



# Making SAFTA Effective: An Approach to Prune Sensitive Lists in South Asia

13<sup>th</sup> December 2010  
New Delhi

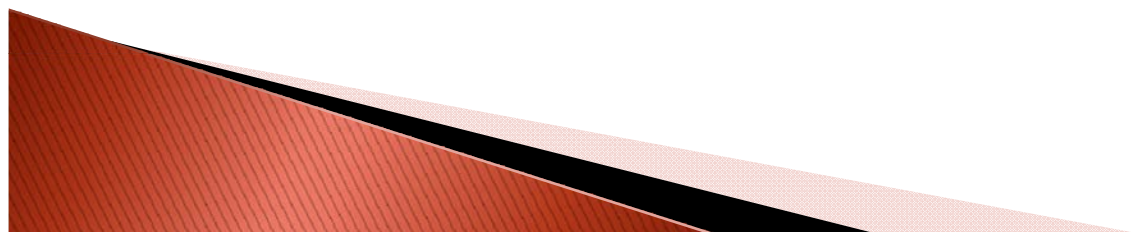
# Objective of the Study

- ▶ To prune the sensitive list of India under SAFTA and bilateral arrangements to increase trade within the region.

# Approach of the Study

Two pronged:

- ▶ *Secondary Data Analysis* – To identify items for elimination from the sensitive list.
- ▶ *Primary Survey* – To analyse the impact on competitiveness if selected items are removed from the sensitive list.

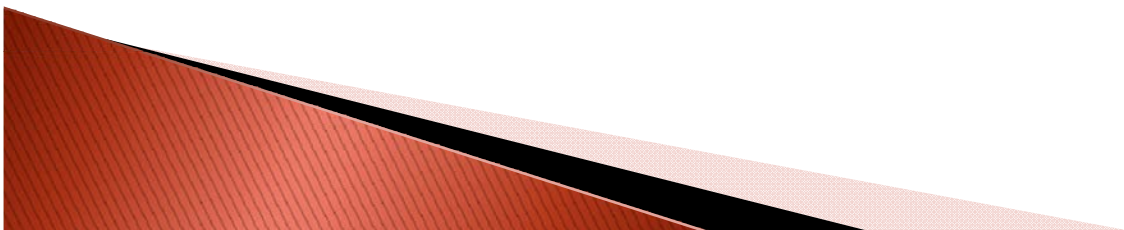


# A. Secondary Data Analysis



## I. Constructing the Sensitive Lists

## · II. Elimination Criterion





# I. Sensitive Lists of India

## SRI LANKA

- ▶ 431 items based on HS 2002
- ▶ List has been shortened to 429 items as given in the Sri Lanka Ministry of Commerce website
- ▶ Final List = 215 items

## BANGLADESH

- ▶ 744 items at 4, 6 and 8 digit level based on HS 2002
- ▶ Reduced to 480 items at the 6-digit level based on HS 2002
- ▶ Two entries deducted as HS Codes for items – 040900 (Natural Honey) and 040590 (Fat and Oil derived from milk) – appear twice.
- ▶ Final List = 331 items

## PAKISTAN

- ▶ 868 items at the 4, 6 and 8-digit level based on HS 2002 and HS 2007.
- ▶ 15 items at the 4-digit and 467 items at the 8-digit level converted to 6-digit level
- ▶ Final List = 908 items

## II. Elimination Process

**Step 1:** Items not Exported by the partner country and India in any of the three years (2005, 2006 and 2007).

**Step 2:** Classifying items into four categories and eliminating on the basis of India's and exporting country's RCA.

**Step 3:** Removing items that were earlier reserved for exclusive manufacturing by the Small Scale Sector but have now been de-reserved.

# Step 1: Zero Exports by Partner Country and India (Summary Table)

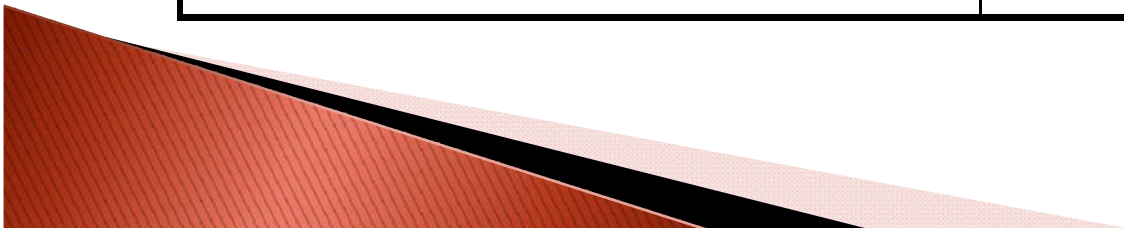


	SRI LANKA	BANGLADESH	PAKISTAN
Items not Exported by Partner Country	17	138	138
Items not Exported by India	4	8	6
Common Items	0	7	5
Total	21	139	139



