Graduate Institute of Development Studies
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Was the SAFTA Revision Successful? A Case Study of Bangladesh's RMG Exports to India

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Preface

The Graduate Institute of Development Studies (GIDS) was established in 2012 by the Lahore School of Economics. Its overarching aim is to stimulate an interdisciplinary approach to development policy and practice that will help promote equitable and sustainable development in a period of rapid globalization and technological change.

An important goal of GIDS is to promote research and discussion on the policy challenges facing the developing world – and Pakistan in particular – through conferences, seminars, and publications. The GIDS Working Paper Series aims to bring to a wider audience the research being carried out at the Institute. Comments and feedback on this paper are welcome.

Abstract

Bangladesh has experienced phenomenal growth in its readymade garments (RMG) sector and become the world's second largest RMG exporter after China. Given the country's robust position in this context, many observers expected that SAFTA (Phase II revision) – which allowed Bangladesh's apparel products duty-free and quota-free access to the Indian market – would lead to a surge in Indian imports of apparel and RMGs. However, this did not materialize.

This paper analyzes Indo-Bangladesh trade in RMGs in order to determine the underlying reasons for this anomaly. Using Balassa's concept of revealed comparative advantage, we establish the strong comparative advantage enjoyed by Bangladesh, while constructing a trade complementarity index that highlights the lack of trade complementarity between the two countries. Overall, our findings suggest that India enjoys economies of scale in RMG production – as Bangladesh's competitor, India has artificially maintained a secure regime through a combination of domestic export incentives and nontrade measures to restrain imports.

Keywords: Bangladesh, India, comparative advantage, liberalization, RMGs, SAFTA.

JEL classification: F13, F14, F15.

Was the SAFTA Revision Successful? A Case Study of Bangladesh's RMG Exports to India[1]

1. Introduction

As low-technology manufactures, textiles and garments occupy a pivotal place in the export portfolio of the larger economies within the South Asian Association for Regional Cooperation (SAARC), including Bangladesh, India, Pakistan, and Sri Lanka (Table 1). Of these, Bangladesh has experienced phenomenal export growth in the readymade garments (RMG) sector, becoming the second largest exporter of clothing after China. This particular segment has become the backbone of the economy, with the clothing sector accounting for 78 percent of total exports in 2014 compared to a negligible 0.001 percent in 1976. Today, despite the fact that Bangladesh is categorized as a least developed country (LDC), its RMG sector is seen as a promising success story, which provides employment to approximately 4 million people, of which 85 percent are women.

Table 1: Clothing and textiles as a percentage of total merchandise exports

	Bangladesh		India		Pakistan		Sri Lanka	
Year	Cloth.	Tex.	Cloth.	Tex.	Cloth.	Tex.	Cloth.	Tex.
2009	78.84	5.87	7.28	5.52	19.16	37.15	44.45	1.89
2010	77.39	6.58	4.96	5.67	18.36	36.66	40.58	2.00
2011	78.62	7.77	4.84	5.06	17.93	35.78	41.14	1.93
2012	78.75	6.50	4.66	5.15	17.15	35.43	42.70	2.41
2013	80.72	6.50	5.38	6.04	18.11	37.18	44.19	2.31

Source: Author's calculations based on data from the WTO Statistics Database.

One of the main reasons for the sector's success is the preferential market access granted by major export destinations such as Europe, Canada, and Australia, which are now sources of enhanced revenue for Bangladesh. In 2011, under the South Asian Free Trade (SAFTA)

[1] The author would like to thank Dr Hafiz A. Pasha for his valuable comments on various parts of the paper.

Revision Phase II,[2] India allowed similar special concessions to the region's LDCs. This entailed liberalizing its tariff lines from 480 items to 25 items, inter alia, providing duty-free-quota-free (DFQF) access to 46 tariff lines pertaining to RMGs, of which it had been cautious (see Table A1 in the Appendix).

This DFQF access to the Indian market was seen as a window of opportunity for Bangladesh's RMG exports to penetrate the largest market in the region. Unfortunately, this failed to materialize. The aim of this study is to analyze pre- and post-revision trends in India's RMG imports from Bangladesh and to investigate the underlying factors hindering the growth of these imports. Accordingly, we focus on the following questions:

- If both India and Bangladesh export the same products in the RMG sector, which country enjoys a higher comparative advantage in production?
- Is there trade complementarity between Bangladesh and India, i.e., does the former export RMGs while the latter imports RMGs?

To address these questions, we calculate the revealed comparative advantage (RCA) for both countries' RMG exports, using data at the HC 4-digit level. We also construct a trade complementarity index (TCI) using data at the HC 6-digit level. The study reveals that Bangladesh enjoys a higher RCA in all major product lines and thus has a higher comparative advantage than India in the production of RMGs. The TCI shows that there is no trade complementarity between the two countries: both export RMGs and are essentially competitors.

This paper is divided into five sections. Section 2 provides an overview of regional trade agreements (RTAs) in South Asia. Section 3 reviews the subject literature. Section 4 examines the trade profiles of India and Bangladesh and their bilateral trade relations. Section 5 analyzes the impact of SAFTA by calculating the RCA and TCI, and scrutinizing nontrade and other barriers to Bangladesh's exports. Section 6 concludes the study.

[2] This was effective from 1 January 2012.

2. From SAARC to SAFTA

Following the success of other regional blocs, seven South Asian countries – Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, and Sri Lanka – formed SAARC in 1985 so as to cooperate mutually on economic, social, and cultural fronts. With economic cooperation being at the heart of the agreement, a framework for regional integration – the South Asian Preferential Trade Agreement (SAPTA) – was approved in 1993 and implemented in 1995. This was considered a precursor to SAFTA.

SAPTA was based on a positive-list approach, with negotiations centering on individual products. This proved time-consuming, while political rivalries meant that the most commonly traded goods were not considered for preferential tariffs. Ultimately, the agreement became redundant (Kelegama, 2007). Its successor, SAFTA, was based on a negative-list approach with an eight-year phasing-out period. Although the agreement was better articulated, it has not lived up to its potential.

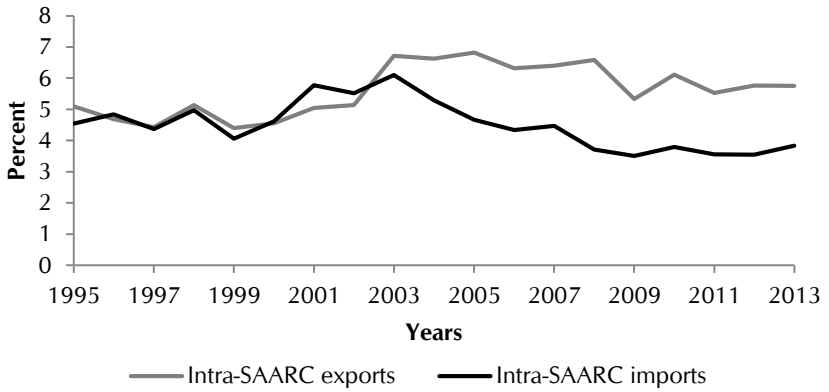
SAFTA began in 2006, aiming to establish a duty-free area for all SAARC members by 2016. Overall, the agreement envisaged a vigorous trade environment that would come about by facilitating specialization, reducing tariffs, removing nontariff measures (NTMs), expanding production capacities, and improving technology. To date, SAFTA has not yielded any noteworthy economic or monetary gains, given the inherent political mistrust among SAARC's major stakeholders. Consequently, intra-SAARC trade has remained around 4 percent of the total trade in the region (Taneja, Ray, Kaushal, & Chowdhury, 2011).

The core reason for this is that SAFTA has applied a sensitive-list approach whereby members maintain a list of items deprived of concessional tariffs to protect local industries not fit for competition. This centers on the "infant industry" argument, under which small manufacturers or agricultural goods, for example, are protected from international competition. This has restricted trade: Weerakoon and Thennakoon (2006) and Weerakoon (2010) estimate that 53 percent of South Asia's total intra-regional import trade has been excluded from the Tariff Liberalization Program under SAFTA.

