



Centre for Policy Dialogue (CPD)

CPD Dialogue on

Advancing Bangladesh-India Economic Cooperation: Modalities and Challenges

Presentation on

Trade-Related Issues in the Bangladesh-India Joint Communiqué:
Maximising Bangladesh's Benefits, and Strategies for Future

by

Mustafizur Rahman

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CENTRE FOR POLICY DIALOGUE (CPD)

B A N G L A D E S H

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Credit

Study Team

Mustafizur Rahman
Towfiqul Islam Khan
Tapas Kumar Paul
Ashiqun Nabi

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Section I. Introduction: The Agenda Ahead

- Issues of Trade and Connectivity with India have attracted renewed attention in recent times following the visit of the Hon'ble Prime Minister of Bangladesh to India during January 10-13, 2010.
- The joint communiqué emerging from this visit mentions about deepening bilateral economic cooperation between the two countries in several areas.

Economic Issues in the communiqué

- Removal of tariff and non-tariff barriers
- Reduction of items in the Sensitive Lists
- Duty-free access to Indian market
- India's support to strengthen the BSTI
- Trade Facilitation: Strengthening of land customs stations and related infrastructure
- Removal of port restriction and facilitation of movement by rail and water
- Bangladesh's agreement to allow use of Mongla and Chittagong sea ports by India
- Agreement as regards availability of Rohanpur-Singabud broad gauge railway link for transit to Nepal and Bangladesh's request for railway transit link to Bhutan
- Supply of 250 MW electricity to Bangladesh from Indian national grid
- Indian credit line of USD 1.0 billion for a range of projects (at 1.75% annual interest rate for 20 years with a grace period of 5 years)



Section I. Introduction: The Agenda Ahead

- The task at hand now for Bangladesh is to design follow-up actions in line with the *agreements* and the *understandings* in the communiqué in a manner that best serves Bangladesh's interests, and maximises Bangladesh's potential benefits in the identified areas of trade in goods and services, investment and connectivity.
- Within each of the areas win-win solutions will need to be identified for which appropriate homework at our side will be crucial.
- As is known, India has put on the table a proposal for a BFTA with Bangladesh (similar proposals have also come from Pakistan and Sri Lanka). Follow-up activities in the context of the joint communiqué ought to keep this proposal in the perspective so that initiatives to implement the agreements and understandings are coordinated within the broad framework of such a bilateral agreement.



Section I. Introduction: The Agenda Ahead

CPD's research interest in Advancing Bangladesh-India Cooperation

- CPD has a long track record in promoting Bangladesh-India relationship in various areas, through policy research, dialogues and policy activism.
- CPD, in collaboration with, various partner organisations in India, organised a series of nineteen dialogues between 1995 and 2009, which came to be known as *Indo-Bangladesh Dialogues*. These dialogues were participated by civil society representatives, experts and high level policy makers of the two countries and covered a wide range of areas including trade promotion, connectivity, investment cooperation, water sharing, energy security, politics and media and cultures. These are well documented.
- The other important avenue to deepen Bangladesh-India cooperation was the BCIM Forum initiative with which CPD has been involved since its launching in 1999.
- CPD has carried out a number of research studies which have looked at issues of bilateral and regional integration in South Asia through trade and connectivity. Mention may be made here of Professor Rehman Sobhan's seminal studies titled *Transforming Eastern South Asia: Building Growth Zones for Economic Cooperation* and *Rediscovering the Southern Silk Route: Integrating Asia's Transport Infrastructure*.