## Step 2: Categories for Elimination

<b>Category I</b>  <b>IRCA &gt;1; ERCA &lt; 1</b>	<b>Category II</b>  <b>IRCA &gt; 1; ERCA &gt; 1</b>
<b>Category III</b>  <b>IRCA &lt; 1; ERCA &lt; 1</b>	<b>Category IV</b>  <b>IRCA &lt; 1; ERCA &gt; 1</b>





# Category Summary



	SRI LANKA	BANGLADESH	PAKISTAN
Category 1: IRCA>1; ERCA<1	34	38	136
Category 2: IRCA>1; ERCA>1	19	24	194
Category 3: IRCA<1; ERCA<1	86	107	334
Category 4: IRCA<1; ERCA>1	15	47	105

## Step 3: Removal of De-Reserved items from the Sensitive List

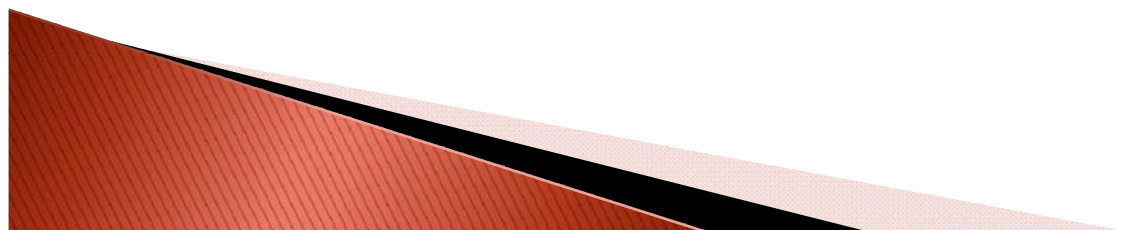


	SRI LANKA	BANGLADESH	PAKISTAN
Total Items in Category 3 and 4	101	154	439
Items De-Reserved:	42	11	117

# Elimination Summary



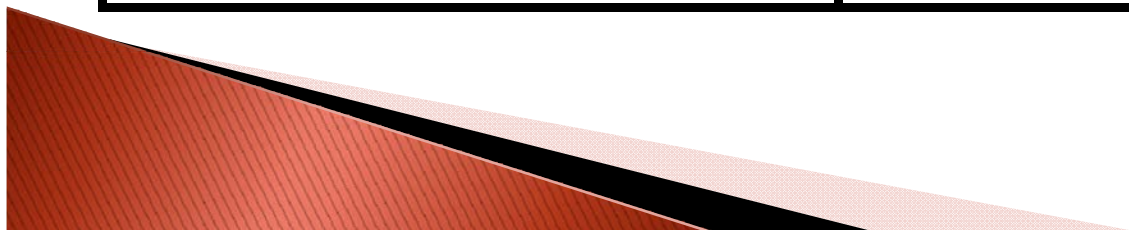
	Sri Lanka	Bangladesh	Pakistan
Original Sensitive List	431	763	884
Operational Sensitive List	215	331	868 (908)
<i>Recommended Sensitive List</i>	59	89	322



# Elimination Summary (Contd.)



	Sri Lanka	Bangladesh	Pakistan
A. Import Coverage of Operational Sensitive List Items	6329	61997	102402
B. Import Coverage of Reduced Sensitive List Items	1531	5972	25733
<i>Share of B in A (%)</i>	24.19	9.63	25.13



# Conclusion

- ▶ The recommended sensitive list is only a short list and should be pruned further.
- ▶ Items like tobacco and alcohol can stay on the list.
- ▶ Not all agricultural items are sensitive. Only those related to food security should stay.
- ▶ The list can be pruned further in a phased manner using Trade Potential as a guide.

## B. Primary Survey and Stakeholder Consultation

- ▶ Chap 61 & 62 (*Apparels*) of interest to all four countries including India
- ▶ Chap 4001 (*Natural Rubber*) for Sri Lanka

