of variables. In particular, it reports the effects on trade flows (i.e., imports from the different sources). It also decomposes those trade effects in trade creation and trade diversion. Trade creation is defined as the direct increase in imports following a reduction on the tariff imposed on good “g” from country C. If the tariff reduction on good “g” from country C is a preferential tariff reduction (i.e., it does not apply to other countries), then imports of good “g” from country C are going to increase due to the substitution away from imports of good “g” from other countries that becomes relatively more expensive. This is the definition of trade diversion in the SMART model.

(d) *Trade diversion effect*

Granting partner A a preferential tariff reduces its relative price compared with B. Consumption of the composite good is unchanged but the relative price line gets steeper. It leads to a new equilibrium where imports from A increase while imports from B symmetrically decrease. This is the trade diversion effect as calculated in SMART.

(e) *Trade creation effect*

Reducing the tariff on imports from partner A lowers the domestic price of the variety coming from A. It entails a revenue effect that allows a higher composite quantity curve to be reached. For the same expenditure level, consumers can now import more of the variety from A.

On the market side, trade diversion is neutral. It does not affect the overall imported quantity but reallocates market shares among exporting partners based on the new relative prices. The increase in imports from tariff reduction beneficiaries is balanced by a decrease in imports from all others. For the market, the trade effect is only trade creation.

For exporting countries, total trade effect is made up of trade diversion and trade creation. In SMART, beneficiaries of the tariff reduction enjoy both positive diversion effect and positive creation effect while all other partners will suffer from negative diversion effect and no trade creation effect.

For more information on WITS, see <http://wits.worldbank.org/witsweb/default.aspx>.

## **Annex II. Scenario-wise trade impact of BCIM**

**Table 1. Trade impact of full liberalization of merchandise trade on BCIM**  
(US\$ million)

| Effect on partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|---------------------------|--------------------|------------------------|-----------------------|
| Bangladesh                | 749                | 184                    | 565                   |
| China                     | 1 173              | 577                    | 596                   |
| India                     | 3 630              | 1 076                  | 2 554                 |
| Myanmar                   | 117                | 21                     | 96                    |
| Total effect              | 5 670              | 1 858                  | 3 811                 |

**Table 2. Trade impact of moderate liberalization of merchandise trade on BCIM**  
(US\$ million)

| Effect on partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|---------------------------|--------------------|------------------------|-----------------------|
| Bangladesh                | 527                | 126                    | 401                   |
| China                     | 887                | 452                    | 435                   |
| India                     | 2 688              | 795                    | 1 893                 |
| Myanmar                   | 55                 | 11                     | 44                    |
| Total effect              | 4 157              | 1 384                  | 2 773                 |

**Table 3. Trade impact of partial liberalization of merchandise trade on BCIM**  
(US\$ million)

| Effect on partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|---------------------------|--------------------|------------------------|-----------------------|
| Bangladesh                | 348                | 82                     | 266                   |
| China                     | 592                | 308                    | 284                   |
| India                     | 1 755              | 506                    | 1 248                 |
| Myanmar                   | 33                 | 6                      | 27                    |
| Total effect              | 2 728              | 903                    | 1 825                 |

## **Country-to-country trade impact of BCIM**

### **Full liberalization scenario**

**Table 4. Trade impact of Bangladesh's full liberalization of merchandise imports from BCIM**  
(US\$ million)

| Effect on partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|---------------------------|--------------------|------------------------|-----------------------|
| China                     | 470                | 118                    | 352                   |
| India                     | 275                | 64                     | 210                   |
| Myanmar                   | 4                  | 1                      | 3                     |
| Total effect              | 749                | 183                    | 565                   |

**Table 5. Trade impact of China’s full liberalization of merchandise imports from BCIM**  
(US\$ million)

| Effect on partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|---------------------------|--------------------|------------------------|-----------------------|
| Bangladesh                | 16                 | 5                      | 11                    |
| India                     | 1 146              | 566                    | 580                   |
| Myanmar                   | 11                 | 6                      | 5                     |
| Total effect              | 1 173              | 577                    | 596                   |

**Table 6. Trade impact of India’s full liberalization of merchandise imports from BCIM**  
(US\$ million)

| Effect on partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|---------------------------|--------------------|------------------------|-----------------------|
| Bangladesh                | 59                 | 23                     | 36                    |
| China                     | 3 474              | 1 024                  | 2 449                 |
| Myanmar                   | 97                 | 29                     | 68                    |
| Total effect              | 3 630              | 1 076                  | 2 553                 |

**Table 7. Trade impact of Myanmar’s full liberalization of merchandise imports from BCIM**  
(US\$ million)

| Effect on partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|---------------------------|--------------------|------------------------|-----------------------|
| Bangladesh                | 0                  | 0                      | 0                     |
| China                     | 109                | 19                     | 90                    |
| India                     | 8                  | 2                      | 6                     |
| Total effect              | 117                | 21                     | 96                    |

### Moderate liberalization scenario

**Table 8. Trade impact of Bangladesh’s moderate liberalization of merchandise imports from BCIM**  
(US\$ million)

| Effect on partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|---------------------------|--------------------|------------------------|-----------------------|
| China                     | 329                | 80                     | 249                   |
| India                     | 195                | 46                     | 149                   |
| Myanmar                   | 2.0                | 0.50                   | 1.50                  |
| Total effect              | 526                | 126                    | 400                   |

**Table 9. Trade impact of China’s moderate liberalization of merchandise imports from BCIM**  
(US\$ million)

| Effect on partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|---------------------------|--------------------|------------------------|-----------------------|
| Bangladesh                | 12                 | 3                      | 9                     |
| India                     | 867                | 443                    | 424                   |
| Myanmar                   | 9                  | 6                      | 3                     |
| Total effect              | 888                | 452                    | 436                   |

**Table 10. Trade impact of India’s moderate liberalization of merchandise imports from BCIM**  
(US\$ million)

| Effect on partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|---------------------------|--------------------|------------------------|-----------------------|
| Bangladesh                | 36                 | 14                     | 22                    |
| China                     | 2 590              | 762                    | 1 828                 |
| Myanmar                   | 62                 | 19                     | 43                    |
| Total effect              | 2 688              | 795                    | 1 893                 |

**Table 11. Trade impact of Myanmar's moderate liberalization of merchandise imports from BCIM**

(US\$ million)

| Effect on partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|---------------------------|--------------------|------------------------|-----------------------|
| Bangladesh                | -                  | -                      | -                     |
| China                     | 49                 | 9                      | 40                    |
| India                     | 5                  | 1                      | 4                     |
| Total effect              | 54                 | 10                     | 44                    |

**Partial liberalization scenario**

**Table 12. Trade impact of Bangladesh's partial liberalization of merchandise imports from BCIM**

(US\$ million)

| Effect on partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|---------------------------|--------------------|------------------------|-----------------------|
| China                     | 218                | 52                     | 166                   |
| India                     | 128                | 30                     | 98                    |
| Myanmar                   | 1                  | 0                      | 1                     |
| Total effect              | 347                | 82                     | 265                   |

**Table 13. Trade impact of China's partial liberalization of merchandise imports from BCIM**

(US\$ million)

| Effect on partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|---------------------------|--------------------|------------------------|-----------------------|
| Bangladesh                | 8                  | 2                      | 6                     |
| India                     | 578                | 302                    | 276                   |
| Myanmar                   | 5                  | 3                      | 2                     |
| Total effect              | 591                | 307                    | 284                   |