Section I. Introduction: The Agenda Ahead

Focus

The present study focuses mainly on issues of bilateral cooperation in trade related areas

Objectives of the present study

- Assessment of state of Bangladesh-India bilateral trade
- Identification of best modalities to reduce items in India's *Sensitive List* under SAFTA and pursuing *Duty-Free market access for Bangladesh* in India
- Opportunities of enhancing Bangladesh's export to India: Identifying products at disaggregated level
- Identification of modalities to address non-tariff barriers to trade with India with a view to stimulating bilateral trade

Section II. Bangladesh-India Trade: Some Stylised Facts and Recent Trends

Table 1: Trade Balance with India and China (mln \$)

FY	Trade Balance between BD and India			Trade Balance between BD and China		
	Export	Import	Trade Balance	Export	Import	Trade Balance
FY2004	89.3	1598.4	-1509.1	40.6	1132.7	-1092.1
FY2005	143.7	2009.1	-1865.4	56.1	1613.5	-1557.4
FY2006	242.0	1850.9	-1609.0	64.8	2050.0	-1985.1
FY2007	289.4	2227.0	-1937.6	93.0	2538.5	-2445.5
FY2008	358.1	3384.3	-3026.2	106.9	3103.8	-2996.9
FY2009	276.6	2839.0	-2562.4	97.1	3416.4	-3319.3

Source: Estimation based on CPD database compiled from EPB and BB statistics

- Over the recent past Bangladesh has witnessed an widening of trade deficit with India which stood at \$3.0 billion in FY2008 and \$2.6 billion in FY2009.
- However, it is important to note the recent dynamics:
 - Between FY2004 and FY2008 -
 - Export to India has experienced significant rise: from \$89.3 million to \$358.1 million in FY2008 and \$276.6 million in FY2009 – a three-to-four fold increase within a span of five years
 - Although from relatively low base, this growth provides an indication about potential opportunities to expand Bangladesh's exports to India.

Section II. Bangladesh-India Trade: Some Stylised Facts and Recent Trends

Table 2: Trade between Bangladesh and India

FY	BD's export to India (mln \$)	BD's export to India in BD's total export (%)	BD's export to India in India's global import (%)	BD's Import from India (mln \$)	BD's import from India in BD's global import (%)	India's export to BD in India's global export (%)
FY1995	28.62	0.78	0.08	688.50	11.81	2.57
FY2000	64.86	0.30	0.03	828.60	10.12	2.22
FY2008	358.08	2.54	0.14	3330.92	15.48	2.00
FY2009	276.58	1.78	0.09	2839.00	12.62	1.54

Source: Based on CPD database compiled from EPB and BB statistics

Trends of performance in FY2009

- Bangladesh's export to India as a share of Bangladesh's global export → 1.78% (on the rise)
- Bangladesh's import from India as a share of her global import → 12.62% (about the same)
- India's export to Bangladesh as a share of India's global export → 1.54% (declining)
- India's import from Bangladesh as a share of her global import → 0.09% (about the same)
- The bilateral trade deficit has consequently increased from \$1.5 billion to \$2.5 billion between FY2004 – FY2009.

**Section II. Bangladesh-India Trade: Some Stylised Facts and Recent Trends**

- This bilateral trade deficit of about \$3 billion would be much higher if the deficit in the informal trade is added to the abovementioned formal trade. In mid-1990s informal trade was estimated to be about 1.2 times the formal trade. With significant reduction in MFN tariffs and formalisation of some of the illegal trade (e.g. cattle), informal trade is reckoned to have come down (but still estimated to be equivalent to about three-fourths of formal trade).
- However, one should keep in mind that in a globalised world, it is the global trade deficit which counts, not bilateral deficit.
- Imports from India helps Bangladeshi consumers access final goods at a competitive price, producers to keep cost of production low, and export-oriented entrepreneurs to reduce lead time and remain competitive.
- Many of the imports from India (e.g. fabrics and other industrial raw materials) goes into Bangladesh's export-oriented sectors (e.g. RMG industry) and helps Bangladesh maintain healthy trade balance with some of the other major trading partners (e.g. a \$3.6 billion trade surplus with the USA in FY2009).
- For Bangladesh, in the context of trade with India, the worry should be not as much the bilateral deficit, but addressing the challenge of increasing her exports to India, which is also incidentally the best way to reduce the bilateral trade deficit as well.