# Survey:

- ▶ Apparel
- ▶ Natural Rubber



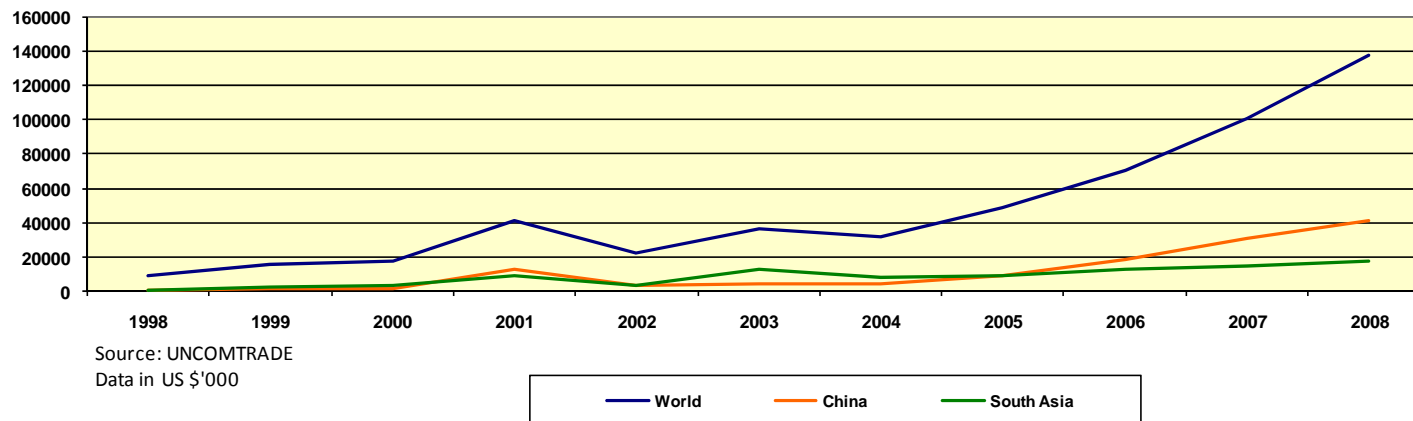


# APPAREL

# Apparel



India Imports - Ch. 61 & 62



- ▶ Contributes 8% to India's total exports, 7% to industrial output and is the largest employment generator after agriculture.
- ▶ Textiles and apparel market totals to US \$62 billion, of which US \$40 billion is constituted by the domestic market and US \$22 billion is by exports (*AEPC Report*).

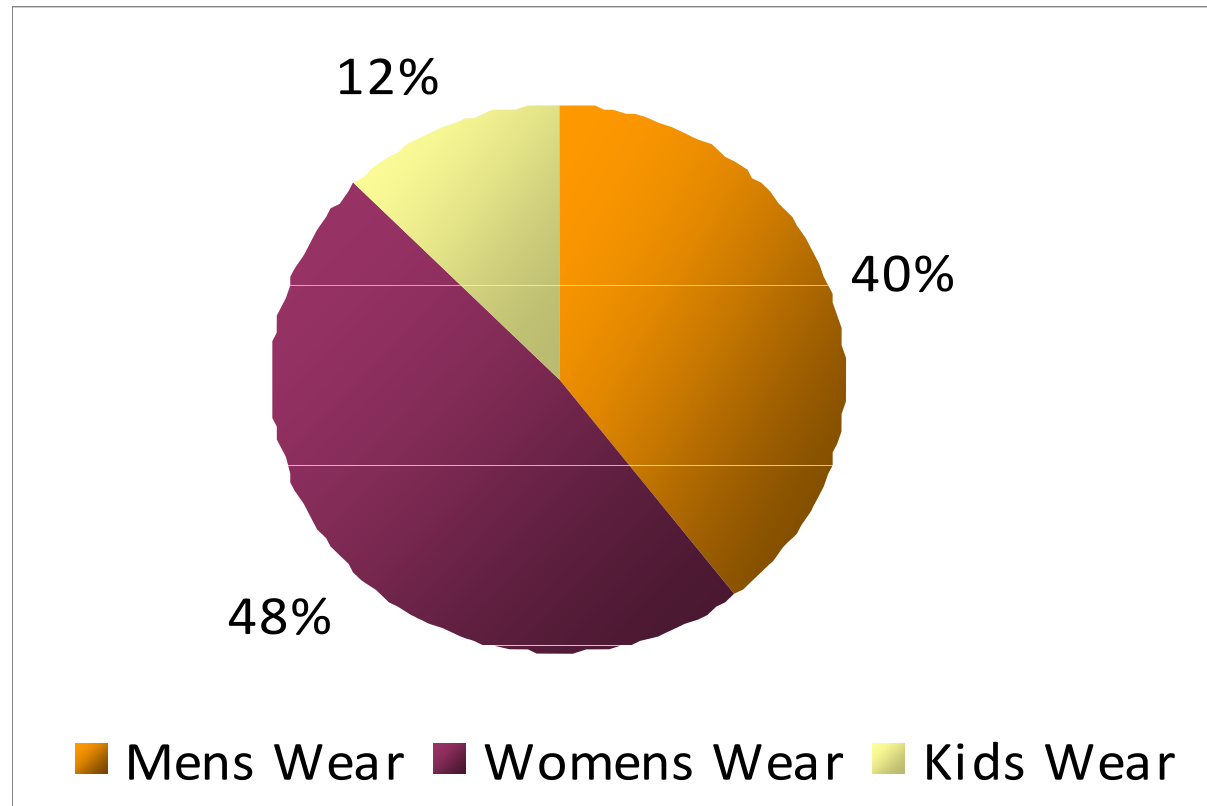
# Survey Coverage



- Conducted in 5 major apparel clusters, chosen on the basis of their product specialisation and target market.