**Table 14. Trade impact of India's partial liberalization of merchandise imports from BCIM**

(US\$ million)

| Effect on partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|---------------------------|--------------------|------------------------|-----------------------|
| Bangladesh                | 36                 | 9                      | 27                    |
| China                     | 1 683              | 485                    | 1 198                 |
| Myanmar                   | 36                 | 13                     | 23                    |
| Total effect              | 1 755              | 507                    | 1 248                 |

**Table 15. Trade impact of Myanmar's partial liberalization of merchandise imports from BCIM**

(US\$ million)

| Effect on partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|---------------------------|--------------------|------------------------|-----------------------|
| Bangladesh                | -                  | -                      | -                     |
| China                     | 30                 | 6                      | 24                    |
| India                     | 3                  | 1                      | 2                     |
| Total effect              | 33                 | 7                      | 26                    |

**Scenario-wise trade impact of SAFTA + China + Myanmar**

**Table 16. Trade impact of full liberalization of merchandise trade on SAFTA + China + Myanmar**

(US\$ million)

| Effect on partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|---------------------------|--------------------|------------------------|-----------------------|
| Afghanistan               | 207                | 22                     | 185                   |
| Bangladesh                | 797                | 189                    | 608                   |
| Bhutan                    | 12.00              | 0.10                   | 11.99                 |

|              |        |       |       |
|--------------|--------|-------|-------|
| China        | 2 151  | 647   | 1 503 |
| India        | 7 060  | 1 221 | 5 839 |
| Maldives     | 43     | 17    | 26    |
| Myanmar      | 9.11   | 2.00  | 7.11  |
| Nepal        | 150    | 26    | 124   |
| Pakistan     | 1 410  | 349   | 1061  |
| Sri Lanka    | 194    | 73    | 121   |
| Total effect | 12 033 | 2 546 | 9 486 |

**Table 17. Trade impact of moderate liberalization of merchandise trade on SAFTA + China + Myanmar**

(US\$ million)

| Effect on partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|---------------------------|--------------------|------------------------|-----------------------|
| Afghanistan               | 128                | 47                     | 81                    |
| Bangladesh                | 548                | 135                    | 413                   |
| Bhutan                    | 9.00               | 0.02                   | 8.98                  |
| China                     | 1 610              | 484                    | 1 126                 |
| India                     | 5 284              | 908                    | 4 376                 |
| Maldives                  | 32                 | 12                     | 20                    |
| Myanmar                   | 7                  | 1.12                   | 6.88                  |
| Nepal                     | 111                | 16                     | 95                    |
| Pakistan                  | 1 054              | 259                    | 795                   |
| Sri Lanka                 | 154                | 44                     | 110                   |
| Total effect              | 8 938              | 1 906                  | 7 032                 |

**Table 18. Trade impact of partial liberalization of merchandise trade on SAFTA + China + Myanmar**

(US\$ million)

| Effect on partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|---------------------------|--------------------|------------------------|-----------------------|
| Afghanistan               | 102                | 34                     | 68                    |
| Bangladesh                | 365                | 102                    | 263                   |
| Bhutan                    | 6                  | 0                      | 0                     |
| China                     | 1 072              | 324                    | 748                   |
| India                     | 3 521              | 602                    | 2 919                 |
| Maldives                  | 21                 | 7                      | 14                    |
| Myanmar                   | 4.5                | 0.5                    | 4.0                   |
| Nepal                     | 74                 | 9                      | 65                    |
| Pakistan                  | 702                | 173                    | 529                   |
| Sri Lanka                 | 121                | 32                     | 89                    |
| Total effect              | 5 988              | 1 283                  | 4 699                 |

### **Trade impact of SAFTA + China + Myanmar**

#### **1. Afghanistan**

**Table 19. Trade impact of Afghanistan's full liberalization of merchandise imports from SAFTA + China + Myanmar**

(US\$ million)

| Partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|-----------------|--------------------|------------------------|-----------------------|
| Bangladesh      | 0                  | 0                      | 0                     |
| Bhutan          | 0                  | 0                      | 0                     |
| China           | 12                 | 03                     | 9                     |
| India           | 15                 | 2                      | 13                    |
| Maldives        | 0                  | 0                      | 0                     |
| Nepal           | 0                  | 0                      | 0                     |



|              |     |    |     |
|--------------|-----|----|-----|
| Pakistan     | 180 | 17 | 163 |
| Sri Lanka    | 0   | 0  | 0   |
| Myanmar      | 0   | 0  | 0   |
| Total effect | 207 | 22 | 185 |

**Table 20. Trade impact of Afghanistan's moderate liberalization of merchandise imports from SAFTA + China + Myanmar**

(US\$ million)

| Partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|-----------------|--------------------|------------------------|-----------------------|
| Bangladesh      | 0                  | 0                      | 0                     |
| Bhutan          | 0                  | 0                      | 0                     |
| China           | 8                  | 3                      | 5                     |
| India           | 10                 | 4                      | 6                     |
| Maldives        | 0                  | 0                      | 0                     |
| Nepal           | 0                  | 0                      | 0                     |
| Pakistan        | 110                | 40                     | 70                    |
| Sri Lanka       | 0                  | 0                      | 0                     |
| Myanmar         | 0                  | 0                      | 0                     |
| Total effect    | 128                | 47                     | 81                    |

**Table 21. Trade impact of Afghanistan's partial liberalization of merchandise imports from SAFTA + China + Myanmar**

(US\$ million)

| Partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|-----------------|--------------------|------------------------|-----------------------|
| Bangladesh      | 0                  | 0                      | 0                     |
| Bhutan          | 0                  | 0                      | 0                     |
| China           | 5                  | 2                      | 3                     |
| India           | 7                  | 2                      | 5                     |
| Maldives        | 0                  | 0                      | 0                     |
| Nepal           | 0                  | 0                      | 0                     |
| Pakistan        | 90                 | 30                     | 60                    |
| Sri Lanka       | 0                  | 0                      | 0                     |
| Myanmar         | 0                  | 0                      | 0                     |
| Total effect    | 102                | 34                     | 68                    |

## 2. Bangladesh

**Table 22. Trade impact of Bangladesh's Full liberalization of merchandise imports from SAFTA+ Myanmar +China**

(US\$ million)

| Partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|-----------------|--------------------|------------------------|-----------------------|
| Afghanistan     | 2.1                | 0.30                   | 1.8                   |
| Bhutan          | 0                  | 0                      | 0                     |
| China           | 470                | 118                    | 352                   |
| India           | 287                | 61                     | 226                   |
| Maldives        | 0                  | 0                      | 0                     |
| Nepal           | 0.01               | 0.004                  | 0.006                 |
| Pakistan        | 31                 | 8                      | 23                    |
| Sri Lanka       | 3.36               | 1.11                   | 2.25                  |
| Myanmar         | 3.77               | 0.29                   | 3.48                  |
| Total effect    | 797                | 189                    | 608                   |

**Table 23. Trade impact of Bangladesh's moderate liberalization of merchandise imports from SAFTA + Myanmar + China**

(US\$ million)

| Partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|-----------------|--------------------|------------------------|-----------------------|
| Afghanistan     | 1.62               | 0.29                   | 1.33                  |
| Bhutan          | 0                  | 0                      | 0                     |
| China           | 304                | 83                     | 221                   |
| India           | 215                | 46                     | 169                   |
| Maldives        | 0                  | 0                      | 0                     |
| Nepal           | 0.008              | .002                   | 0.006                 |
| Pakistan        | 23                 | 5                      | 18                    |
| Sri Lanka       | 2.49               | 0.80                   | 1.69                  |
| Myanmar         | 2.83               | 0.21                   | 2.61                  |
| Total effect    | 548                | 135                    | 413                   |