**Section III. Bangladesh-India Trade: Dynamics of Compositional Change****Table 3: Export of Traditional and Non-Traditional Commodities to India (share in %)**

Commodity Groups	FY2004	FY2008	FY2009
Traditional	90.5	60.4	68.8
Chemical fertiliser	43.6	23.1	17.2
Raw jute	23.1	11.6	10.6
Frozen fish	5.6	8.1	12.8
Jute manufactures (including Sacks and bags)	4.8	6.5	13.0
RMG	3.1	1.4	4.0
Naphtha	3.0	0.0	0.0
Betel nuts	2.7	4.1	3.5
Leather	1.9	2.1	2.5
Soap toilet	1.5	0.5	0.6
Jute yarn & twine	1.2	3.0	4.6
Others	9.5	39.6	31.2
Total	100.0	100.0	100.0
(mln USD)	(89.3)	(358.1)	(276.6)

Source: Estimation based on CPD database compiled from EPB

- Till FY2004, more than 90% of Bangladesh's export to India were traditional items such as chemical fertiliser, raw jute and jute manufactures, frozen fish, RMG etc.
- In recent years, share of traditional commodities in total export to India has tended to come down (68.8% in FY2009), whilst that of non-traditional items have gone up (31.2%), although in value terms both have posted a rise.
- It is important that a renewed effort is undertaken to support export of the non-traditional items.



Section III. Bangladesh-India Trade: Dynamics of Compositional Change

Table 4: Export of New Commodities to India

Commodity Groups	(share in %)		
	FY2004	FY2008	FY2009
Traditional	90.5	60.4	68.8
New Products	1.3	26.8	16.2
Furnace oil (refined)	0.2	10.0	4.7
Cement	0.0	3.8	2.3
Cut flower	0.0	3.6	0.5
Textile fabrics	0.6	2.3	1.7
Soybean oil	0.0	1.5	0.1
Copper wire	0.4	1.2	1.8
Accumulator battery & parts	0.1	1.1	0.4
Glass sheet	0.0	0.8	1.3
Home textiles	0.0	0.8	1.3
Zinc waste	0.0	0.0	0.3
Plastic goods	0.0	0.2	0.4
Cane sugar	0.0	0.6	0.4
Pharmaceuticals	0.0	0.1	0.5
Coriander Seed	0.0	0.8	0.5
Others	8.2	12.8	15.0
Total	100.0	100.0	100.0
(mln USD)	(89.3)	(358.1)	(276.6)

Source: Estimation based on CPD database compiled from EPB

- The new Bangladeshi products in the Indian market include textile fabrics, plastic goods, cement, furnace oil, battery, cut flower, pharmaceutical products, copper wire, melamine, etc.
- Increased export flow to India is underpinned, in part, by new items of export from Bangladesh, indicating some export diversification.
- This trend needs to be supported by appropriate policies.



Section III. Bangladesh-India Trade: Dynamics of Compositional Change

Table 5: Diversification of Bangladesh's export in Indian market

FY	Share of Product Category		Number of Product Exported (out of 162 EPB categories)
	Top 10 in FY2008	Top 5 Traditional (FY2004)	
FY2004	78.8	75.9	86
FY2006	70.3	58.8	102
FY2008	71.8	47.7	94
FY2009	60.4	46.2	100

Source: Estimation based on CPD database compiled from EPB

- In recent years, between FY2004 to FY2009, share of top 5 traditional products in Bangladesh's export to India has declined; at the same time number of exportable products has increased.
- Among the 162 product categories (according to EPB classification) in Bangladesh's global export, 100 categories were exported to India in FY2009 compared to 86 in FY2004.