CLUSTER	KEY CHARACTERSTICS
Kolkata	Leading production hub of kids wear, work wear and men's undergarments. Caters primarily to the domestic market with limited export to Middle East. Low cost of production and good workmanship are its biggest strength. <i>25 firms were surveyed in this cluster.</i>
Bangalore	Highly organised cluster with strong presence of leading brands manufacturing units. Produces cotton based mens wear and daily wear garments. Contributes extensively towards domestic market as well as exports to EU and USA. <i>25 firms were surveyed in this cluster.</i>
Tirupur	Leading export hub for cotton knit wear and undergarments. Well integrated cluster with co-existence of units specialising in different activities. EU and USA account for 80% of export with remaining 20% directed to Canada, Japan, UAE, Korea, etc. <i>27 firms were surveyed in this cluster.</i>
Ludhiana	Enjoys monopoly in manufacturing knitted winter wear garments using synthetic and wool textiles. Domestic market is the principal buyer with only a few undertaking export activities. Integrated production structure with presence of all operations in the value chain. <i>25 firms were surveyed in this cluster.</i>
NCR	Export centric cluster concentrated in production of cotton based woven fashionable ladies wear. Production is integrated horizontally with strong sub-contracting relationship between firms. <i>25 firms were surveyed in this cluster.</i>

# Category Share (%)



- ▶ Some firms are manufacturing all three types of garments



# Sample Characteristics



Firm Size (in terms of Turnover for 2009)	Frequency	Market Segment			No. of Firms Importing Machinery	Age (years)					
		Domestic	Export	Domestic and Export		0-5	6-10	11-15	16-20	21-25	>25
Small (Up to Rs. 30 crore)	105 (83.3)	38 (36.2)	40 (38.1)	27 (25.7)	68 (64.8)	13 (12.4)	22 (21.0)	23 (21.9)	15 (14.3)	10 (9.5)	22 (20.9)
Large (> Rs. 30 crore)	21 (16.7)	0 (0.0)	10 (47.6)	11 (52.4)	20 (95.2)	1 (4.8)	4 (19.0)	3 (14.3)	1 (4.8)	4 (19.0)	8 (38.1)
<b>Total</b>	<b>126</b>	<b>38</b>	<b>50</b>	<b>38</b>	<b>88</b>	<b>14</b>	<b>26</b>	<b>26</b>	<b>16</b>	<b>14</b>	<b>30</b>

Figures in Parenthesis are % share

- ▶ Sales turnover as measure of the size of the firm (problem with employment and investment in plant and machinery)
- ▶ Age of the firm – largest number in the more than 25 years category
- ▶ Import of machinery

# Competitiveness of Domestic Market and Export Market Firms



Sl.No	Market Segment	No. of Firms	No. of Firms Facing Competition from		No. of Firms Facing Competition from			
			Large Firms	Small Firms	Bangladesh	Sri Lanka	Pakistan	Other Countries
1	Domestic	38	23	32	3	2	0	10
2	Export	50	0	0	1	1	0	7
3	Domestic and Export	39	28	28	6	6	4	23
<b>Total</b>		<b>127</b>	<b>51</b>	<b>60</b>	<b>10</b>	<b>9</b>	<b>4</b>	<b>40</b>

- ▶ Exporting firms face no competition from South Asia
- ▶ Quality of product
- ▶ Firms serving the domestic market facing competition from Bangladesh and Sri Lanka in some products

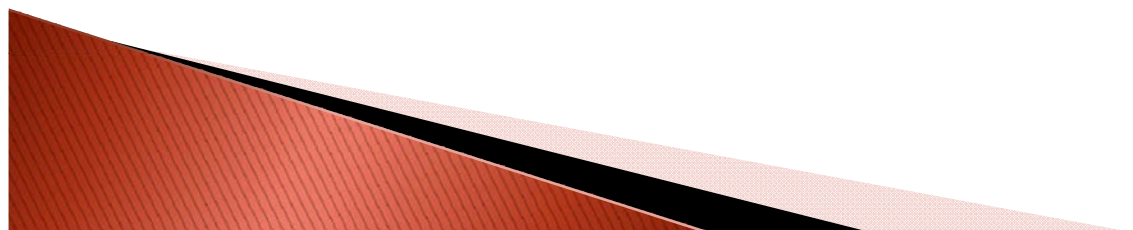
# Technology



Imported Machinery Proportion Range (%)	Frequency	Domestic Market Firms	Export Market Firms	Both Domestic and Export Market Firms
1-20	2	1 (50.0)	0 (0.0)	1 (50.0)
21-40	6	1 (16.7)	1 (16.7)	4 (66.7)
41-60	31	5 (16.1)	11 (35.5)	15 (48.4)
61-80	30	0 (0.0)	18 (60.0)	12 (40.0)
81-100	19	1 (5.3)	12 (63.1)	6 (31.6)
<b>Total</b>	<b>88</b>	<b>8</b>	<b>42</b>	<b>38</b>