**Table 24. Trade impact of Bangladesh's partial liberalization of merchandise imports from SAFTA + Myanmar + China**

(US\$ million)

| Partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|-----------------|--------------------|------------------------|-----------------------|
| Afghanistan     | 1.08               | 0.19                   | 0.89                  |
| Bhutan          | 0                  | 0                      | 0                     |
| China           | 0202               | 65                     | 137                   |
| India           | 143                | 33                     | 110                   |
| Maldives        | 0                  | 0                      | 0                     |
| Nepal           | 0.005              | 0.002                  | 0.003                 |
| Pakistan        | 15                 | 3                      | 12                    |
| Sri Lanka       | 1.65               | 0.65                   | 1                     |
| Myanmar         | 1.89               | 0.15                   | 1.74                  |
| Total effect    | 365                | 102                    | 263                   |

### 3. Bhutan

**Table 25. Trade impact of Bangladesh's full liberalization of merchandise imports from SAFTA + Myanmar + China**

(US\$ million)

| Partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|-----------------|--------------------|------------------------|-----------------------|
| Afghanistan     | 0                  | 0                      | 0                     |
| Bangladesh      | 0                  | 0                      | 0                     |
| China           | 12                 | 0.10                   | 11.99                 |
| India           | 0                  | 0                      | 0                     |
| Maldives        | 0                  | 0                      | 0                     |
| Nepal           | 0                  | 0                      | 0                     |
| Pakistan        | 0                  | 0                      | 0                     |
| Sri Lanka       | 0                  | 0                      | 0                     |
| Myanmar         | 0                  | 0                      | 0                     |
| Total effect    | 12                 | 0.10                   | 11.99                 |

**Table 26. Trade impact of Bangladesh's moderate liberalization of merchandise imports from SAFTA + Myanmar + China**

(US\$ million)

| Partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|-----------------|--------------------|------------------------|-----------------------|
| Afghanistan     | 0                  | 0                      | 0                     |
| Bangladesh      | 0                  | 0                      | 0                     |
| China           | 9                  | 0.02                   | 8.98                  |
| India           | 0                  | 0                      | 0                     |
| Maldives        | 0                  | 0                      | 0                     |
| Nepal           | 0                  | 0                      | 0                     |
| Pakistan        | 0                  | 0                      | 0                     |
| Sri Lanka       | 0                  | 0                      | 0                     |
| Myanmar         | 0                  | 0                      | 0                     |
| Total effect    | 9                  | 0.02                   | 8.98                  |

**Table 27. Trade impact of Bangladesh's partial liberalization of merchandise imports from SAFTA + Myanmar + China**

(US\$ million)

| Partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|-----------------|--------------------|------------------------|-----------------------|
| Afghanistan     | 0                  | 0                      | 0                     |
| Bangladesh      | 0                  | 0                      | 0                     |
| China           | 6                  | 0                      | 6                     |
| India           | 0                  | 0                      | 0                     |
| Maldives        | 0                  | 0                      | 0                     |
| Nepal           | 0                  | 0                      | 0                     |
| Pakistan        | 0                  | 0                      | 0                     |
| Sri Lanka       | 0                  | 0                      | 0                     |
| Myanmar         | 0                  | 0                      | 0                     |
| Total effect    | 6                  | 0                      | 0                     |

### 3. China

**Table 28. Trade impact of China's full liberalization of merchandise imports from SAFTA + Myanmar**

(US\$ million)

| Partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|-----------------|--------------------|------------------------|-----------------------|
| Afghanistan     | 0.32               | 0.10                   | 0.22                  |
| Bhutan          | 0                  | 0                      | 0                     |
| Bangladesh      | 52                 | 5                      | 47                    |
| India           | 1 883              | 603                    | 1 280                 |
| Maldives        | 0.001              | 0                      | 0.001                 |
| Nepal           | 1.54               | 0.44                   | 1.10                  |
| Pakistan        | 167                | 25                     | 142                   |
| Sri Lanka       | 22                 | 4                      | 18                    |
| Myanmar         | 25                 | 10                     | 15                    |
| Total effect    | 2 151              | 647                    | 1 503                 |

**Table 29. Trade impact of China's moderate liberalization of merchandise imports from SAFTA**

(US\$ million)

| Partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|-----------------|--------------------|------------------------|-----------------------|
| Afghanistan     | 0.25               | 0.08                   | 0.17                  |
| Bhutan          | 0                  | 0                      | 0                     |
| Bangladesh      | 39                 | 4                      | 35                    |
| India           | 1 410              | 450                    | 960                   |
| Maldives        | 0                  | 0                      | 0                     |
| Nepal           | 1.16               | 0.35                   | 0.81                  |
| Pakistan        | 125                | 20                     | 105                   |
| Sri Lanka       | 17                 | 3                      | 14                    |
| Myanmar         | 18                 | 7                      | 11                    |
| Total effect    | 1 610              | 484                    | 1 126                 |

**Table 30. Trade impact of China's Partial liberalization of merchandise imports from SAFTA**

(US\$ million)

| Partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|-----------------|--------------------|------------------------|-----------------------|
| Afghanistan     | 0.16               | 0.06                   | 0.10                  |
| Bhutan          | 0                  | 0                      | 0                     |
| Bangladesh      | 26                 | 2                      | 24                    |
| India           | 939                | 299                    | 640                   |
| Maldives        | 0                  | 0                      | 0                     |
| Nepal           | 0.77               | 0.25                   | 0.52                  |
| Pakistan        | 83                 | 17                     | 66                    |
| Sri Lanka       | 11                 | 2                      | 9                     |
| Myanmar         | 12                 | 4                      | 8                     |
| Total effect    | 1 072              | 324                    | 748                   |

## 5. India

**Table 31. Trade impact of China's Full liberalization of merchandise imports from SAFTA + Myanmar**

(US\$ million)

| Partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|-----------------|--------------------|------------------------|-----------------------|
| Afghanistan     | 18                 | 4                      | 14                    |
| Bhutan          | 70                 | 28                     | 42                    |
| Bangladesh      | 115                | 27                     | 88                    |
| China           | 5 226              | 1 032                  | 4 194                 |
| Maldives        | 1.15               | 0.56                   | 0.54                  |
| Nepal           | 890                | 27                     | 863                   |
| Pakistan        | 122                | 23                     | 99                    |
| Sri Lanka       | 452                | 50                     | 402                   |
| Myanmar         | 166                | 30                     | 136                   |
| Total effect    | 7 060              | 1 221                  | 5 839                 |

**Table 32. Trade impact of India's moderate liberalization of merchandise imports from SAFTA + Myanmar**

(US\$ million)

| Partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|-----------------|--------------------|------------------------|-----------------------|
| Afghanistan     | 14                 | 3                      | 11                    |
| Bhutan          | 51                 | 20                     | 31                    |
| Bangladesh      | 81                 | 15                     | 66                    |
| China           | 3 919              | 774                    | 3 145                 |
| Maldives        | 0.86               | 0.45                   | 0.41                  |
| Nepal           | 667                | 20                     | 647                   |
| Pakistan        | 91                 | 17                     | 74                    |
| Sri Lanka       | 336                | 35                     | 301                   |
| Myanmar         | 124                | 24                     | 100                   |
| Total effect    | 5 284              | 908                    | 4 376                 |