Section III. Bangladesh-India Trade: Dynamics of Compositional Change

Disaggregated Analysis of Composition of Bangladesh's Export to India

Table 6: Diversity of Bangladesh's Export to India in terms of Number of Tariff Lines and Value

Indicators	No. of tariff lines (HS6 digit level)		Value (mln \$)	
	2004	2008	2004	2008
BD export to India	219	409	58.8	329.8
RMG (HS 61 + 62)	17 (1+16)	51 (16+36)	0.82 (0.01+0.81)	4.09 (1.12+2.98)
BD's global export	1151	1732	8267.5	15356.2
RMG (HS 61 + 62)	230 (113+117)	219 (103+116)	6231.3 (3007.0+3224.3)	12444.7 (6721.5+5719.3)
India's global Import	4752	4701	108248.0	315712.0
RMG (HS 61 + 62)	211 (102+109)	217 (106+111)	31.9 (10.33+21.56)	137.7 (50.30+87.41)

Source: Based on CPD database compiled from UN COMTRADE

- Increasing diversity of Bangladesh's export is particularly evident in terms of tariff lines at 6 digit HS level.
- At 6 digit HS code, exports to India from Bangladesh covered 409 tariff lines in 2008 which was almost double that of 2004 (219).
- This would mean that within broad product groups, some differentiation is taking place, although it appears that major thrust will have to be put on non-RMG sector.
- It is important to examine the extent to which India's sensitive list constrains Bangladesh's export potential of these and other items.

Section IV. An Examination of Indian Sensitive List and MFN Tariff Barriers

Indian Sensitive List and its Implications for Bangladesh's Export Performance

- As is known, items in the sensitive list of a country has to enter by paying MFN duties at customs points.
- As per SAFTA-TLP, items outside sensitive list are reduced to either 0-5% duties (residual list) or gradually to 0-5% over 7-10 years
- The sensitive list is to be reviewed every 3 years.
- India's initial sensitive list of 763 items for LDCs was perceived to be rather restrictive (Bangladesh's own list included 1,233 items). However, India has gone for review of her sensitive list at an accelerated pace (has revised the sensitive list twice).
- Outside of the sensitive list, India has provided accelerated DF treatment for almost all items (excepting a few, where tariffs were reduced to between 0 and 5%).



Section IV. An Examination of Indian Sensitive List and MFN Tariff Barriers

MFN Tariff Rates in India and the Implication of the Sensitive List for Bangladesh

- No. of tariff lines (at 6 digit HS code) under MFN in India → 5052

SAPTA sensitive list of India (at 6 digit HS Code):

- No. of tariff lines in original list (2005) → 763 (for LDCs)
→ 884 (for Non-LDCs)
- No. of tariff lines in the revised list (2005) → 744 (for LDCs)
→ 865 (for Non-LDCs)
- No. of tariff lines in the further reduced Sensitive List (2008) → 480 (for LDCs)
→ 868 (for Non-LDCs)

Out of 480 items for LDCs,

- Non RMG → 326
 - RMG (HS 61 + 62) → 154 (78 + 76)
- Additionally, as is known, on a unilateral basis, India has offered to provide zero duty market access for up to 8 million pieces of garments from Bangladesh (TRQ) although most apparels items are in the sensitive list of India (without any sourcing conditionality) as per a Memorandum of Understanding between the two countries.
 - However, only 2.3 million and 3 million pieces were exported to India in 2008 (April – December) and 2009 respectively.