*Figures in Parenthesis are % Share*

- Way out to cope with competition from SA – *Technology*







# NATURAL RUBBER

# Natural Rubber



- ▶ India is the fourth largest producer of Natural Rubber (NR) next to Thailand, Indonesia and Malaysia. In terms of productivity we occupy the top position.
- ▶ There are mainly 3 grades of NR that constitute 94 percent of the total NR production in the country.
- ▶ They are as follows (H.S. Codes)
  1. Natural Rubber latex (400010)
  2. Natural Rubber Smoked Sheets (400121)
  3. Technically Specified Natural Rubber (400122)
- ▶ India is the third largest consumer of Natural Rubber (NR) next to China and the USA.
- ▶ The tyre industry accounts for 62% of the consumption of NR.
- ▶ Among the above the Tyre Industry mainly uses Smoked Sheets which is an important component for Tyre production.
- ▶ Exports of Rubber products for 2008–09 is estimated to be ₹ 5886 crores

# Production & Consumption



	Production (Tonnes)	Production Growth Rate (%)	Consumption (Tonnes)	Consumption Growth Rate (%)
<b>1998-99</b>	605045		591545	
<b>1999-00</b>	622265	2.8	628110	6.2
<b>2000-01</b>	630405	1.3	631475	0.5
<b>2001-02</b>	631400	0.2	638210	1.1
<b>2002-03</b>	649435	2.9	695425	9
<b>2003-04</b>	711650	9.6	719600	3.5
<b>2004-05</b>	749665	5.3	755405	5
<b>2005-06</b>	802625	7.1	801110	6.1
<b>2006-07</b>	852895	6.3	820305	2.4
<b>2007-08</b>	825345	-3.2	861455	5
<b>2008-09</b>	864500	4.7	871720	1.2
<b>2009-10</b>	831400	-3.8	930565	6.8

Source: India Rubber Statistics, Vol. 32, 2009

- ▶ Consumption of NR has risen quite rapidly over the past decade.
- ▶ Production of NR has fallen below consumption.

# Consumption/Production Ratio



## Ratio of Consumption/Production in major NR producing countries

Country	2000	2001	2002	2003	2004	2005	2006	2007p	2008p
China	2.43	2.78	2.65	2.7	3.49	4.44	5.22	4.9	5.22
India	1.01	1	1.06	1.01	1	1.02	0.96	1.05	1
Malaysia	0.39	0.45	0.46	0.43	0.34	0.34	0.3	0.38	0.44
Thailand	0.1	0.11	0.11	0.1	0.11	0.11	0.1	0.12	0.13
Indonesia	0.09	0.09	0.09	0.17	0.09	0.1	0.13	0.14	0.15
World	1.08	1.01	1.03	0.99	0.99	1.03	1	1.06	1.02

Source: India Rubber Statistics, Vol. 32, 2009

- ▶ India ranks behind China in the ratio. China has over the last decade increased its consumption to much higher levels
- ▶ This is also evident in China's exports of Rubber goods to the world. It is about 8 times as compared to India.

## Export of Finished goods to the World (2004-2008) (millions of US \$)

	2004	2005	2006	2007	2008
India	587	789	928	1013	1294
China	3501	5071	6864	9396	10681

Source: UN COMTRADE database

# Trade Potential and IRCA



## Average Trade Potential and IRCA for major NR producing countries (2006-08)

Country	Natural Rubber latex		Smoked sheets		Technically specified natural rubber	
	Trade Potential	IRCA	Trade Potential	IRCA	Trade Potential	IRCA
Sri Lanka	520.64	8.43	26742.57	28.87	7157.83	3.41
Thailand	479.61	56.17	45143.17	71.63	53171.13	21.66
Indonesia	432.57	9.90	70486.65	13.57	40100.88	78.77
Malaysia	390.33	4.91	4065.55	0.31	78724.56	33.09
Vietnam	332.74	23.24	62625.15	9.04	79690.25	19.70

Source: UN COMTRADE database

- ▶ The table shows the average trade potential of major NR producing countries with India and their International RCA's.
- ▶ Sri Lanka has the highest trade potential for NR latex.