**Table 33. Trade impact of India's partial liberalization of merchandise imports from SAFTA + Myanmar**

(US\$ million)

| Partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|-----------------|--------------------|------------------------|-----------------------|
| Afghanistan     | 9                  | 2                      | 7                     |
| Bhutan          | 34                 | 13                     | 21                    |
| Bangladesh      | 54                 | 10                     | 44                    |
| China           | 2 612              | 516                    | 2 096                 |
| Maldives        | 0.57               | 0.30                   | 0.27                  |
| Nepal           | 444                | 13                     | 431                   |
| Pakistan        | 61                 | 11                     | 50                    |
| Sri Lanka       | 224                | 23                     | 201                   |
| Myanmar         | 82                 | 14                     | 68                    |
| Total effect    | 3 521              | 602                    | 2 919                 |

## 6. Maldives

**Table 34. Trade impact of Maldives's full liberalization of merchandise imports from SAFTA + China + Myanmar**

(US\$ million)

| Partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|-----------------|--------------------|------------------------|-----------------------|
| Afghanistan     | 0                  | 0                      | 0                     |
| Bhutan          | 0                  | 0                      | 0                     |
| Bangladesh      | 0                  | 0                      | 0                     |
| India           | 21                 | 8                      | 13                    |
| China           | 0                  | 0                      | 0                     |
| Nepal           | 0                  | 0                      | 0                     |
| Pakistan        | 0.32               | 0.15                   | 0.17                  |
| Sri Lanka       | 22                 | 9                      | 13                    |
| Myanmar         | 0                  | 0                      | 0                     |
| Total effect    | 43                 | 17                     | 26                    |

**Table 35. Trade impact of Maldives's moderate liberalization of merchandise imports from SAFTA + Myanmar + China**

(US\$ million)

| Partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|-----------------|--------------------|------------------------|-----------------------|
| Afghanistan     | 0                  | 0                      | 0                     |
| Bhutan          | 0                  | 0                      | 0                     |
| Bangladesh      | 0                  | 0                      | 0                     |
| India           | 16                 | 5                      | 11                    |
| China           | 0                  | 0                      | 0                     |
| Nepal           | 0                  | 0                      | 0                     |
| Pakistan        | 00.23              | 0.11                   | 0.12                  |
| Sri Lanka       | 16                 | 7                      | 9                     |
| Myanmar         | 0                  | 0                      | 0                     |
| Total effect    | 32                 | 12                     | 20                    |

**Table 36. Trade impact of Maldives's partial liberalization of merchandise imports from SAFTA + Myanmar + China**

(US\$ million)

| Partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|-----------------|--------------------|------------------------|-----------------------|
| Afghanistan     | 0                  | 0                      | 0                     |
| Bhutan          | 0                  | 0                      | 0                     |
| Bangladesh      | 0                  | 0                      | 0                     |
| India           | 10                 | 3                      | 7                     |
| China           | 0                  | 0                      | 0                     |
| Nepal           | 0                  | 0                      | 0                     |
| Pakistan        | 0.15               | 0.05                   | 0.10                  |
| Sri Lanka       | 11                 | 4                      | 7                     |
| Myanmar         | 0                  | 0                      | 0                     |
| Total effect    | 21                 | 7                      | 14                    |

## 7. Myanmar

**Table 37. Trade impact of Myanmar's full liberalization of merchandise imports from SAFTA + China + Myanmar**

(US\$ million)

| Partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|-----------------|--------------------|------------------------|-----------------------|
| Afghanistan     | 0                  | 0                      | 0                     |
| Bangladesh      | 0                  | 0                      | 0                     |
| Bhutan          | 0                  | 0                      | 0                     |
| India           | 9                  | 2                      | 7                     |
| China           | 0                  | 0                      | 0                     |
| Maldives        | 0                  | 0                      | 0                     |
| Nepal           | 0                  | 0                      | 0                     |
| Pakistan        | 0.11               | 0.02                   | 0.09                  |
| Sri Lanka       | 0                  | 0                      | 0                     |
| Total effect    | 9.11               | 2                      | 7.11                  |

**Table 38. Trade impact of Myanmar's moderate liberalization of merchandise imports from SAFTA + China + Myanmar**

(US\$ million)

| Partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|-----------------|--------------------|------------------------|-----------------------|
| Afghanistan     | 0                  | 0                      | 0                     |
| Bangladesh      | 0                  | 0                      | 0                     |
| Bhutan          | 0                  | 0                      | 0                     |
| India           | 7                  | 1                      | 6                     |
| China           | 0                  | 0                      | 0                     |
| Maldives        | 0                  | 0                      | 0                     |
| Nepal           | 0                  | 0                      | 0                     |
| Pakistan        | 0.08               | 0.12                   | 0.071                 |
| Sri Lanka       | 0                  | 0                      | 0                     |
| Total effect    | 7                  | 1.12                   | 6.88                  |

**Table 39. Trade impact of Myanmar's partial liberalization of merchandise imports from SAFTA + China + Myanmar**

(US\$ million)

| Partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|-----------------|--------------------|------------------------|-----------------------|
| Afghanistan     | 0                  | 0                      | 0                     |
| Bangladesh      | 0                  | 0                      | 0                     |
| Bhutan          | 0                  | 0                      | 0                     |
| India           | 4.5                | 0.50                   | 4                     |
| China           | 0                  | 0                      | 0                     |
| Maldives        | 0                  | 0                      | 0                     |
| Nepal           | 0                  | 0                      | 0                     |
| Pakistan        | 0.055              | 0.005                  | 0.05                  |
| Sri Lanka       | 0                  | 0                      | 0                     |
| Total effect    | 4.5                | 0.50                   | 4                     |

## 8. Nepal

**Table 40. Trade impact of Nepal's full liberalization of merchandise imports from SAFTA + China + Myanmar**

(US\$ million)

| Partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|-----------------|--------------------|------------------------|-----------------------|
| Afghanistan     | 0                  | 0                      | 0                     |
| Bhutan          | 0.50               | 0.06                   | 0.50                  |
| Bangladesh      | 0.54               | 0.14                   | 0.40                  |
| China           | 28                 | 7                      | 21                    |
| India           | 120                | 19                     | 101                   |
| Maldives        | 0                  | 0                      | 0                     |
| Pakistan        | 0.51               | 0.10                   | 0.41                  |
| Sri Lanka       | 0.60               | 0.12                   | 0.48                  |
| Myanmar         | 0                  | 0                      | 0                     |
| Total effect    | 150                | 26                     | 124                   |

**Table 41. Trade impact of Nepal's moderate liberalization of merchandise imports from SAFTA + China + Myanmar**

(US\$ million)

| Partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|-----------------|--------------------|------------------------|-----------------------|
| Afghanistan     | 0                  | 0                      | 0                     |
| Bhutan          | 0                  | 0                      | 0                     |
| Bangladesh      | 0                  | 0                      | 0                     |
| China           | 21                 | 4                      | 17                    |
| India           | 90                 | 12                     | 78                    |
| Maldives        | 0                  | 0                      | 0                     |
| Pakistan        | 0                  | 0                      | 0                     |
| Sri Lanka       | 0                  | 0                      | 0                     |
| Myanmar         | 0                  | 0                      | 0                     |
| Total effect    | 111                | 16                     | 95                    |