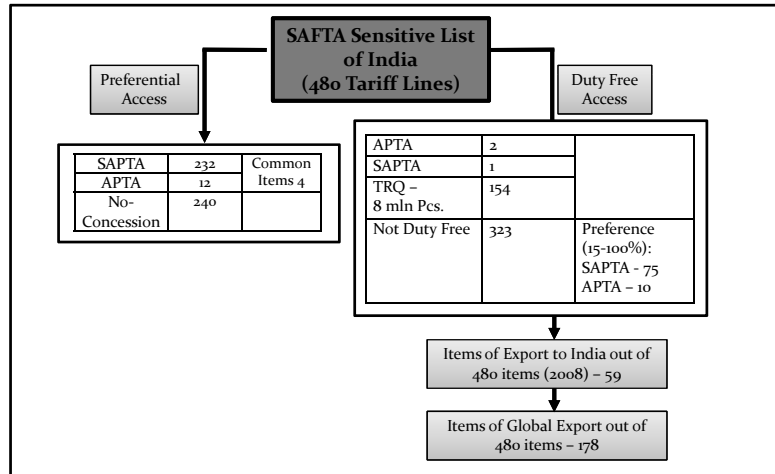


Section IV. An Examination of Indian Sensitive List and MFN Tariff Barriers

- Bangladesh had earlier sent a request to India for 101 items to be excluded from the Indian sensitive list (see Annex 1). Out of these, India had agreed to take out 47 items (5 of these are RMG items) whilst reducing the list to 480 from 744 items.
- The MFN duties on the rest 54 items range from 5% - 100% with the median being 10%; however 48 items out of these 54 enjoy concessional treatment under the SAPTA (reduced duty of between 50% to 60%)
- Bangladesh has requested India to take out items from the sensitive list which are already being accorded preferential treatment in RTAs such as SAPTA and APTA.

Section IV. An Examination of Indian Sensitive List and MFN Tariff Barriers

Sensitive List of India and its implications for Bangladesh



Source: Tariff Commission and CPD estimates

Section IV. An Examination of Indian Sensitive List and MFN Tariff Barriers

- In 2008, out of 480 items in the sensitive list, 323 were actually subject to tariffs and 157 items are currently enjoying duty-free access under TRQ and other RTAs.
- 85 items enjoyed concessional duties (15-100%) under SAPTA and APTA.
- In 2008, 36 items that were actually exported to India from Bangladesh were subjected to MFN duties.
- There is another 287 items in the sensitive list with MFN duties which Bangladesh did not export to India in 2008.
- Thus the issue of items in sensitive list being a major constraining factor for Bangladesh is gradually declining in importance. As was mentioned, although many RMG (154 items) continue to be in the sensitive list these are enjoying duty-free access under the TRQ.



Section IV. An Examination of Indian Sensitive List and MFN Tariff Barriers

Revenue Loss of India under a “Duty Free” Scenario

- As was noted earlier, of the 323 products the sensitive list, in 2008, Bangladesh exported only 36 which were subjected to MFN duties.
- Under a “duty free” scenario, the possible revenue loss to India would be around only USD 4.9 million on an export of \$15.2 million from Bangladesh in 2008.
- The potential revenue loss of India will be even lower since for a number of items Bangladesh enjoyed concessional duties under preferential treatment as part of SAPTA and APTA.
- Thus, India does not lose much if sensitive list is eliminated, on an immediate basis, for Bangladesh.



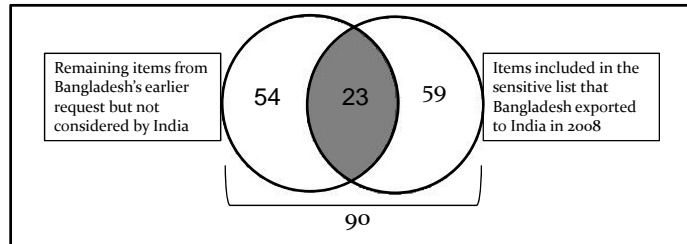
Section V. Bangladesh's Export Potentiality in India: A Commodity Based Analysis

Strategies

- India should be pursued to take out items from the sensitive list for which Bangladesh gets preferential treatment under the SAPTA.
- As India's total revenue loss would be quite insignificant even if all Bangladeshi products get duty free access, India should seriously consider providing duty free market access for all Bangladeshi products on an immediate basis.
- Bangladesh remains the only SAARC LDC for which the sensitive list of India is of concern – all other LDCs of the region has bilateral FTA with India. In this backdrop, India-Bangladesh economic cooperation can be taken another step ahead through bilateral agreement: India can abolish the entire sensitive list immediately, while Bangladesh can reduce her own sensitive list at a faster pace.

Section V. Bangladesh's Export Potentiality in India: A Commodity Based Analysis

- In 2008 Bangladesh exported 59 items (at HS6 digit level) out of 480 items in the Indian sensitive list.
- Bangladesh should emphasise more on Non-RMG products to be taken out from the sensitive list during this round of negotiation.