# Natural Rubber



400110		
	Total	Major Countries (Share)
1998-99	9.5	THAILAND (45.8) MALAYSIA (21.3) SINGAPORE (9.8)
1999-00	4.0	THAILAND (52.8) MALAYSIA (17.7) SRI LANKA DSR (8.5)
2000-01	3.3	THAILAND (39.6) MALAYSIA (35.7) TUNISIA (6.6)
2001-02	3.7	THAILAND (46.7) MALAYSIA (20.5) INDONESIA (10.4)
2002-03	2.0	MALAYSIA (54.6) THAILAND (19.7) SINGAPORE (9.3)
2003-04	3.8	MALAYSIA (56.9) INDONESIA (18.9) THAILAND (15.0)
2004-05	1.6	THAILAND (69.5) MALAYSIA (26.0) SRI LANKA DSR (2.4)
2005-06	0.2	VIETNAM SOC REP (33.3) SINGAPORE (26.6) CHINA P RP (20)
2006-07	0.9	INDONESIA (34.0) VIETNAM SOC REP (34.0) MALAYSIA (15.9)
2007-08	0.4	VIETNAM SOC REP (82.8) <b>SRI LANKA DSR (8.5)</b> MALAYSIA (5.7)
2008-09	1.2	MALAYSIA (31) THAILAND (29.3) <b>SRI LANKA DSR (21.6)</b>

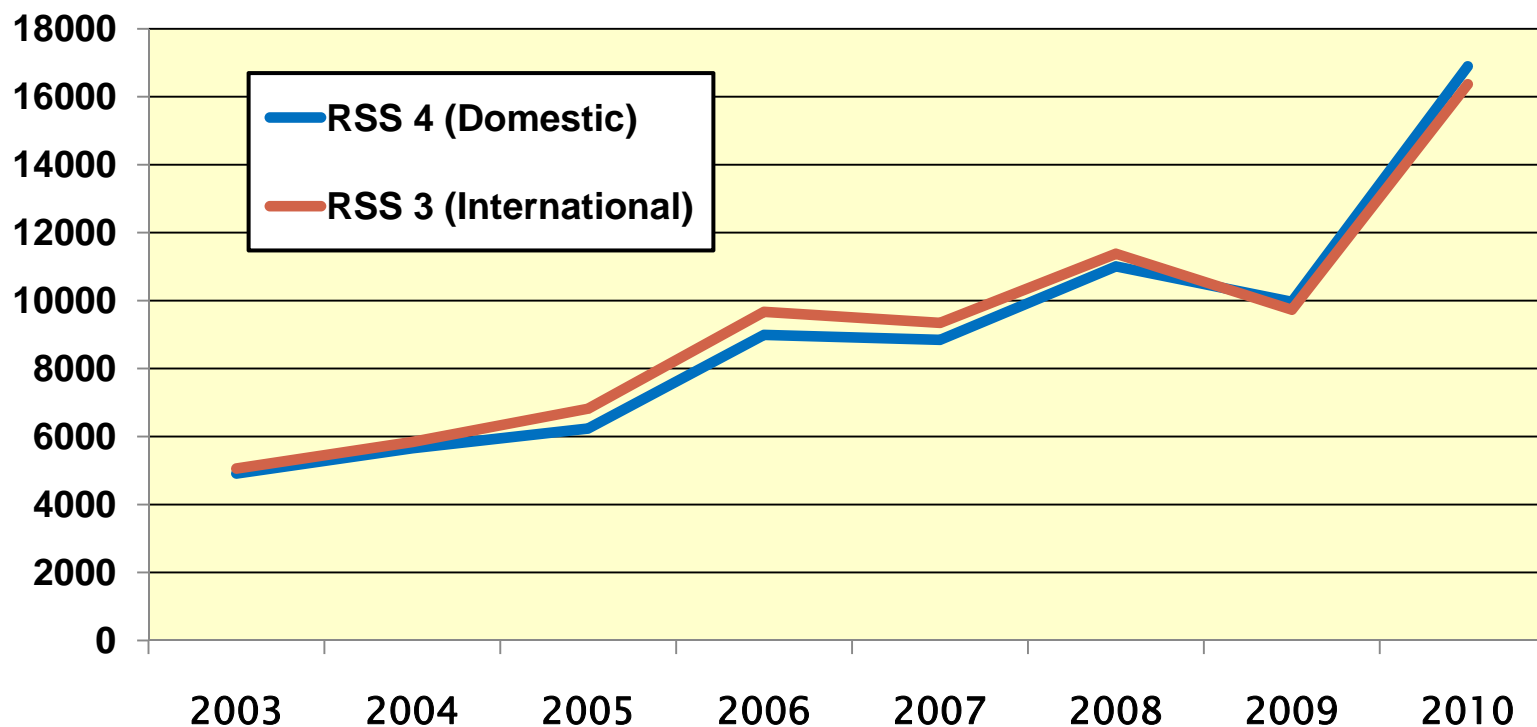
400121		
	Total	Major Countries (Share)
1998-99	4.1	THAILAND (49.1) MALAYSIA (20.9) SINGAPORE (18.4)
1999-00	3.8	THAILAND (57.8) SINGAPORE (17.3) SRI LANKA DSR (10.6)
2000-01	1.4	MALAYSIA (46.7) THAILAND (23.3) SINGAPORE (21.1)
2001-02	10.8	MALAYSIA (50) THAILAND (35.3) SINGAPORE (6.4)
2002-03	6.0	THAILAND (69.9) MALAYSIA (22.4) SINGAPORE (6.7)
2003-04	15.3	THAILAND (52.6) MALAYSIA (25.3) INDONESIA (16.2)
2004-05	46.8	THAILAND (46.2) MALAYSIA (27.7) INDONESIA (18.1)
2005-06	44.8	INDONESIA (40.2) THAILAND (21.8) MALAYSIA (20.7)
2006-07	109.2	THAILAND (40.1) INDONESIA (36.4) <b>SRI LANKA DSR (11.6)</b>
2007-08	96.7	THAILAND (53.3) INDONESIA (21.7) <b>SRI LANKA DSR (14.1)</b>
2008-09	71.5	THAILAND (65.3) <b>SRI LANKA DSR (15.2)</b> MALAYSIA (9.1)