Figure 1 shows that intra-SAARC exports and imports were highest in 2003, averaging 6.7 and 6 percent, respectively. Both follow a mixed

trend: exports and imports post-2009 are more or less constant at 5 and 3 percent, respectively. In spite of common historical and cultural links, ethnic, religious, economic, and border disputes among the SAARC countries – notably between Pakistan and India over Kashmir – have created a strategic imbalance whereby India remains the dominant member and market (Mahmood, 2000). This has resulted in inadequate trade between countries in the region and is undoubtedly a key source of stagnating trade growth.

Figure 1: Intra-SAARC trade



Source: UN Comtrade.

Table 2 lists the top five export and import destinations of the four main SAARC economies: India, Pakistan, Bangladesh, and Sri Lanka. Of these, India, Bangladesh, and Sri Lanka's major export partners are developed countries, with the US as the most prominent partner. China is the top import partner for all countries except Sri Lanka. India remains a major import partner for Sri Lanka and Bangladesh. Although India is the largest South Asian market, it is not a major export partner for any neighboring country. This is despite the fact that India has liberalized its sensitive lift under SAFTA Revision Phase II, abiding by Article 11.[3] Resultantly, the sensitive list has been reduced to 25 items from 480, and to 614 items from 868 for LDCs and nonleast developed countries (NLDCs), respectively.

[3] Article 11 is based on special and differential treatment for SAFTA's least developed contracting states.

This is commendable: India is the only NLDC in the region to have extended differential treatment to LDCs. The other NLDCs, Pakistan and Sri Lanka, have not followed suit. India also has a free trade agreement with Sri Lanka, which leaves Pakistan as the only country in the region to receive relatively stringent treatment from India compared to other SAFTA signatories.

Table 2: Direction of trade of major SAARC economies, 2013

Country	Top 5 export partners	Top 5 import partners
India	1. United States	1. China
	2. Singapore	2. Switzerland
	3. United Kingdom	3. Kuwait
	4. Japan	4. Qatar
	5. United Arab Emirates	5. Saudi Arabia
Pakistan	1. United States	1. China
	2. Afghanistan	2. Kuwait
	3. Saudi Arabia	3. United States
	4. Spain	4. Indonesia
	5. China	5. Saudi Arabia
Bangladesh	1. United States	1. China
	2. France	2. Singapore
	3. Canada	3. Indonesia
	4. Belgium	4. United Arab Emirates
	5. Germany	5. India
Sri Lanka	1. United States	1. India
	2. Italy	2. United Arab Emirates
	3. Russian Federation	3. Malaysia
	4. Iran	4. Hong Kong
	5. United Kingdom	5. China

Source: Direction of Trade Statistics, IMF.

3. Literature Review

Notwithstanding SAARC's agenda of economic integration and mutual cooperation, South Asia remains marred by political mistrust, which has kept the region from achieving any significant results vis-à-vis its trade potential. Nadkarni (2014) estimates the total value of intra-regional SAARC exports to be US$ 3 billion, which is far smaller than what it could be. Indo-Pakistan rivalry is cited as a preeminent cause of the

stunted success of SAARC: were the two countries able to maintain cordial relations, the region's trade prospects would be magnified.

Numerous studies – using gravity models, computable general equilibrium, and partial equilibrium – have attempted to ascertain the economic gains of regional integration in South Asia. Their findings indicate mixed results. Some argue that the probability of SAFTA being trade-diverting rather than trade-creating is quite high (see Baysan, Panagariya, & Pitigala, 2006). Coulibaly (2005) concludes that SAFTA should result in net export creation whereas Srinivasan and Canonero (1995) and Banik and Sengupta (1997) show that the impact of free trade is far larger for smaller countries in the region than for India.

Contrary to this, Rahman (2003) finds the dummy variable for South Asia to be insignificant, indicating that regional integration is unlikely to generate any significant trade expansion. Rahman, Shadat, and Das (2006) show that Bangladesh, India, and Pakistan would gain positively from an RTA compared to Nepal, the Maldives, and Sri Lanka. In terms of real income, however, India and Sri Lanka would perform better than Bangladesh.

SAFTA's performance has shown minimal signs of success in recent years, with critics arguing that such an agreement would make more sense in the context of a broader strategy comprising China and other members of ASEAN (see Baysan et al., 2006). This would lead to a strategic Asian bloc that might then compete with other regional blocs in North America and Europe, and supplement multilateral free trade (ibid).

The World Bank (2006) has conducted a study to determine the impact of Indo-Bangladesh trade under a free trade agreement. It predicts a bilateral increase in RMG imports and exports, and concludes that better infrastructure and administrative capacity at the border would increase the welfare gains accruing to Bangladeshi consumers. Overall, the World Bank study favors unilateral liberalization and trade facilitation at the border. A gravity model applied by Rahman (2010) underlines the major determinants of Bangladesh's exports, which include the exchange rate, partner countries' total import demand, and the openness of the Bangladesh economy. The study argues that Bangladesh is influenced more by its neighbors than by other countries.

Bangladesh has always been subject to a bilateral trade deficit with India, primarily as a result of the two countries' export similarity and, therefore, their export competitiveness. Moreover, the lack of similarity between Bangladesh's exports and India's imports restricts their trade complementarity (Basu & Datta, 2007). The literature on Indo-Bangladesh trade agrees on the need to enhance infrastructure – the region is notorious for weak border trade. Cross-border transactions incur substantial costs in terms of time and expense, thereby exacerbating inefficiencies. Although many documentation procedures have been simplified, the transaction costs of India's exports to Bangladesh have risen (De & Ghosh, 2008). Infrastructural and transport improvements are, therefore, key to increasing trade between the two countries (Acharya & Marwaha, 2012).

4. Trade Profiles of Bangladesh and India[4]

This section presents an overview of trade in the two countries under study.

4.1. Trade Statistics

Bangladesh has a GDP of US$ 129,857 million as compared to US$ 1,876,797 million for India, a burgeoning developing economy. Despite being an LDC, Bangladesh has maintained an average GDP growth rate of 5.62 percent[5] while India averages 7.48 percent. At the same time, Bangladesh has a trade-to-GDP ratio of 55.9 compared to 54.2 for India. Table 3 summarizes some key trade statistics for both countries.

Table 3: Key trade statistics

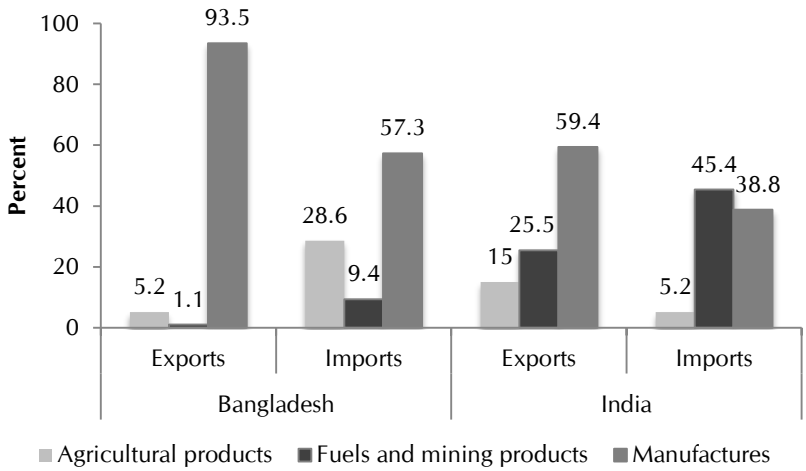
Description	Bangladesh	India
Merchandise exports for 2013	US$ 29,114 million	US$ 313,235 million
Merchandise imports for 2013	US$ 36,377 million	US$ 466,042 million
Rank in world: exports	67	19
Rank in world: imports	61	12
Share in total world exports	0.15	1.66
Share in total world imports	0.19	2.47

Source: WTO Trade Profiles (data based on merchandise trade).