- Prior to the last revision of the sensitive list, Bangladesh requested for an exclusion of 101 items from the list, of which 47 item were finally taken out. For the next step of reduction, Bangladesh could pursue exclusion of a total of 90 items (at HS6 digit level that includes 59 items mentioned above plus the another 31 items that were part of the previous request list from Bangladesh but were not taken out of the sensitive list in 2008).

Section V. Bangladesh's Export Potentiality in India: A Commodity Based Analysis

- Which are the items where Bangladesh has export potentials in the Indian market?
- Recent market dynamics and growth performance are good indicators. Additionally, Revealed Comparative Advantage (RCA) estimates are also often useful in this respect.
- A comparative advantage is “revealed”, if $RCA > 1$ in which case the particular product is considered to enjoy export potential. If RCA is less than unity, the country is said to have a comparative disadvantage in the commodity/industry.
- In terms of the value of the index of RCA, as would be expected, raw jute ranks at the top in the Indian market (the items were clustered from 6 digit to broad groups according to EPB classification). Other important items with $RCA > 1$ are chemical fertilizer, cement, RMG, leather, battery, textile fabrics.
- India is a significant importer of many of these items, from countries other than Bangladesh as is seen from Table 7.

Table 7: RCA & share of BD's export to India's import (based on products at 6 digit level, 2008)

Commodity Groups	RCA	BD's export as a share of India's global import
Raw jute	954.1	99.7
Cane sugar	654.0	68.3
Coriander seed	254.0	26.5
Frozen fish	186.8	19.5
Betel nuts	170.4	17.8
Soap toilet	164.5	17.2
Cement	119.0	12.4
Glass sheet	59.2	6.2
Jute yarn & twine	39.0	4.1
RMG	28.4	3.0
Chemical fertilizer	18.6	1.9
Leather	18.3	1.9
Zinc waste	7.1	0.7
Accumulator battery & parts	5.3	0.6
Textile fabrics	3.1	0.3
Furnace oil	1.8	0.2
Plastic goods	0.8	0.1
Home textiles	0.3	0.0
Pharmaceuticals	0.3	0.0

Source: Estimation based on CPD database compiled from UN COMTRADE

Section V. Bangladesh's Export Potentiality in India: A Commodity Based Analysis

- However, we find comparative disadvantage (RCA index less than unity) for pharmaceuticals, plastic goods & home textiles.
- If we consider selected Bangladeshi items with export potentials in India (Table 8), it is seen that India made about \$1.4 billion worth of imports of these items in 2008 (excluding chemical fertilizer and furnace oil).
- But within these three product groups, if we consider items at the 6 digit level, we find 3 products from pharmaceuticals, 11 products from plastic goods & 1 product from home textiles with $RCA > 1$ in Indian market.

Table 8: BD's Potential Market to India (based on 2008)

Commodities	BD's export to India (million \$)	India's global import (million \$)	Import of India from non-Bangladesh sources (million \$)
Accumulator battery & parts	2.9	515.1	512.3
Leather	7.3	380.8	373.5
RMG	4.0	135.8	131.8
Textile fabrics	0.4	130.5	130.1
Cement	10.5	84.5	74.0
Glass sheet	3.4	54.5	51.1
Zinc waste	0.2	25.8	25.6
Betel nuts	4.1	23.1	19.0
Jute yarn & twine	0.8	18.8	18.1
Coriander seed	2.8	10.5	7.7
Frozen fish	1.9	9.5	7.6
Soap toilet	1.0	5.8	4.8
Cane sugar	2.2	3.2	1.0
Raw jute	13.2	13.2	0.0
Total	54.6	1411.3	1356.7