Source: DGFT

## Imports (Values in US\$ Million)

- ▶ In the last ten years our imports of smoked sheets has increased by about 18 times.
- ▶ Sri Lanka has emerged as the top three import destinations to import NR for India for both NR latex and Smoked sheets

# Natural Rubber



Source: India Rubber Board Website

- ▶ The Domestic NR prices for RSS 4 has moved in tandem with RSS 3 (Bangkok) price. But in the last couple of years the domestic price has risen higher than the international price.
- ▶ In the present month, the domestic prices have reached a record level of ₹ 20200 per 100kg. Comparatively the international price was ₹ 19792 per 100 kg.



# Tariff Duties



Basic /Pref												
H.S. Code		2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
400110	Natural Rubber latex	35	35	70	70	70	70	70	70	70	70	70
400121	Natural Rubber Smoked Sheets	25	25	25	20	20	20	20	20	20	20	20
400122	Technically Specified Natural Rubber	25	25	25	20	20	20	20	20	20	20	20
4002	Synthetic Rubber	35	35	30	20	20	15	12.5	10	10	10	10
4003	Reclaimed Rubber	35	35	30	20	20	15	12.5	10	10	10	10
4004	Waste, parings and scraps of rubber	35	35	30	20	20	15	12.5	10	10	10	10
4005	Compounded rubber unvulcanised	35	35	30	20	20	15	12.5	10	10	10	10
4006	Other forms	35	35	30	20	20	15	12.5	10	10	10	10
4007	Vulcanised Rubber thread and cord	35	35	30	20	20	15	12.5	10	10	10	10
4008	Vulcanised Rubber other hard rubber	35	35	30	20	20	15	12.5	10	10	10	10
4009	Vulcanised Rubber other than hard rubber (tubes, pipes and hoses)	35	35	30	20	20	15	12.5	10	10	10	10
4010	Conveyors or transmission belts	35	35	30	20	20	15	12.5	10	10	10	10
4011	New pneumatic tyres of rubber	35	35	30	20	20	15	12.5	10	10	10	10
4012	Retreaded or used pneumatic tyres	35	35	30	20	20	15	12.5	10	10	10	10
4013	Inner tubes of rubber	35	35	30	20	20	15	12.5	10	10	10	10
4014	Hygeinic or pharmmaceutical articles	35	35	30	20	20	15	12.5	10	10	10	10
4015	Articles of apparel and clothing accessories	35	35	30	20	20	15	12.5	10	10	10	10
4016	Other articles of vulcanised rubber other than hard rubber	35	35	30	20	20	15	12.5	10	10	10	10
4017	Hard Rubber	35	35	30	20	20	15	12.5	10	10	10	10

Source: Customs and Tariffs by Kun Goyal (Various editions)

# Conclusion



- ▶ The inverted duty structure ought to be removed given the importance of rubber goods industry for India.
- ▶ Following the Bangkok Agreement effective from 9 January 2004, the preferential duty of imports for Bangladesh and Sri Lanka is 16 percent for all forms of NR except NR latex for which it is 40 percent.