[4] All the data in this section is from the WTO Country Trade Profiles for 2013.
[5] Sourced from the World Development Indicators; calculated as a five-year average GDP growth rate for Bangladesh and India.

The trade statistics for Bangladesh are lower than for India, such that the latter accounts for 1.66 percent of world exports while Bangladesh's exports remain negligible. Similarly, India ranks far higher in terms of world exports and imports than Bangladesh. Figure 2 illustrates the breakdown by commodity group of both countries' total exports.

Figure 2: World trade by sector



Source: World Trade Profiles, WTO.

About 93.5 percent of Bangladesh's exports are produced in the manufacturing sector; this is very high for an LDC and is attributed largely to the apparel and RMG sector, which accounts for 78 percent of the country's exports. Correspondingly, its high level of agricultural imports comprises cotton, which serves as the raw material for this sector. India's exports and imports, on the other hand, are not skewed or concentrated in a particular sector. Fuel remains a high import commodity and manufactured goods account for 59.4 percent of total exports.

4.2. Herfindahl–Hirschman Index

The Herfindahl–Hirschman index (HHI) is commonly used to determine the concentration of a country's export portfolio. The HHI for country j is defined as:

$$HHI_j = \sum_i \left(\frac{X_{ij}}{X_j}\right)^2$$

where x_{ij} is the value of exports of good i for country j and x_j is the total value of exports for country j. The HHI considers the export share of disaggregated products relative to the country's total exports. The index varies between 0 and 1 where the former denotes complete diversification and the latter a high concentration. Table 4 gives the HHI for Bangladesh and India, using data on HS 4-digit commodities.

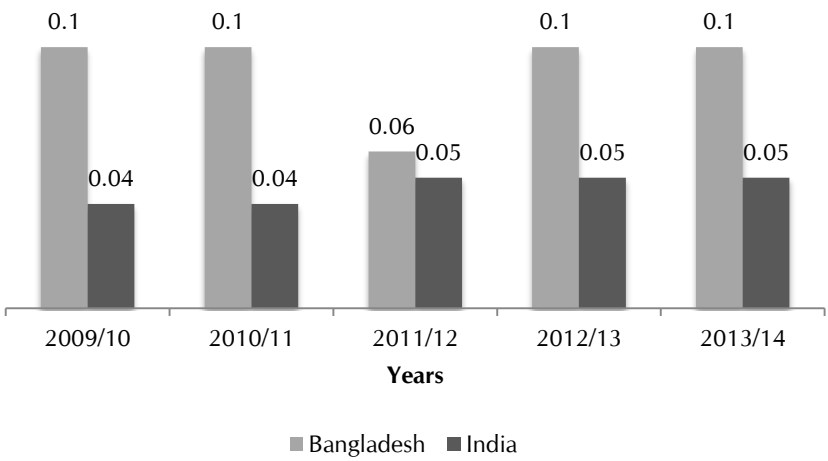
Table 4: HHI for Bangladesh and India

Country	2009/10	2010/11	2011/12	2012/13	2013/14
Bangladesh	0.10	0.10	0.06	0.10	0.10
India	0.04	0.04	0.05	0.05	0.05

Source: Author's calculations based on data from each country's ministry for commerce.

The results suggest that India's export portfolio is relatively more diversified than that of Bangladesh. Indeed, given that most of Bangladesh's exports comprise RMGs, its index falls within the range that shows some level of concentration and thus specialization in a particular sector. India's HHI, on the other hand, remains 0.04–0.05, connoting a diversified range of exports. Figure 3 contrasts the levels of concentration between the two countries' export portfolios.

Figure 3: Export concentrations

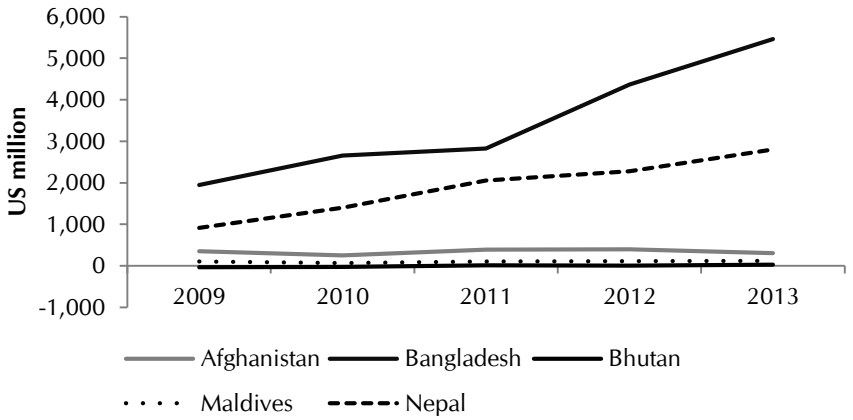


Source: Author's calculations based on data from each country's ministry for commerce.

4.3. Bilateral Trade Relations

As the largest market in SAARC, India enjoys a trade surplus with all other countries in the region, especially those that are LDCs. Figure 4 depicts India's trade surplus with respect to Afghanistan, Bangladesh, Bhutan, the Maldives, and Nepal. The largest volume of trade is with Bangladesh – which translates into the largest trade surplus – followed by Nepal. India's volume of trade with the other three countries is negligible.

Figure 4: India's trade surplus with South Asian LDCs



Source: UN Comtrade.

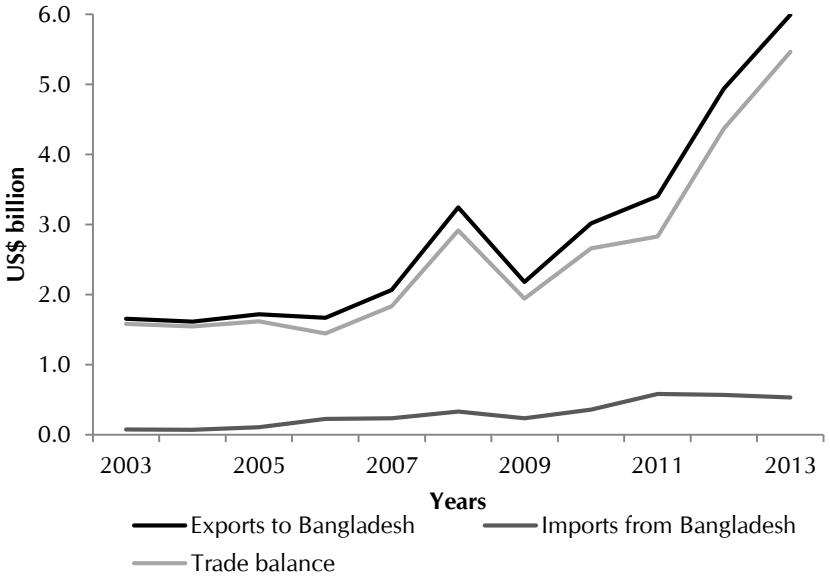
Although India is one of the top five importers for Bangladesh, its exports to Bangladesh are only 2 percent of its total exports. Thus, trade relations between the two countries are skewed in favor of India (see Figure 5).

During 2003 to 2013, India's exports to Bangladesh showed an increasing trend. In 2003, they amounted to US$ 1.65 billion, rising to US$ 3.24 billion by 2008. Despite a slight decline in 2009 to US$ 2.18 billion, exports continued to increase thereafter, reaching US$ 6 billion in 2013. In comparison, India's imports from Bangladesh have remained low, amounting to US$ 71 million in 2003 and increasing to US$ 530 million in 2013.

Imports rose from US$ 358 million in 2010 to US$ 579 million in 2013, remaining in this range. This can be attributed to the SAFTA Phase II Revision, under which the number of items on the sensitive list was reduced to merely 25. However, the impact was not all that significant:

observers had expected that the provision of duty-free access to the Indian market would increase Bangladesh's exports to India by 134 percent (De, Raihan, & Kathuria, 2012). Although Bangladesh has a comparative advantage over India in RMG production, its share of exports to India is meager compared to other countries. Overall, India's trade surplus has increased from US$ 1.6 billion to US$ 5.5 billion, which reflects an exacerbated deterioration in Bangladesh's trade deficit.