Source: Estimation based on CPD database compiled from UN COMTRADE

Section V. Bangladesh's Export Potentiality in India: A Commodity Based Analysis

- If these are also included, the import market space of those items in India in 2008 was of about \$2.0 billion.
- Bangladesh will need to target these items
- However, Bangladesh's ability to realise the potential expansion will depend on a number of critical determinants-
 - Supply side capacity in Bangladesh
 - Elasticity of demand in India
 - Further reduction of tariff
 - Non-tariff barriers
 - Micro (enterprise) level efficiency and productivity

Table 9: BD's potential market to India (based on 2008)

Commodities	BD's export to India (million \$)	India's global import (million \$)	Import of India from non-Bangladesh sources (million \$)
Accumulator battery & parts	2.9	515.1	512.3
Plastic goods	1.8	472.2	470.4
Leather	7.3	380.8	373.5
RMG	4.0	135.8	131.8
Textile fabrics	0.4	130.5	130.1
Pharmaceuticals	0.6	116.0	115.3
Cement	10.5	84.5	74.0
Glass sheet	3.4	54.5	51.1
Zinc waste	0.2	25.8	25.6
Betel nuts	4.1	23.1	19.0
Jute yarn & twine	0.8	18.8	18.1
Home textiles	0.0	16.1	16.0
Coriander seed	2.8	10.5	7.7
Frozen fish	1.9	9.5	7.6
Soap toilet	1.0	5.8	4.8
Cane sugar	2.2	3.2	1.0
Raw jute	13.2	13.2	0.0
Total	57.0	2015.5	1958.5

Note: Shaded commodities remained at the India's sensitive list

Source: Estimation based on CPD database compiled from UN COMTRADE



Section V. Bangladesh's Export Potentiality in India: A Commodity Based Analysis

- However, one should keep in mind that this is static analysis. From a dynamic perspective, exports could increase at a much faster pace if supportive measures are put in place. Let us recall once again that between 1990 and 2003 Indian export to Bangladesh rose by 9.3 times, whilst Bangladesh's export to India rose by only 2.7 times. However, between FY2004 and FY2009 the trends have reversed: these were 1.8 times and 3.1 times respectively.



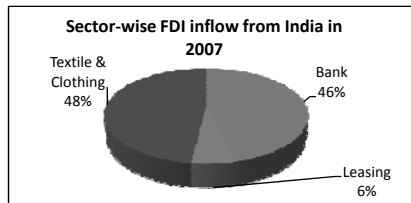
Section V. Bangladesh's Export Potentiality in India: A Commodity Based Analysis

A key factor would be Bangladesh's ability to attract Indian FDI targeted to Indian market

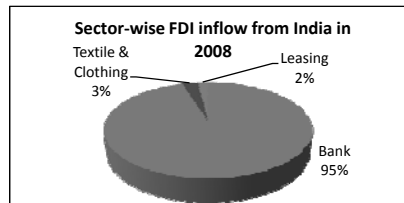
- Bangladesh could be a potential destination for Indian investment for the identified items with export potential.
- However, inflow of FDI from India has so far been rather low.

Table 10: FDI Inflow to Bangladesh (mln USD)

Year	Total FDI	India	Share of India
2002	328.30	4.30	1.31
2003	350.25	3.63	1.04
2004	460.41	6.80	1.48
2005	845.26	2.67	0.32
2006	792.48	6.09	0.77
2007	666.37	1.68	0.25
2008	1086.31	11.29	1.04



Source: Estimation based on CPD database compiled from Bangladesh Bank



Source: Estimation based on CPD database compiled from Bangladesh Bank



Section V. Bangladesh's Export Potentiality in India: A Commodity Based Analysis

Table 11: Registration of FDI with BoI by Indian Investors in 2009

Sector	Amount(mill.US \$)
Textile	1.2
Tannery & Rubber Products	0.2
Chemical	5.5
Engineering	0.2
Service	0.7
Total	7.8

Source: Estimation based on CPD database compiled from Board of Investment (BoI)

- Registration data as regards FDI with the BoI by Indian investors in 2009 indicate some diversification of interest although the amount remains rather insignificant
- Improvement of overall investment environment in Bangladesh, including availability of power, adequate infrastructure and trade facilitation, will be crucial to realising intra-regional investment opportunities.
- Establishment of private EPZs, guaranteed buy-back arrangements and special incentives for Indian market oriented investment could play a positive role in this context.