**Table 42. Trade impact of Nepal's full liberalization of merchandise imports from SAFTA + China + Myanmar**

(US\$ million)

| Partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|-----------------|--------------------|------------------------|-----------------------|
| Afghanistan     | 0                  | 0                      | 0                     |
| Bhutan          | 0                  | 0                      | 0                     |
| Bangladesh      | 0                  | 0                      | 0                     |
| China           | 14                 | 2                      | 12                    |
| India           | 60                 | 7                      | 53                    |
| Maldives        | 0                  | 0                      | 0                     |
| Pakistan        | 0                  | 0                      | 0                     |
| Sri Lanka       | 0                  | 0                      | 0                     |
| Myanmar         | 0                  | 0                      | 0                     |
| Total effect    | 74                 | 9                      | 65                    |

## 9. Pakistan

**Table 43. Trade impact of Pakistan's full liberalization of merchandise imports from SAFTA + China + Myanmar**

(US\$ million)

| Partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|-----------------|--------------------|------------------------|-----------------------|
| Afghanistan     | 33                 | 5                      | 28                    |
| Bhutan          | 0                  | 0                      | 0                     |
| Bangladesh      | 7                  | 2                      | 5                     |
| China           | 1 135              | 291                    | 844                   |
| India           | 223                | 48                     | 175                   |
| Maldives        | 0                  | 0                      | 0                     |
| Myanmar         | 9                  | 2                      | 7                     |
| Nepal           | 0.21               | 0.09                   | 0.12                  |
| Sri Lanka       | 3                  | 1                      | 2                     |
| Total effect    | 1 410              | 349                    | 1 061                 |



**Table 44. Trade impact of Pakistan's moderate liberalization of merchandise imports from SAFTA + China + Myanmar**

(US\$ million)

| Partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|-----------------|--------------------|------------------------|-----------------------|
| Afghanistan     | 24                 | 4                      | 20                    |
| Bhutan          | 0                  | 0                      | 0                     |
| Bangladesh      | 5                  | 1                      | 4                     |
| China           | 850                | 217                    | 633                   |
| India           | 167                | 35                     | 132                   |
| Maldives        | 0                  | 0                      | 0                     |
| Myanmar         | 6                  | 1                      | 5                     |
| Nepal           | 0                  | 0                      | 0                     |
| Sri Lanka       | 2.3                | 0.75                   | 1.6                   |
| Total effect    | 1 054              | 259                    | 795                   |

**Table 45. Trade impact of Pakistan's partial liberalization of merchandise imports from SAFTA + China + Myanmar**

(US\$ million)

| Partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|-----------------|--------------------|------------------------|-----------------------|
| Afghanistan     | 16                 | 3                      | 13                    |
| Bhutan          | 0                  | 0                      | 0                     |
| Bangladesh      | 3.4                | 0.78                   | 2.7                   |
| China           | 566                | 144                    | 422                   |
| India           | 111                | 24                     | 87                    |
| Maldives        | 0                  | 0                      | 0                     |
| Myanmar         | 4.2                | 0.88                   | 3.4                   |
| Nepal           | 0                  | 0                      | 0                     |
| Sri Lanka       | 1.56               | 0.46                   | 1.1                   |
| Total effect    | 702                | 173                    | 529                   |

## 10. Sri Lanka

**Table 46. Trade impact of Sri Lanka's full liberalization of merchandise imports from SAFTA + China + Myanmar**

(US\$ million)

| Partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|-----------------|--------------------|------------------------|-----------------------|
| Afghanistan     | 0                  | 0                      | 0                     |
| Bhutan          | 0                  | 0                      | 0                     |
| Bangladesh      | 0.60               | 0.17                   | 0.43                  |
| China           | 83                 | 36                     | 47                    |
| India           | 101                | 33                     | 68                    |
| Maldives        | 3.6                | 1.7                    | 1.9                   |
| Myanmar         | 1.3                | 0.49                   | 0.85                  |
| Nepal           | 0.028              | 0.010                  | 0.018                 |
| Pakistan        | 4.21               | 1.30                   | 2.91                  |
| Total effect    | 194                | 73                     | 121                   |

**Table 47. Trade impact of Sri Lanka's moderate liberalization of merchandise imports from SAFTA + China + Myanmar**

(US\$ million)

| Partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|-----------------|--------------------|------------------------|-----------------------|
| Afghanistan     | 0                  | 0                      | 0                     |
| Bhutan          | 0                  | 0                      | 0                     |
| Bangladesh      | 0.45               | 0.10                   | 0.35                  |
| China           | 62                 | 19                     | 43                    |
| India           | 85                 | 23                     | 62                    |
| Maldives        | 2.7                | 1                      | 1.7                   |
| Myanmar         | 0.80               | 0.20                   | 0.50                  |
| Nepal           | 0                  | 0                      | 0                     |
| Pakistan        | 3                  | 1                      | 2                     |
| Total effect    | 154                | 44                     | 110                   |

**Table 48. Trade impact of Sri Lanka's partial liberalization of merchandise imports from SAFTA + China + Myanmar**

(US\$ million)

| Partner country | Total trade effect | Trade diversion effect | Trade creation effect |
|-----------------|--------------------|------------------------|-----------------------|
| Afghanistan     | 0                  | 0                      | 0                     |
| Bhutan          | 0                  | 0                      | 0                     |
| Bangladesh      | 0.31               | 0.05                   | 0.26                  |
| China           | 48                 | 13                     | 35                    |
| India           | 69                 | 18                     | 51                    |
| Maldives        | 1.6                | 0.60                   | 1                     |
| Myanmar         | 0.52               | 0.10                   | 0.42                  |
| Nepal           | 0                  | 0                      | 0                     |
| Pakistan        | 2                  | 0.50                   | 1.5                   |
| Total effect    | 121                | 32                     | 89                    |

## Welfare and revenue effect

### Full liberalization

**Table 49. Welfare gain and revenue loss for BCIM countries**

(US\$ million)

| Countries    | Welfare | Tax revenue |
|--------------|---------|-------------|
| Bangladesh   | 70      | -386        |
| China        | 68      | -716        |
| India        | 268     | -1 927      |
| Myanmar      | 5       | -53         |
| Total effect | 411     | -3 082      |

### Moderate liberalization

**Table 50. Welfare gain and revenue loss for BCIM countries**

(US\$ million)

| Countries    | Welfare | Tax revenue |
|--------------|---------|-------------|
| Bangladesh   | 51      | -218        |
| China        | 31      | -375        |
| India        | 197     | -1 146      |
| Myanmar      | 2       | -25         |
| Total effect | 281     | -1 763      |

### Partial liberalization

**Table 51. Welfare gain and revenue loss for BCIM countries**

(US\$ million)

| Countries    | Welfare | Tax revenue |
|--------------|---------|-------------|
| Bangladesh   | 37      | -127        |
| China        | 15      | -187        |
| India        | 139     | -660        |
| Myanmar      | 2       | -14         |
| Total effect | 193     | -989        |

### **Welfare and revenue effect: SAFTA + China + Myanmar**

#### Full liberalization

**Table 52. Welfare gain and revenue loss for SAFTA + China + Myanmar**

(US\$ million)

| Countries    | Welfare | Tax revenue |
|--------------|---------|-------------|
| Afghanistan  | 7       | -67         |
| Bangladesh   | 67      | -434        |
| Bhutan       | 1.2     | -0.26       |
| China        | 154     | -872        |
| India        | 776     | -2675       |
| Maldives     | 5.2     | -35         |
| Myanmar      | 12      | -57         |
| Nepal        | 13      | -118        |
| Pakistan     | 102     | -651        |
| Sri Lanka    | 15      | -141        |
| Total effect | 1 152.4 | -5 050.2    |