Figure 5: Bilateral trade between India and Bangladesh



Source: UN Comtrade.

The Standard International Trade Classification (SITC) Revision 3 system categorizes all tradable commodities into ten groups. This helps us examine trends among the commodity groups that dominate India's exports to and imports from Bangladesh over the period 2003–13 (see Tables A2 and A3 in the Appendix).

The composition of India's exports to Bangladesh is restricted to a few commodity groups. The main export sectors are food and live animals (SITC 0), crude materials (inedible), except fuels (SITC 2), chemicals and related products (SITC 5), manufactured goods classified by material (SITC 6), and machinery and transport equipment (SITC 7). Exports of

food and live animals have declined from 38.30 percent in 2003 to 21.80 percent in 2013, while chemicals and related products have risen from 8.61 percent to 11.43 percent.

The major change has been the surge in India's exports of crude materials (inedible), except fuels, which rose from 2.45 percent to 14.74 percent. Manufactured goods classified by material and machinery and transport equipment have maintained a consistent share over this period, averaging 27 percent and 14 percent, respectively. The main Indian export to Bangladesh is cotton (HS code 52) (Table 5).

Table 5: India's cotton exports to Bangladesh

	2009/10	2010/11	2011/12	2012/13	2013/14
Cotton (US$ million)	455.29	1,081.39	1,076.74	1,505.76	1,576.84
Cotton exports as % of total exports	18.71	33.35	28.42	29.27	25.57

Source: UN Comtrade.

Imports from Bangladesh are concentrated in food and live animals (SITC 0), crude materials (inedible), except fuels (SITC 2), chemicals and related products (SITC 5), manufactured goods classified by material (SITC 6), and miscellaneous manufactured articles (SITC 8). There has been a decline in crude materials (inedible), except fuels, from 29.26 percent in 2003 to 16.82 percent in 2013. Imports of chemical and related products have deteriorated heavily from 40.45 percent in 2003 to 2.06 percent in 2013.

Indian imports of manufactured goods and miscellaneous manufactured articles have increased from an average of 6–7 percent in 2003 to 32.94 and 18.23 percent in 2013, respectively. The main items under this head include leather and leather products, textile yarns and fabrics, and nonmetal mineral manufactures.

Table 6 presents the percentage contribution of major products to this particular classification. Over the years, the shares of leather and nonmetal manufacturing goods have declined, whereas that of textile yarns and fabrics has increased – largely explaining the increase in imports under this head (see Table A3 in the Appendix). Other than this, the main imports include fertilizers and jute products (De et al., 2012).

Table 6: Breakdown of manufactured goods and miscellaneous manufactured articles (percent)

Description	2003	2008	2013
Leather and leather goods	20.66	7.05	3.78
Textile yarns, fabrics, etc.	60.35	75.36	82.75
Nonmetal mineral manufactures	16.85	15.90	9.98
Others	2.13	1.69	3.48
Total	100.00	100.00	100.00

Source: UN Comtrade.

5. SAFTA's Impact on Indo-Bangladesh Trade in RMGs

Tariffs on textiles and clothing are lower in India than in Bangladesh (Table 7), but India maintains a dual tariff structure in these product groups, whereby the charge is either ad valorem or a specific duty (whichever is higher). Pasha and Imran (2012) point out that the general specific duties are far higher, sometimes exceeding 100 percent, especially on value-added products; in some cases, the amount is even more than the binding tariffs under the World Trade Organization (WTO). They calculate the effective and ad valorem tariffs on textiles in India (see Table 8), which gives us a fair evaluation of the rates being charged.

Table 7: Average MFN-applied tariffs (percent)

Product group	Bangladesh	India
Textiles	19.4	12.2
Clothing	24.4	13.0

Source: World Tariff Profile, WTO.

Under the SAFTA Phase II Revision, India offered special concessions, reducing duty rates to 0 percent for LDCs, which meant DFQF access for Bangladesh's RMG exports to India. The scope of these concessions was viewed in the context of the Everything but Arms Agreement between Europe and Bangladesh, which gave the latter a similar status to GSP plus. It was presumed that exports would, therefore, follow a similar rising pattern. One of the main reasons for this prediction was the high comparative advantage enjoyed by Bangladesh, especially in articles of

apparel (described by HS codes 61 and 62). This strengthened the rationale for expecting a surge in Bangladesh's RMG exports to India.

Table 8: Distribution of effective and ad valorem tariffs on textiles in India

Range	Rate (percent)	Percentage
0 to 10	35	15.7
Above 10 to 25	83	37.2
Above 25 to 50	61	27.4
Above 50 to 100	31	13.9
Above 100	13	5.8
Total	223	100.0

Source: Pasha and Imran (2012).

5.1. RCA Index

This section calculates the RCA index to determine the competitive edge enjoyed by Bangladesh in RMG production relative to India. RCA is used to assess a country's export potential for a particular commodity, thus indicating which exports warrant expansion. The RCA index of country *i* for product *j* is measured by the product's share of the country's exports in relation to its share of world trade:

$$RCA_{ij} = \frac{X_{ij} / X_{it}}{X_{wj} / X_{wt}}$$

X_{ij} and X_{wj} are, respectively, the values of country *i*'s exports of product *j* and world exports of product *j*. X_{it} and X_{wt} refer to the country's total exports and world total exports, respectively. A value of less than unity implies that the country has a revealed comparative disadvantage in the product. Similarly, if the index exceeds unity, the country is said to have a revealed comparative advantage in the product.

Bangladesh has an average RCA of 33.3 percent in the production of RMGs compared to 2.3 percent for India (Table 9). This is because it has the distinctive benefit of a stock of cheap labor, the average monthly minimum wage being US $68, which is the second lowest in the world after Sri Lanka (International Labour Organization, 2014). This is

accompanied by a set of supportive government policies, including cash compensation schemes, bonded warehouses, back-to-back L/Cs, duty drawback schemes, and tax concessions, all of which make Bangladesh's RMG exports competitive in the international market.

Table 9: RCA for clothing

Country	2009	2010	2011	2012	2013
Bangladesh	31.28	33.51	34.50	34.30	33.00
India	2.89	2.15	2.13	2.03	2.20

Source: Author's calculations based on data from the WTO Statistics Database.

To investigate the competitive edge enjoyed by Bangladesh, we calculate its RCA at the HC 4-digit level for 11 products that dominate the country's exports (Table 10).[6] For all these product lines, Bangladesh clearly enjoys a considerably high competitive advantage compared to India. The highest RCA is in men's shirts (6205), averaging around 83.5 compared to 4.1 for India. This is followed by knitted or crocheted t-shirts or vests (6109), with an average RCA of 70.6 as opposed to 3.4 for India, and by other products including jerseys and cardigans (6110), babies' garments and clothing (6111), and noncrocheted men's ensembles, suits, shirts, and shorts (6203).

[6] Product lines with exports increasing to US$ 500,000 (for Bangladesh) are used for calculation.