# Thank You for Your Attention

Nisha Taneja

Saon Ray

Devjit Roy Chowdhury

Neetika Kaushal

# IMPORT COVERAGE OF SENSITIVE LIST ITEMS



Ch	Description	Sri Lanka		Bangladesh		Pakistan	
		No. of Items	Import Coverage ('000 of \$)	No. of Items	Import Coverage ('000 of \$)	No. of Items	Import Coverage ('000 of \$)
1	Live Animals			14	30205.49	22	63.75
2	Vegetable Products	2	301.20	162	3580.69	161	33554.88
3	Animal or Vegetable Fats And Oils			30	4743.62	30	7.31
4	Prepared Foodstuffs	17	42.37	62	1383.54	67	424.62
5	Mineral Products			16	12097.98	16	51882.67
6	Products Of Chemical And Allied Industries			46	1599.93	46	18.87
7	Plastics And Articles Thereof, Rubber And Articles Thereof	100	2172.71	98	1584.88	98	1531.24
9	Wood And Articles Of Wood	5	0.00	5	3.53	5	0.00
10	Pulp Of Wood Or Other Cellulosic Materials	12	2134.80	15	166.26	15	158.30
11	Textiles And Textile Articles	295	1678.36	197	1853.79	325	13589.76
12	Footwear, Headgear, Sun Umbrellas, Walking Sticks, Whips, Riding Crops, Ad Parts Thereof			17	13.23	17	63.11
13	Articles Of Stone, Plaster, Cement; Ceramic Products; Glass And Glassware			5	0.31	10	133.62
15	Base Metals And Articles Of Base Metals			60	4406.56	60	947.82
16	Machinery And Mechanical Appliances			27	350.94	27	4.54
17	Vehicles and Transport Equipment			4	0.00	4	21.92
18	Optical, Photographic, Cinematographic, Measuring Checking, Precision, Medical Instruments			2	0.00	2	0.00
19	Arms And Ammunitions			0		1	0.00
20	Miscellaneous Manufactured Items			2	6.46	2	0.00
	Total Trade	431	6329	762	61997	908	102402

# IMPORT COVERAGE OF CRITICAL SENSITIVE LIST ITEMS



Chapter	Description	Sri Lanka		Bangladesh		Pakistan	
		No. of Items	Import Coverage ('000 of \$)	No. of Items	Import Coverage ('000 of \$)	No. of Items	Import Coverage ('000 of \$)
1	Live Animals			4		12	
2	Vegetable Products	1		40	3378	71	19244
3	Animal Or Vegetable Fats And Oils			10	2586	8	22
4	Prepared Foodstuffs; Beverages, Spirits And Vinegar; Tobacco And Manufactured Tobacco Substitutes	14	42	18	1	27	111
5	Mineral Products			2		6	53
6	Products Of Chemical And Allied Industries					10	7
7	Plastics And Articles Thereof, Rubber And Articles Thereof	32	1489	3	0	26	58
8	Raw Hides and Skins, Leather, Furskins And Articles Thereof; Saddlery and Harness; Travel goods, handbags and similar containers; articles of animal gut						
9	Wood And Articles Of Wood; Wood Charcoal; Cork And Articles Of Cork; Manufactures Of Straw, Or Esparto, Or Of Other Plaiting Materials; Basket Or Wickerwork	5		4	4	4	
10	Pulp Of Wood Or Other Cellulosic Materials; Recovered (Waste And Scrap) Paper And Paperboard; Paper Or Paper board Articles Thereof	6				8	46
11	Textiles And Textile Articles	1				94	5144
12	Footwear, Headgear, Sun Umbrellas, Walking Sticks, Whips, Riding Crops, Ad Parts Thereof; Prepared Feathers, And Articles Made Therewith; Artificial Flowers; Articles Of Human Hair			1	3	8	187
13	Articles Of Stone, Plaster, Cement, Asbestos, Mica Or Similar Materials; Ceramic Products; Glass And Glassware					5	6
15	Base Metals And Articles Of Base Metals			6	0	22	842
16	Machinery And Mechanical Appliances; Electrical Equipment; Parts Thereof; Sound Recorders And Reproducers, And Parts And Accessories Of Such Articles					18	13
17	Vehicles, Aircraft And Vessels, And Associated Transport Equipment			1		2	
18	Optical, Photographic, Cinematographic, Measuring Checking, Precision, Medical Instruments and Apparatus: Clocks and Watches; Musical Instruments; Parts And Accessories Thereof						
19	Arms And Ammunitions, Parts And Accessories Thereof					1	
20	Miscellaneous Manufactured Items						
21	Works Of Art, Collectors' pieces and Antiques						
	<b>Total Trade</b>	<b>59</b>	<b>1531</b>	<b>89</b>	<b>5972</b>	<b>322</b>	<b>25733</b>