### Moderate liberalization

**Table 53. Welfare gain and revenue loss for SAFTA + China + Myanmar**

(US\$ million)

| Countries   | Welfare | Tax revenue |
|-------------|---------|-------------|
| Afghanistan | 5.7     | -48         |
| Bangladesh  | 58      | -298        |
| Bhutan      | 1.1     | 0.25        |
| China       | 125     | -587        |

|              |       |        |
|--------------|-------|--------|
| India        | 690   | -1 702 |
| Maldives     | 4.2   | -24    |
| Myanmar      | 11    | -37    |
| Nepal        | 12    | -83    |
| Pakistan     | 87    | -447   |
| Sri Lanka    | 13    | -100   |
| Total effect | 1 007 | -3 326 |

### Partial liberalization

**Table 54. Welfare gain and revenue loss for SAFTA + China + Myanmar**

(US\$ million)

| Countries    | Welfare | Tax revenue |
|--------------|---------|-------------|
| Afghanistan  | 4       | -30         |
| Bangladesh   | 44      | -181        |
| Bhutan       | 0.90    | 0.46        |
| China        | 89      | -347        |
| India        | 531     | -938        |
| Maldives     | 3       | -14         |
| Myanmar      | 8.6     | -21         |
| Nepal        | 9.5     | -51         |
| Pakistan     | 65      | -270        |
| Sri Lanka    | 10      | -80         |
| Total effect | 765     | -1 932      |

## Annex III. Potential products for the region under full liberalization

**Table 1. Potential products for China in Bangladesh's market under full liberalization**

| HS Tariff Line Code | Description   | Increase in exports (US\$ '000) |
|---------------------|---|---------------------------------|
| 621710              | Accessories   | 22 606.44                       |
| 520811              | Plain weave, weighing not more than 100 g/m <sup>2</sup>  | 14 882.40                       |
| 520819              | Woven fabrics of cotton, containing 85 per cent or more by weight of cotton, weighing not more than 200 g/m <sup>2</sup> . - Unbleached: Other fabrics  | 13 510.39                       |
| 852520              | Transmission apparatus incorporating reception apparatus  | 11 379.56                       |
| 871120              | With reciprocating internal combustion piston engine of a cylinder capacity exceeding 50 cc but not exceeding 250 cc  | 10 394.12                       |
| 310310              | Super phosphates  | 9 278.39                        |
| 551219              | Woven fabrics of synthetic staple fibres, containing 85 per cent or more by weight of synthetic staple fibres. Containing 85 per cent or more by weight of polyester staple fibres: Other                           | 8 090.09                        |
| 600110              | "Long pile" fabrics   | 8 020.44                        |
| 520942              | Denim   | 7 502.34                        |
| 520931              | Plain weave   | 6 871.77                        |
| 852812              | Colour  | 6 806.32                        |
| 520821              | Plain weave, weighing not more than 100 g/m <sup>2</sup>  | 6 559.30                        |
| 551329              | Woven fabrics of synthetic staple fibres, containing less than 85 per cent by weight of such fibres, mixed mainly or solely with cotton, of a weight not exceeding 170 g/m <sup>2</sup> . Dyed: Other woven fabrics | 6 243.08                        |
| 401120              | Of a kind used on buses or lorries  | 5 526.14                        |
| 520831              | Plain weave, weighing not more than 100 g/m <sup>2</sup>  | 5 401.13                        |

**Table 2. Potential products for India in Bangladesh's market under full liberalization**

| HS Tariff Line Code | Description  | Increase in exports (US\$ '000) |
|---------------------|--|---------------------------------|
| 401120              | Of a kind used on buses or lorries   | 23 812.48                       |
| 271011              | Light oils and preparations  | 15 794.49                       |
| 871120              | With reciprocating internal combustion piston engine of a cylinder capacity exceeding 50 cc but not exceeding 250 cc   | 14 309.26                       |
| 520942              | Denim  | 13 181.21                       |
| 520521              | Measuring 714.29 decitex or more (not exceeding 14 metric number)  | 7 581.65                        |
| 870422              | g.v.w. exceeding 5 metric tons but not exceeding 20 metric tons  | 6 691.68                        |
| 720839              | Of a thickness of less than 3 mm   | 5 979.90                        |
| 100190              | Wheat  | 4 198.06                        |
| 852812              | Colour   | 4 028.55                        |
| 520511              | Cotton measuring 714.29 decitex or more (not exceeding 14 metric number)   | 3 767.84                        |
| 870390              | Motor cars and other motor vehicles principally designed for the transportation of persons (other than those under heading 87.02), including station wagons and racing cars. - Other | 3 696.07                        |
| 481092              | Multiply   | 3 468.87                        |
| 100630              | Semi-milled or wholly-milled rice, whether or not polished or glazed   | 3 427.65                        |
| 480257              | Paper and paperboard   | 3 243.19                        |
| 870210              | Track-laying tractors with compression-ignition internal combustion piston engine (diesel or semi-diesel)  | 2 839.36                        |

**Table 3. Potential products for Myanmar in Bangladesh's market under full liberalization**

| HS Tariff Line Code | Description   | Increase in exports (US\$ '000) |
|---------------------|---|---------------------------------|
| 440349              | Wood in the rough, whether or not stripped of bark or sapwood, or roughly squared. - Other, of tropical wood specified in Subheading Note 1 to this Chapter: Other  | 1 480.12                        |
| 440399              | Wood in the rough, whether or not stripped of bark or sapwood, or roughly squared. - Other  | 1 221.44                        |
| 100620              | Husked (brown) rice   | 327.355                         |
| 440729              | Wood sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or end-jointed, of a thickness exceeding 6 mm. - of tropical wood specified in Subheading Note 1 to this Chapter: - Other  | 90.158                          |
| 100640              | Broken rice   | 61.683                          |
| 100630              | Semi-milled or wholly-milled rice, whether or not polished or glazed  | 23.87                           |
| 440320              | Wood in the rough, whether or not stripped of bark or sapwood, or roughly squared. - Other, coniferous  | 19.202                          |
| 630900              | Worn clothing and other worn articles   | 7.609                           |
| 340290              | Organic surface-active agents (other than soap); surface-active preparations, washing preparations (including auxiliary washing preparations) and cleaning preparations, whether or not containing soap, other than those of heading 34.01. - Other | 4.95                            |
| 441820              | Doors and their frames and thresholds   | 4.413                           |
| 340391              | Preparations for the treatment of textile materials, leather, furskins or other materials   | 3.581                           |
| 852812              | Colour  | 3.164                           |
| 870324              | Of a cylinder capacity exceeding 3,000 cc   | 2.165                           |

|        |  |       |
|--------|--|-------|
| 380991 | Of a kind used in the textile or similar/related industries            | 0.769 |
| 350790 | Enzymes; prepared enzymes not elsewhere specified or included. - Other | 0.422 |