Table 10: RCA at HS code 4-digit level

HS code	Description	Bangladesh					India				
		2010	2011	2012	2013	2014	2010	2011	2012	2013	2014
6109	T-shirts or vests, knitted or crocheted (K/C)	70.97	75.09	73.88	67.03	66.14	3.33	3.15	3.42	3.42	3.59
6110	Jerseys, pullovers, cardigans	52.78	52.69	47.21	44.93	41.87	0.36	0.33	0.27	0.29	0.35
6104	Women's suits, dresses, skirts and similar items	17.83	17.44	15.33	14.50	17.45	1.04	0.89	0.80	0.70	0.97
6105	Men's shirts, K/C	35.45	34.35	33.66	38.37	44.84	5.02	4.04	3.65	3.08	3.38
6108	Women's slips, pajamas, etc.	24.54	26.15	29.97	27.51	26.41	1.96	2.42	2.48	2.40	2.43
6111	Babies' garments, K/C	42.65	48.74	49.84	49.04	45.33	4.80	5.18	5.50	5.42	5.59
6203	Men's suits, ensembles, shirts, shorts and similar items	43.35	43.86	47.27	47.24	50.65	1.31	1.29	1.41	1.36	1.36
6204	Women's suits, dresses, skirts and similar items, not K/C	25.46	28.06	33.44	32.74	27.47	2.69	2.85	2.70	2.40	2.30
6205	Men's shirts	76.10	82.12	90.03	87.54	81.71	4.93	4.41	4.14	3.62	3.54
6206	Women's blouses, shirts, shirt-blouses	25.43	26.08	27.43	25.81	23.43	9.48	8.84	7.10	6.83	6.75
6201	Men's overcoats, cloaks, wind-jackets and similar items	20.88	20.72	22.69	21.05	20.10	0.08	0.06	0.07	0.09	0.08

Source: Author's calculations based on data from ITC database.

Of all the product lines mentioned, India has the largest advantage in the production of women's shirts and blouses (6206), averaging 7.8, although Bangladesh still has an RCA of 25.6. This is interesting because for this particular product line, Indian exports outperform those of Bangladesh, amounting to US$ 1.58 million in 2014 compared to US$ 0.57 million for the latter (Table 11).

Table 11: Exports of women's blouses, shirts, and shirt-blouses

(HS code 6206)

Country	2010	2011	2012	2013	2014
Bangladesh	367,607	448,758	466,724	553,558	573,509
India	1,468,865	1,709,830	1,287,118	1,596,554	1,579,752

Note: All values are in US$ million.

Source: ITC database.

5.2. Pre- and Post-Revision Trends in RMG Imports by India

Given Bangladesh's robust position as a producer of the above-mentioned product lines vis-à-vis Ricardian theory, we would expect its trade with India to have increased. Articles of apparel under HS codes 61 and 62, for example (see Table 12), were predicted to penetrate the Indian market. Contrary to this, imports of knitted or crotched articles of apparel (HS code 61) fell by 29 percent just after the year India granted preferential access. In 2013/14, India's imports grew by 55 percent and then by 79 percent in 2014/15. The value of total imports was recorded at US$ 30.60 million for 2014/15, which is negligible relative to India's overall import portfolio.

Table 12: India's imports of apparel and RMGs from Bangladesh

HS code	Description	Pre-SAFTA revision			Post-SAFTA revision		
		2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
61	Articles of apparel, knitted/crocheted (K/C)	1.46	6.79	15.46	11.04	17.10	30.60
Growth%			365.49	127.82	-28.61	54.97	78.90
6109	T-shirts or vests, K/C	0.46	2.39	2.74	3.28	7.14	15.59
Growth%			423.24	14.67	19.68	117.41	118.35
6110	Jerseys, pullovers, cardigans, K/C	0.13	0.98	3.72	1.81	1.51	6.87
Growth%			681.76	280.94	-51.34	-16.70	355.27
6104	Women's suits, ensembles, skirts, dresses and similar items	0.01	0.89	1.09	0.58	0.35	0.61
Growth%			10,196.51	23.58	-47.09	-38.76	72.65
6105	Men's shirts, K/C	0.21	0.83	2.27	1.23	1.32	1.49
Growth%			303.50	173.10	-45.96	7.65	12.56
6108	Women's slips, petticoats, pajamas, etc.	0.01	0.05	0.05	0.36	0.88	1.06
Growth%			725.81	-1.56	614.48	145.32	20.00
6111	Babies' garments and clothing, K/C	0.02	0.03	0.42	1.08	2.21	1.24
Growth%			43.06	1,259.87	157.40	103.94	-43.97
62	Articles of apparel, not K/C	4.32	16.28	33.04	52.44	78.97	92.90
Growth%			277.02	102.92	58.71	50.60	16.75
6203	Men's suits, ensembles, jackets, trousers, shorts and similar items	2.27	4.15	12.45	23.18	39.74	56.01
Growth%			82.75	200.34	86.16	71.45	40.96
6204	Women's suits, ensembles, skirts, dresses and similar items	0.72	1.69	5.14	1.24	4.20	8.64

HS code	Description	Pre-SAFTA revision			Post-SAFTA revision		
		2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Growth%			134.0	204.01	-75.83	238.30	105.62
6205	Men's shirts	1.15	0.95	10.36	23.96	28.04	21.74
Growth%			-17.39	986.47	131.27	17.04	-22.47
6206	Women's blouses, shirts and shirt-blouses	0.06	0.00	0.06	0.15	0.34	1.21
Growth%			-97.35	3,840.0	150.25	127.52	259.97
6201	Men's overcoats, cloaks, wind-jackets and similar items	0.00	0.04	0.05	0.21	1.58	0.91
Growth%			1,836.84	36.14	320.76	651.66	-42.35

Note: All values are in US$ million.
Source: India, Ministry of Commerce and Industry.

Imports of t-shirts and vests (6109) surged by 20 percent post-revision, reaching US$ 3.28 million. Imports in this category have trended upward, amounting to US$ 15.6 million in 2014/15. Imports of knitted or crocheted cardigans and pullovers (6110) diminished two years after the revision, following which they increased from US$ 1.51 million in 2013/14 to US$ 6.87 million in 2014/15. A similar decline of 46 percent occurred in men's shirts (6105) post-revision, but imports of this product line gradually increased by 7.65 percent and 12.56 percent in subsequent years, reaching US$ 1.5 million in 2014/15.

Other product lines denoted by HS codes 6104, 6108, and 6111 account for imports from Bangladesh approximating US$ 1 million, which is clearly insignificant. Among these, the import value of babies' garments (6111) registered a decline in growth by 44 percent in 2014/15.

Imports of articles of clothing not knitted or crocheted (HS code 62) show relatively higher figures, but indicate a declining growth trend post-revision from 103 percent to 59 percent. This continued to deteriorate in subsequent years, falling to 51 percent in 2013/14 and to 17 percent in 2014/15. Overall, post-revision growth has averaged 42 percent, which is not particularly high.

The highest imports are of men's ensembles, jackets, and similar items (6203), accounting for US$ 56 million in 2014/15. These imports increased just after the revision by 86 percent, after which they have gradually risen at a falling rate. Imports of women's suits, ensembles, skirts, and similar items that are not knitted or crocheted (6204) declined post-revision, but then increased gradually, reaching US$ 8.64 million in 2014/15.

Imports of men's shirts (6205) show a different trend, having increased by almost 1,000 percent pre-revision in 2011/12. They continued to grow at a declining rate until 2014/15, when they fell from US$ 28 million in 2013/14 to US$ 22 million in 2014/15. Other items that count as notable exports by Bangladesh include women's blouses (6206) and men's overcoats and cloaks (6201), but India's imports in these categories are only nominal.

This is a striking trend because it implies that favorable market access has not yielded any extraordinary results, with imports from Bangladesh

accounting for approximately US$ 0.12 billion. In comparison, the US, which offers no equivalent preferential terms, has substantially higher RMG imports from Bangladesh averaging about US$ 1 billion. This begs the following questions: (i) why has there been no remarkable surge in Bangladesh's exports to India despite the duty-free regime and its higher RCA, and (ii) could these concessions potentially alter trade prospects in favor of Bangladesh?

5.3. Trade Complementarity between Bangladesh and India

This section seeks to answer the aforementioned questions by quantifying the TCI for both countries and analyzing the NTBs and export incentives imposed by India that have affected Bangladesh's exports. The TCI provides useful information on the prospects of intra-regional trade, showing how well the structure of a country's imports and exports match. The conventional index used to estimate trade complementarity is as follows:

$$TCI_{jk} = 1 - \frac{\Sigma(|m_{ik} - x_{ij}|)}{2} \qquad 0 \leq TCI \leq 1$$

where TCI represents the trade complementarity between countries *j* and *k*, m_{ik} is the share of the *i*th commodity in the total imports of country *k*, and x_{ij} is the share of the *i*th commodity in the total exports of country *j*. The higher the magnitude of the TCI, the greater will be the trade complementarity between the two countries. However, this index does not provide accurate estimates for data at the HC 6-digit level because a country might be exporting and importing a particular product at the same time. Therefore, to incorporate this aspect, we develop a new TCI as follows:

$$TCI^{*}_{AB} = \frac{\Sigma|X_{Aij} - M_{Bik}|}{2} \qquad 0 \leq TCI \leq 1$$

where TCI* represents the trade complementarity between countries A and B, X_{Aij} is the share of the *j*th product at the 6-digit level in exports of *i* (product at 4-digit level) for country A, and M_{Bik} is the share of the *j*th product at the 6-digit level in imports of *i* (product at 4-digit level) for country B.

The index takes Bangladesh as an exporting country denoted by A and India as an importing country denoted by B. Since India tends to have both export and import trade in the product lines being calculated, we take M_{Bik} as a net value, i.e., imports minus exports. In this case, negative net imports imply that the country is an exporter of the product and the value of its share is added to the index rather than subtracted. The index ranges between 0 and 1, indicating that the higher the magnitude of TCI, the lower will be the trade complementarity.

Using the traditional method, the results show that, except in babies' garments (6111), the magnitude of trade complementarity between the two countries is considerably high. This would imply that the supply of Bangladesh's exports matches a certain level of demand in India, indicating good prospects for intra-regional trade. However, this formula has a drawback: it ignores the possibility that a country might be both an importer and exporter. This is the case where India is concerned: not only does it import these product lines, but it is also a prominent exporter. Therefore, using the new formula and taking into account India's net imports, the TCI* values for the 11 dominant product lines exported by Bangladesh add up to 1. This reveals that both countries are net exporters of these particular RMG products, thus indicating the absence of trade complementarity between the two (Table 13).

Bangladesh's exports are concentrated in the RMG sector, which comprises 70–80 percent of its total exports, but only 6–7 percent of India's total exports. Despite this, India is a major exporter of textiles and garments, and was among the top 15 world clothing exporters in 2012, contributing about 3 percent to total world exports compared to 5 percent in Bangladesh's case (International Labour Organization, 2014).

Table 13: TCI at HS code 6-digit level

HS code	Description	TCI					TCI*				
		2010	2011	2012	2013	2014	2010	2011	2012	2013	2014
6109	T-shirts or vests, knitted or crocheted (K/C)	0.70	0.73	0.69	0.66	0.67	1.0	1.0	1.0	1.0	1.0
6110	Jerseys, pullovers, cardigans	0.73	0.62	0.75	0.77	0.76	1.0	1.0	1.0	1.0	1.0
6104	Women's suits, dresses, skirts and similar items	0.53	0.50	0.45	0.45	0.42	1.0	1.0	1.0	1.0	1.0
6105	Men's shirts (K/C)	0.96	0.91	0.98	0.97	0.96	1.0	1.0	1.0	1.0	1.0
6108	Women's slips, pajamas, etc.	0.54	0.50	0.43	0.45	0.48	1.0	1.0	1.0	1.0	1.0
6111	Babies' garments (K/C)	0.05	0.06	0.06	0.05	0.05	1.0	1.0	1.0	1.0	1.0
6203	Men's suits, ensembles, shirts, shorts and similar items	0.66	0.67	0.72	0.68	0.65	1.0	1.0	1.0	1.0	1.0
6204	Women's suits, dresses, skirts and similar items (not K/C)	0.58	0.58	0.60	0.59	0.53	1.0	1.0	1.0	1.0	1.0
6205	Men's shirts	0.86	0.86	0.86	0.89	0.90	1.0	1.0	1.0	1.0	1.0
6206	Women's blouses, shirts, shirt-blouses	0.74	0.68	0.59	0.51	0.50	1.0	1.0	1.0	1.0	1.0
6201	Men's overcoats, cloaks, wind-jackets and similar items	0.64	0.78	0.80	0.83	0.81	1.0	1.0	1.0	1.0	1.0

Source: Author's calculations based on data from ITC database.

Table 14 gives the export figures for garments and apparel under HS codes 61 and 62 for both countries. The main product in which Bangladesh has a lead against India is knitted or crocheted apparel (HS code 61). India's trade hovers around US$ 4 billion–6 billion in this category, whereas it increases to US$ 10 billion–12 billion for Bangladesh. Apparel that is not knitted or crocheted (HS code 62) accounts for US$ 6 billion–8 billion in Indian exports over the last five years.

Table 14: Total clothing exports

HS code	Country	2009/10	2010/11	2011/12	2012/13	2013/14
61	India	4,590.77	4,953.24	5,776.41	5,553.88	6,657.14
	Bangladesh	6,483.29	9,482.06	6,996.26	10,475.88	12,049.81
62	India	6,127.22	6,673.08	7,960.03	7,407.36	8,342.74
	Bangladesh	6,013.43	8,432.40	7,108.59	11,039.85	12,442.07

Note: All values are in US$ million.
Source: WTO Statistics Database.

In 2009/10 and 2011/12, there was a very nominal difference in exports of apparel in this category between Bangladesh and India. However, Bangladesh's exports grew substantially, surpassing Indian exports and reaching US$ 12 billion in 2013/14.

Table 15 provides further insight into India's export trends within those product categories that comprise prominent exports for Bangladesh. For all products except women's blouses (6206), Bangladesh has higher export values with increasing trends, which we also find in India's case. The data reveals that India maintains continuous growth in these product lines and is essentially competing with Bangladesh. This reinforces the idea that India is also a major exporter of RMGs and thus a competitor to Bangladesh.

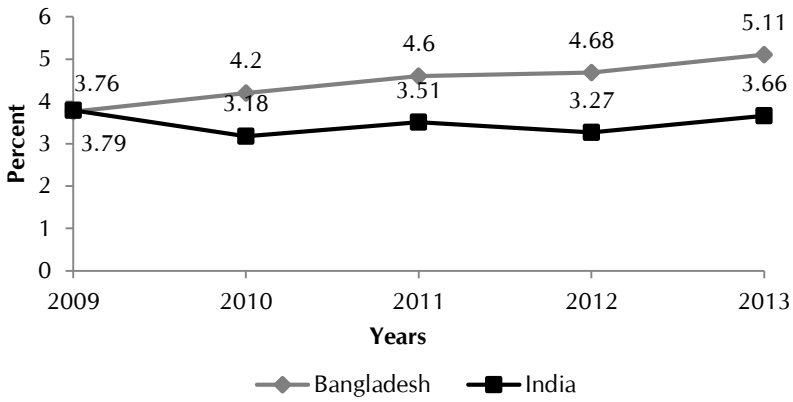
Table 15: Exports by product line

Country/code	2010	2011	2012	2013	2014
HS code 6109					
Bangladesh	3,298,320	4,307,533	4,171,696	4,566,341	5,141,855
India	1,697,994	2,073,624	2,093,953	2,600,305	2,721,750
HS code 6108					
Bangladesh	345,697	419,980	468,835	545,379	619,492
India	295,748	437,065	414,041	518,898	544,158
HS code 6105					
Bangladesh	359,613	456,818	421,386	566,371	732,218
India	545,803	603,645	486,767	495,366	528,083
HS code 6111					
Bangladesh	306,916	421,979	440,082	545,476	592,265
India	370,330	504,040	517,539	656,646	698,232
HS code 6203					
Bangladesh	2,183,794	2,831,601	2,954,332	3,523,764	4,545,863
India	708,829	932,386	942,380	1,104,634	1,170,464
HS code 6204					
Bangladesh	1,659,382	2,217,547	2,622,953	3,072,439	3,221,717
India	1,876,276	2,528,932	2,255,945	2,456,203	2,580,624
HS code 6206					
Bangladesh	367,607	448,758	466,724	553,558	573,509
India	1,468,865	1,709,830	1,287,118	1,596,554	1,579,752

Note: All values are in US$ million.
Source: ITC database.