**Table 4. Potential products for Bangladesh in China's market under full liberalization**

| HS Tariff Line Code | Description  | Increase in exports (US\$ '000) |
|---------------------|--|---------------------------------|
| 410792              | Grain splits   | 1 963.67                        |
| 411510              | Composition leather with a basis of leather or leather fibre, in slabs, sheets or strip, whether or not in rolls   | 1 706.10                        |
| 620193              | Of manmade fibres  | 1 388.83                        |
| 410441              | Full grains, unsplit; grain splits   | 1 112.55                        |
| 410712              | Grain splits   | 956.49                          |
| 410622              | In the dry state (crust)   | 900.81                          |
| 410799              | Leather further prepared after tanning or crusting, including parchment-dressed leather, of bovine (including buffalo) or equine animals, without hair on, whether or not split, other than leather of heading 41.14. - Other, including sides: - Other  | 629.47                          |
| 950639              | Articles for funfair, table or parlour games, including pintables, billiards, special tables for casino games and automatic bowling alley equipment. - Video games of a kind used with a television receiver   | 578.37                          |
| 411310              | Of goats or kids   | 518.2                           |
| 621133              | Of manmade fibres  | 508.31                          |
| 900190              | Optical fibres and optical fibre bundles; optical fibre cables other than those of heading 85.44; sheets and plates of polarizing material; lenses (including contact lenses), prisms, mirrors and other optical elements, of any material, unmounted, other than such elements of glass not optically worked. - Other | 485.35                          |
| 620333              | Of synthetic fibres  | 482.62                          |
| 410419              | Tanned or crust hides and skins of bovine (including buffalo) or equine animals, without hair on, whether or not split, but not further prepared. - In the wet state (including wet-blue): - Other   | 336.42                          |
| 620463              | Of synthetic fibres  | 255.58                          |
| 411200              | Leather further prepared after tanning or crusting, including parchment dressed leather, of sheep or lamb, without wool on, whether or not split, other than leather of heading 41.14.   | 228.95                          |

**Table 5. Potential products for India in China's market under full liberalization**

| HS Tariff Line Code | Description  | Increase in exports (US\$ '000) |
|---------------------|--|---------------------------------|
| 520100              | Cotton, not carded or combed.  | 369 278.66                      |
| 710239              | Diamonds, whether or not worked, but not mounted or set. - Non-industrial: - Other   | 99 137.16                       |
| 281820              | Aluminium oxide, other than artificial corundum  | 64 978.23                       |
| 390120              | Polyethylene having a specific gravity of 0.94 or more   | 58 483.82                       |
| 670300              | Human hair, dressed, thinned, bleached or otherwise worked; wool or other animal hair or other textile materials, prepared for use in making wigs or similar items | 54 791.63                       |
| 390210              | Polypropylene  | 34 083.25                       |
| 411310              | Of goats or kids   | 21 343.85                       |
| 251611              | Crude or roughly trimmed   | 16 596.61                       |
| 400121              | Smoked sheets  | 15 844.97                       |
| 740311              | Cathodes and sections of cathodes  | 14 985.37                       |

|        |   |           |
|--------|---|-----------|
| 290531 | Ethylene glycol (ethanediol)  | 13 253.12 |
| 410792 | Grain splits  | 11 950.21 |
| 847340 | Parts and accessories of the machines of heading 84.72  | 11 901.82 |
| 840510 | Producer gas or water gas generators, with or without their purifiers; acetylene gas generators and similar water process gas generators, with or without their purifiers | 11 576.83 |
| 721914 | Of a thickness of less than 3 mm  | 10 193.81 |

**Table 6. Potential products for Myanmar in China's market under full liberalization**

| HS Tariff Line Code | Description  | Increase in exports (US\$ '000) |
|---------------------|--|---------------------------------|
| 400121              | Smoked sheets  | 6 016.22                        |
| 400122              | Technically specified natural rubber (TSNR)  | 1 433.35                        |
| 710399              | Precious stones (other than diamonds) and semi-precious stones, whether or not worked or graded but not strung, mounted or set; ungraded precious stones (other than diamonds) and semi-precious stones, temporarily strung for convenience of transport. - Otherwise worked: - Other  | 763.21                          |
| 852290              | Parts and accessories suitable for use solely or principally with the apparatus of headings 85.19 to 85.21. - Other  | 705.16                          |
| 330129              | Essential oils (terpeneless or not), including concretes and absolutes; resinoids; extracted oleoresins; concentrates of essential oils in fats, in fixed oils, in waxes or the like, obtained by enfleurage or maceration; terpenic by-products of the deterpenation of essential oils; aqueous distillates and aqueous solutions of essential oils. - Essential oils other than those of citrus fruit: - Other | 566.85                          |
| 121299              | Locust beans, seaweeds and other algae, sugar beet and sugar cane, fresh, chilled, frozen or dried, whether or not ground; fruit stones and kernels and other vegetable products (including unroasted chicory roots of the variety <i>Cichorium intybus sativum</i> ) of a kind used primarily for human consumption, not elsewhere specified or included. - Other: - Other                                      | 260.91                          |
| 230120              | Flours, meals and pellets, of fish or of crustaceans, molluscs or other aquatic invertebrates  | 175.91                          |
| 253090              | Mineral substances not elsewhere specified or included. - Other  | 160.74                          |
| 382490              | Prepared binders for foundry moulds or cores; chemical products and preparations of the chemical or allied industries (including those consisting of mixtures of natural products), not elsewhere specified or included. - Other   | 144.4                           |
| 440839              | Sheets for veneering (including those obtained by slicing laminated wood), for plywood or for similar laminated wood and other wood, sawn lengthwise, sliced or peeled, whether or not planed, sanded, spliced or end-jointed, of a thickness not exceeding 6 mm. - Of tropical wood specified in Subheading Note 1 to this Chapter: - Other   | 130.4                           |
| 710122              | Worked   | 113.25                          |
| 100590              | Maize (corn): - Other  | 93.98                           |
| 400129              | Natural rubber, balata, gutta-percha, guayule, chicle and similar natural gums, in primary forms or in plates, sheets or strip. - Natural rubber in other forms: - Other   | 60.75                           |
| 400110              | Natural rubber latex, whether or not pre-vulcanized  | 55.75                           |
| 400510              | Compounded with carbon black or silica   | 53.11                           |

**Table 7. Potential products for Bangladesh in India's market under full liberalization**

| HS Tariff Line Code | Description   | Increase in exports (US\$ '000) |
|---------------------|---|---------------------------------|
| 310210              | Urea, whether or not in aqueous solution  | 10 082.06                       |
| 281410              | Anhydrous ammonia   | 5 837.72                        |
| 850710              | Lead acid, of a kind used for starting piston engines   | 3 315.13                        |
| 630510              | Of jute or of other textile bast fibres of heading 53.03  | 2 779.61                        |
| 150790              | Soya-bean oil and its fractions, whether or not refined, but not chemically modified. - Other   | 2 594.25                        |
| 720421              | Of stainless steel  | 1 669.11                        |
| 151620              | Vegetable fats and oils and their fractions   | 1 349.58                        |
| 740811              | Of which the maximum cross-sectional dimension exceeds 6 mm   | 1 297.13                        |
| 151190              | Palm oil and its fractions, whether or not refined, but not chemically modified. - Other  | 1 198.55                        |
| 530310              | Jute and other textile bast fibres, raw or retted   | 1 189.02                        |
| 530710              | Single  | 1 186.14                        |
| 531010              | Unbleached  | 1 139.18                        |
| 410449              | Tanned or crust hides and skins of bovine (including buffalo) or equine animals, without hair on, whether or not split, but not further prepared. - In the dry state (crust): - Other         | 1 061.01                        |
| 740400              | Copper waste and scrap  | 902.56                          |
| 251710              | Pebbles, gravel, broken or crushed stone, of a kind commonly used for concrete aggregates, for road metalling or for railway or other ballast, shingle and flint, whether or not heat-treated | 778.51                          |