Figure 6 shows the two countries' share of world clothing exports. Despite facing dynamic competition from low-cost producers such as Vietnam and Bangladesh, India has sustained an average contribution of 3 percent to world exports. On the other hand, Bangladesh's competitive edge is evident from its growing share of world exports of clothing, which has increased from 3 percent to 5 percent over the span of five years. Given that RMGs comprise one of India's major export segments, we can see why the trade concessions it has granted have yielded no significant results.

Figure 6: Share of world clothing exports



Source: WTO Statistics Database.

Despite its high RCA, India has managed to maintain a stable position and sustain its noncomplementarity vis-à-vis Bangladesh because its production cost per unit for these exports is lower. Balassa's RCA index takes into account a country's exports of a particular product as a percentage of its total exports relative to the rest of the world – no other information on costs or factors of production is considered (Siggel, 2007). Thus, higher exports for a certain country can result from subsidies or other incentives such as favorable terms, as in the case of Bangladesh from Europe and other Western countries. This makes the index a deceptive measure of comparative advantage because India continues to produce the same lines of RMGs where it has a far lower RCA than Bangladesh.

McCartney (2014) cites data from a study by Nathan Associates that calculates the cost of producing a t-shirt for a given set of RMG producers. For India, the cost of producing a t-shirt is US$ 0.35 whereas it is US$ 0.378 for Bangladesh. The latter's cost is higher because it incurs a fabric cost per kilogram of US$ 3.336 for material imported from China and an additional shipping cost of US$ 0.060. India, on the other hand, has a fabric cost per kilogram of US$ 3.019, which is usually locally manufactured and has no associated shipping cost.

Table 16 shows that, for all products pertaining to HS codes 61 and 62 at the 6-digit level, both India and Bangladesh had an equal volume of products with a lower cost per unit relative to each other in 2009.

However, in 2011, India had a lower cost per unit for 92 percent of these products compared to Bangladesh. Clearly, India enjoys lower production costs and benefits from economies of scale.

Table 16: Comparative cost per unit (percent)

Products with low cost/unit	2009	2011
Bangladesh	46.75	1.30
India	46.75	92.21
No data	6.49	6.49

Note: Calculated for the latest data available. All products with sales exceeding US$ 1 million pertaining to HS codes 61 and 62 at the 6-digit level have been used for calculation.

Source: UN Comtrade.

5.4. Indian Export Incentives and NTBs

Prior to 1994, India had a restrictive import regime under which textile and garment imports were banned. Since then, it has liberalized its trade regime considerably and is the only NLDC in SAARC to have extended preferential treatment to the region's LDCs under Article 11. Having done so, however, India has also maintained a balanced approach to export incentives and import restrictions in the RMG sector and thus artificially maintained a restrictive regime.

The Indian government has been keen to enhance the manufacturing sector of the economy and has greatly emphasized textiles and clothing in this context. The apparel and RMG sector has huge export potential and the ability to simultaneously create employment opportunities. The Indian Ministry of Textiles estimates the value of current apparel exports to be US$ 45 billion and expects this to reach US$ 200 billion by 2025. In order to achieve this goal, the RMG sector is safeguarded via export incentive schemes.

These include special economic zones and export-oriented units that are given several incentives such as income tax exemption for the first five years, duty-free imports and the procurement of domestic goods, exemption from central sales tax, and ease in clearance and customs procedures. Export-oriented manufacturers are provided credit at subsidized rates and increased duty drawback rates for products

pertaining to HC 61, 62, and 63, varying between 7 and 10 percent.[7] Other recent incentives include the following:

- *Scheme for Integrated Textile Parks*: This initiative aims to create state-of-the-art infrastructure for the textiles industry. Given the significance of women's employment in the apparel sector, the finance minister has allocated additional funds for apparel units within these parks.[8]
- *Incubation Centers in Apparel Manufacturing*: This scheme intends to encourage entrepreneurship in apparel manufacturing, enhance manufacturing capacity, and create more job opportunities. The initiative aims to provide an integrated workspace that will help start-up businesses operationally and financially.[9]
- *Integrated Skill Development Scheme*: This is a training program developed to impart the skills the industry needs to allow firms to compete globally (India, Ministry of Textiles, 2013).

These export incentives, when combined with the provision of NTMs, impede RMG imports. Import restrictions such as import licensing or NTMs are interventions applied by the Indian government to control domestic supplies. For instance, NTMs for the RMG sector are a way of protecting and promoting the domestic industry. Some of the main NTBs imposed by India include the following:

Customs clearance: This is a time consuming and complex procedure. Importers have to register with the Directorate General of Foreign Trade and acquire an importer-exporter code in order to import goods commercially. The documents required for clearance include a bill of entry, invoices, a packing list, and a bill of lading. Other requirements might include an import license or country-of-origin certificate (CUTS International, 2014).

On average, import procedures take 21 days to complete, which includes eight days to prepare the necessary documents and four days

[7] The drawback duty rates are available from the Apparel Export Promotion Council of India at http://www.aepcindia.com/app/webroot/img/pdf/New-Duty-Drawback-2012-13.pdf
[8] http://texmin.nic.in/policy/guidelines%20of%20apparel%20manufacturing%20units.pdf
[9] http://texmin.nic.in/policy/Incubation_Scheme_Guidelines_Final.pdf

for customs clearance and technical inspections. The total cost incurred per container is US$ 1,462.[10]

Pre-shipping requirements: The import of textile-related products requires a pre-shipment inspection certificate from a textile-testing laboratory accredited to the national accreditation agency of the country of origin (WTO, 2011). Failure to provide this means that the importer must acquire this certificate from a designated lab in India. The rules on this are strict and even certificates issued by EU-accredited labs have been rejected by Indian customs authorities, with such consignments then being subject to repeat tests in India (WTO, 2011).

Port of destination: Apparel must be imported through Jawaharlal Nehru Port in Mumbai.[11] This is an artificial barrier created by the Indian authorities. Goods have to travel 2,320 nautical miles to reach Mumbai whereas the neighboring port of Kolkata involves a distance of 361 nautical miles.

Labeling requirements: Indian imports must be labeled in Hindi (Devanagari script) as well as in English and comply with Indian standards. Failure to do so leads to nonclearance of the good being imported.[12]

Lack of infrastructure: Infrastructural bottlenecks are one of the main hindrances to cross-border trade between India and Bangladesh. Most land trade is carried out across the Petrapole–Benapole border. The Indian side is marred by inefficiencies and lack of quality infrastructure. Inadequate warehouses, parking, cold storage facilities, stationery, goods scanners, and weighbridges, etc., create delays in trade transactions and add to the cost.

Combined, these factors make RMG exports from Bangladesh less attractive, which explains why the forecasted surge did not emerge. India itself is catching up with an apparel and RMG export regime, attempting to sustain its position in the world market.

[10] Source: http://www.doingbusiness.org/data/exploretopics/trading-across-borders
[11] Source: http://web.ita.doc.gov/tacgi/OverSeasNew.nsf/alldata/India#Documentation
[12] Source: http://web.ita.doc.gov/tacgi/OverSeasNew.nsf/alldata/India#Documentation

5.5. Key Findings

This study presents four main findings:

First, the concessions granted by India to Bangladesh (which include a status similar to GSP plus) have not yielded any remarkable surge in the latter's RMG exports to India. A key reason for this is the absence of trade complementarity between the two countries – an issue highlighted by Basu and Datta (2007). As the formulated TCI reveals, both countries have no trade complementarity in RMGs.

Second, as its RCA shows, Bangladesh has a significantly higher comparative advantage for all the product categories that occupy a pivotal place in its export portfolio. However, India trades in all these product lines as a competitor. Given that Balassa's RCA index reflects a country's success as an exporter relative to a worldwide norm, our results show that it is a deceptive measure of comparative advantage and is, in essence, a measure of competitiveness. India, on the other hand, enjoys a lower cost per unit and benefits from economies of scale.

Third, India has simultaneously maintained a nonmonetary secure regime for its textiles and apparel sector by playing on both the demand and supply sides, and introducing export incentives and NTBs that hinder RMG imports from Bangladesh. These measures, once adopted, make imports more costly and thus less competitive, explaining the anomaly we have discussed.

Fourth, India contributes 3 percent to world clothing exports compared to 5 percent for Bangladesh. This underscores the former's stronghold in this sector and its position as a competitor. As a result, the concessions granted by India have failed to draw any positive or favorable trade trends for Bangladesh.

6. Conclusion

This paper has sought to investigate the trends in Bangladesh's RMG exports to India following the SAFTA Revision (Phase II) under which the sensitive list for LDCs was reduced to 25 items (mainly tobacco and beverages). Given Bangladesh's high comparative advantage, observers expected that its RMG exports would penetrate the Indian market, but this failed to materialize. The main reason for this anomaly is the lack of

trade complementarity in the major product lines pertaining to HS codes 61 and 62 and the economies of scale enjoyed by India.

The situation is aggravated by the artificially secure regime that India maintains, given its position as a prominent RMG exporter and competitor to Bangladesh. India strategically combines export-promoting incentives with different NTMs in order to restrict imports, creating hurdles for Bangladesh's exports by making them less attractive and uncompetitive for local traders. This strategy of playing at both ends of supply and demand has allowed India to combat low-cost competition from countries such as Bangladesh, Vietnam, and Cambodia. In turn, India has managed to sustain its position, contributing an average of 3 percent to total world exports.

This extent of "fruitless" liberalization by India raises several key questions, first and foremost of which concerns the use of RCA as a measure of comparative advantage among countries. While the index might work in some instances, it is inadequate when comparing countries with similar factor endowments, such as those in South Asia. Comparative advantage does not have to be the sole cause of international trade when increasing returns or economies of scale can also lead to specialization and trade (Krugman, 1987). Thus, when looking at comparative advantage, it is worth also considering production capacities, technological advancements, and unit costs of production to obtain an accurate picture.

Trade complementarity is key to intra-regional trade and, unfortunately, both South Asia and sub-Saharan Africa lag behind other regions in this respect. Among all regional agreements, complementarity in traded goods is highest in Europe, Central Asia, and East Asia, followed by Latin America (Otsubo, 1998). The lack of complementarity undermines the effectiveness of the preferential access granted to Bangladesh. Additionally, South Asia is marred by an economic power asymmetry whereby India, the region's dominant player, enjoys a larger market, better production capacities, and economies of scale relative to its neighbors.

Does India's attempt to liberalize trade reflect any intention of benefiting the LDCs in the region? Considering the NTMs it has imposed, India appears to be applying a dual policy. That said, the

answer to this question is complex. Although India is striving to become the region's manufacturing hub, more time is needed to monitor trends in Indo-Bangladesh trade before drawing an effective conclusion.

Political mistrust in South Asia has also diluted the real concept of RTAs, which is to develop "deep integration" in the region. As Newfarmer and Piérola (2007) explain, RTAs succeed only when new competition emerges, which results in price reductions and the acquisition of new technology. For SAFTA to be successful, its partner economies need to work in collaboration and develop regional value chains for products such as RMGs – depending on their competitive edge – and engage in intra-regional trade. This would strengthen regional productivity and countries' bargaining capacity, in turn ensuring greater profits and inclusive growth. Resolving political disputes and eliminating NTMs within the region could be a first step toward the success of SAFTA.

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Appendix

Table A1: List of apparel and RMG products liberalized under SAFTA (revision phase II)

46 SL	SI	Chapter, heading, sub-heading or tariff item of the First Schedule	Description of goods
1	160	500720	Other woven fabrics of silk, containing 85% or more by weight of silk or of silk waste other than noil silk
2	170	610342	Men's or boys' trousers
3	171	610343	Men's or boys' trousers, overalls and shorts (knitted, synthetic fibers)
4	178	610462	Women's or girls' trousers, overalls and shorts (knitted, cotton)
5	179	610463	All goods
6	181	610510	All goods
7	182	610520	All goods
8	183	610610	All goods (knitted)
9	185	610711	All goods
10	187	610721	All goods
11	189	610791	All goods
12	191	610821	All goods
13	192	610822	Women's or girls' briefs and panties (knitted or crocheted, manmade fibers)
14	193	610831	Women's or girls' nightdresses and pajamas (knitted or crocheted, cotton)
15	194	610910	All goods
16	195	610990	All goods
17	197	611020	All goods
18	198	611030	All goods
19	199	611090	All goods
20	200	611120	Babies' garments and clothing accessories (knitted or crocheted, cotton)
21	201	611130	All goods
22	203	611241	Of synthetic fibers
23	204	611300	Garments, made-up (knitted or crocheted fabrics of heading no. 59.03, 59.06)
24	205	611420	All goods

46 SL	SI	Chapter, heading, sub-heading or tariff item of the First Schedule	Description of goods
25	208	611699	All goods
26	210	620332	All goods
27	211	620333	All goods
28	212	620342	Men's or boys' trousers, overalls and shorts (woven, cotton)
29	214	620413	All goods
30	215	620452	All goods
31	216	620462	Women's or girls' trousers, overalls and shorts (woven, cotton)
32	217	620520	Men's or boys' shirts (woven, cotton)
33	218	620530	Men's or boys' shirts (woven, manmade fibers)
34	219	620590	All goods
35	221	620630	Women's or girls' blouses, shirts and shirt-blouses (woven, cotton)
36	222	620721	All goods
37	223	620821	All goods
38	224	620920	All goods except hats
39	225	620930	All goods except hats
40	226	621040	All goods
42	227	621050	Sweaters, sweatshirts and waistcoats (knitted, cotton)
42	228	621111	All goods
43	229	621132	All goods
44	230	621133	All goods
45	233	621210	All goods
46	235	621710	Made-up clothing accessories (woven)

Source: Bangladesh Garment Manufacturers and Exporters Association.

Table A2: India's exports to Bangladesh

SITC code	Description	2003	2008	2013
0	Food and live animals	38.30	35.25	21.80
1	Beverages and tobacco	0.26	0.10	0.01
2	Crude materials, inedible, except fuels	2.45	11.89	14.74
3	Mineral fuels, lubricants and related materials	5.23	3.93	2.70
4	Animal and vegetable oils, fats and waxes	0.20	0.20	0.04
5	Chemicals and related products, n.e.s.	8.61	8.65	11.43
6	Manufactured goods classified mainly by material	29.03	24.15	28.30
7	Machinery and transport equipment	13.33	13.42	15.81
8	Miscellaneous manufactured articles	2.13	1.91	2.52
9	Commodities and transactions not classified elsewhere in the SITC commodities and transactions	0.48	0.49	2.65
Total	All commodities	100.00	100.00	100.00

Source: UN Comtrade.

Table A3: India's imports from Bangladesh

SITC code	Description	2003	2008	2013
0	Food and live animals	9.85	17.7	20.86
1	Beverages and tobacco	0.31	0.28	0.73
2	Crude materials, inedible, except fuels	29.26	11.18	16.82
3	Mineral fuels, lubricants and related materials	2.56	7.01	3.38
4	Animal and vegetable oils, fats and waxes	0.02	0.10	1.19
5	Chemicals and related products, n.e.s.	40.45	27.81	2.06
6	Manufactured goods classified mainly by material	7.71	31.32	32.94
7	Machinery and transport equipment	1.93	1.87	1.77
8	Miscellaneous manufactured articles	6.57	2.09	18.23
9	Commodities and transactions not classified elsewhere in the SITC commodities and transactions	1.35	0.63	2.01
Total	All commodities	100.00	100.00	100.00

Source: UN Comtrade.

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