**Table 8. Potential products for China in India's market under full liberalization**

| HS Tariff Line Code | Description  | Increase in exports (US\$ '000) |
|---------------------|--|---------------------------------|
| 270400              | Coke and semi-coke of coal, of lignite or of peat, whether or not agglomerated; retort carbon  | 190 606.46                      |
| 730590              | Other tubes and pipes (for example, welded, riveted or similarly closed), having circular cross-sections, the external diameter of which exceeds 406.4 mm, of iron or steel. - Other | 152 444.57                      |
| 270119              | Other coal   | 85 267.98                       |
| 852990              | Parts suitable for use solely or principally with the apparatus of headings 85.25 to 85.28. - Other  | 82 047.39                       |
| 294200              | Other organic compounds.   | 65 971.80                       |
| 720836              | Of a thickness exceeding 10 mm   | 53 002.22                       |
| 720890              | Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, hot-rolled, not clad, plated or coated. - Other   | 51 583.55                       |
| 294110              | Penicillins and their derivatives with a penicillanic acid structure; salts thereof  | 41 760.80                       |
| 401120              | Of a kind used on buses or lorries   | 41 183.99                       |
| 500200              | Raw silk (not thrown)  | 34 727.13                       |
| 844790              | Knitting machines, stitch-bonding machines and machines for making gimped yarn, tulle, lace, embroidery, trimmings, braid or net, and machines for tufting. - Other                  | 33 900.23                       |
| 294190              | Antibiotics - Other  | 30 463.46                       |
| 720851              | Of a thickness exceeding 10 mm   | 27 601.40                       |
| 852290              | Parts and accessories suitable for use solely or principally with the apparatus of headings 85.19 to 85.21. - Other  | 26 335.71                       |
| 871499              | Parts and accessories of vehicles under headings 87.11 to 87.13. - Other   | 25 673.27                       |



**Table 9. Potential products for Myanmar in India's market under full liberalization**

| HS Tariff Line Code | Description  | Increase in exports (US\$ '000) |
|---------------------|--|---------------------------------|
| 440349              | Wood in the rough, whether or not stripped of bark or sapwood, or roughly squared. - Other, of tropical wood specified in Subheading Note 1 to this Chapter: - Other   | 20 266.04                       |
| 440399              | Wood in the rough, whether or not stripped of bark or sapwood, or roughly squared. - Other   | 14 488.72                       |
| 400121              | Smoked sheets  | 868.70                          |
| 440890              | Sheets for veneering (including those obtained by slicing laminated wood), for plywood or for similar laminated wood and other wood, sawn lengthwise, sliced or peeled, whether or not planed, sanded, spliced or end-jointed, of a thickness not exceeding 6 mm. - Other  | 560.45                          |
| 440839              | Sheets for veneering (including those obtained by slicing laminated wood), for plywood or for similar laminated wood and other wood, sawn lengthwise, sliced or peeled, whether or not planed, sanded, spliced or end-jointed, of a thickness not exceeding 6 mm. - Of tropical wood specified in Subheading Note 1 to this Chapter: - Other | 376.23                          |
| 441299              | Plywood, veneered panels and similar laminated wood. - Other   | 137.12                          |
| 470692              | Chemical   | 80.51                           |
| 440320              | Wood in the rough, whether or not stripped of bark or sapwood, or roughly squared. - Other, coniferous   | 65.85                           |
| 710310              | Unworked or simply sawn or roughly shaped  | 56.70                           |
| 470329              | Non-coniferous   | 52.97                           |
| 410621              | In the wet state (including wetblue)   | 48.33                           |
| 121190              | Plants and parts of plants (including seeds and fruits), of a kind used primarily in perfumery, in pharmacy or for insecticidal, fungicidal or similar purposes, fresh or dried, whether or not cut, crushed or powdered. - Other  | 47.64                           |
| 440810              | Coniferous   | 33.83                           |
| 140110              | Bamboos  | 32.57                           |
| 440729              | Wood sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or end-jointed, of a thickness exceeding 6 mm. - Of tropical wood specified in Subheading Note 1 to this Chapter: - Other   | 25.30                           |

**Table 10. Potential products for China in Myanmar's market under full liberalization**

| HS Tariff Line Code | Description   | Increase in exports (US\$ '000) |
|---------------------|---|---------------------------------|
| 871120              | With reciprocating internal combustion piston engine of a cylinder capacity exceeding 50 cc, but not exceeding 250 cc   | 8 997.49                        |
| 551219              | Woven fabrics of synthetic staple fibres, containing 85 per cent or more by weight of synthetic staple fibres. - Containing 85 per cent or more by weight of polyester staple fibres: - Other | 5 454.47                        |
| 401120              | Of a kind used on buses or lorries  | 5 398.14                        |
| 210390              | Sauces and preparations thereof; mixed condiments and mixed seasonings; mustard flour and meal and prepared mustard. - Other  | 4 200.09                        |
| 240220              | Cigarettes  | 2 943.59                        |
| 220300              | Beer made from malt.  | 2 927.32                        |
| 940370              | Plastic furniture   | 2 094.69                        |
| 551321              | Of polyester staple fibres, plain weave   | 1 651.45                        |
| 852812              | Colour  | 1 495.34                        |
| 600192              | Of manmade fibres   | 1 485.45                        |

|        |  |          |
|--------|--|----------|
| 540761 | Containing 85 per cent or more by weight of non-textured polyester filaments   | 1 467.08 |
| 551341 | Of polyester staple fibres, plain weave  | 1 398.28 |
| 271019 | Petroleum oils and oils obtained from bituminous minerals (other than crude) and preparations not elsewhere specified or included, containing by weight 70 per cent or more of petroleum oils or of oils obtained from bituminous minerals, these oils being the basic constituents of the preparations, other than waste oils: -- Other | 1 278.14 |
| 271220 | Paraffin wax containing by weight less than 0.75 per cent of oil   | 1 148.21 |
| 551331 | Of polyester staple fibres, plain weave  | 1 122.25 |

**Table 11. Potential products for India in Myanmar's market under full liberalization**

| HS Tariff Line Code | Description  | Increase in exports (US\$ '000) |
|---------------------|--|---------------------------------|
| 401120              | Of a kind used on buses or lorries   | 1 242.77                        |
| 300490              | 'Medicaments (excluding goods of heading 30.02, 30.05 or 30.06) consisting of mixed or unmixed products for therapeutic or prophylactic uses, put up in measured doses (including those in the form of transdermal administration systems) or in forms or packaging for retail sale. - Other | 729.84                          |
| 721049              | Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, clad, plated or coated. - Otherwise plated or coated with zinc: - Other   | 652.8                           |
| 711319              | Of other precious metal, whether or not plated or clad with precious metal   | 407.28                          |
| 330510              | Shampoos   | 264.46                          |
| 210111              | Extracts, essences and concentrates  | 227.44                          |
| 740811              | Of which the maximum cross-sectional dimension exceeds 6 mm  | 222.32                          |
| 410711              | Full grains, unsplit   | 203.6                           |
| 390210              | Polypropylene  | 195.17                          |
| 820310              | Files, rasps and similar tools   | 170.18                          |
| 401199              | New pneumatic tyres, of rubber. - Other  | 145.63                          |
| 721070              | Painted, varnished or coated with plastics   | 135.37                          |
| 732393              | Of stainless steel   | 131.64                          |
| 300420              | Containing other antibiotics   | 124.88                          |
| 960810              | Ball point pens  | 120.89                          |