Section VI. Addressing the Non-Tariff Barriers to Trade in India

Are there beyond the border barriers that inhibit realisation of Bangladesh's export potentials?

Beyond the Border Taxes in India

- As the importance of tariff barriers decline, it is the non-tariff barriers which are emerging as major concerns for Bangladesh in terms of realising her export potentials in the Indian market.
- **How important are these? How these can be resolved?**
- Bangladesh's entrepreneurs often complain about beyond the border taxes/cess/levies in India. This is a common complaint with regard to export of 8.0 million RMG pieces to India under duty-free treatment (in 2009 only 3.0 million pieces could actually be exported). These duties include:
 - **Additional Duty (Countervailing Duty) (CVD):** This additional duty is levied under section 3 (1) of the Custom Tariff Act and is equal to excise duty levied on a like product manufactured or produced in India (generally ranging between 4% to 8% of assessed value).
 - **Secondary and Higher Education Cess:** 2% and 1% respectively on customs duties (CD+CVD).
 - **Additional Excise Duty:** 4%, paid at customs point but rebatable when VAT is paid.
- **Total tax incidence could vary between 8.3% to 12.7% (4.4% to 8.6% if additional excise duty is excluded).**



Section VI. Addressing the Non-Tariff Barriers to Trade in India

Beyond the Border Taxes in India

- However, it needs to be pointed out that Indian producers are also subject to these taxes. It is unlikely that Bangladeshi exporters will receive more favourable treatment than the Indian producers.
- However, Bangladesh has a strong case for withdrawal of the additional excise duty which is eligible for duty drawback at the time of payment of VAT.
- Bangladesh could argue for withdrawal of additional duties on the following grounds:
 - Importers tend to set price for items imported from Bangladesh by taking into cognisance the duties paid at the customs point, which make Bangladeshi goods less competitive.
 - A part of importers' capital is stuck on account of duties paid.
 - There will be no revenue loss for the Government of India if this is allowed since these duties are rebatable.



Section VI. Addressing the Non-Tariff Barriers to Trade in India

Rules of Origin

- Under the SAFTA Agreement, Annex IV deals with the Rules of Origin (RoO) required for qualification of products for preferential duty benefits.
- **RoO for non-LDCs:** 40% value addition + change in classification at the four digit level (CTH)
- **RoO for LDCs:** 30% value addition + CTH

Regional Cumulation

- Domestic value addition (value of inputs originating in the exporting Contracting State plus domestic value addition in further manufacture in the exporting Contracting State) is not less than 20%
- The aggregate content (value of inputs originating in any contracting state plus domestic value addition in further manufacture) is not less than 50 %
 - Both subject to change in classification at the four digit level (CTH) or, change in classification at the six digit level (CTSH)
- Regional cumulation rules could provide added stimulus for enhanced bilateral trade.

A 25% flat RoO for LDCs (as in Canadian GSP) will make both compliance and implementation easier

Section VI. Addressing the Non-Tariff Barriers to Trade in India

Typology of NTBs

- A survey of NTBs reported by SAARC member countries to the Committee of Experts (CoE) shows that most frequently imposed NTBs in the SAARC countries relate to
 - sanitary and phytosanitary measures (SPS) &
 - technical barriers to trade (TBT),
 - quotas
 - antidumping measures
 - license requirements, and
 - countervailing measures.
- The overwhelming majority of NTBs indeed relate to compliance with SPS and TBT requirements

Table 12: Percentage Share of NTBs to all NTBs by SAARC Countries

Non-Tariff Measures	Share
SPS, TBT, and Other Related Measures	86.3
Tariff Quota	9.8
Anti-Dumping Measures	7.4
License Requirement	5.3
Countervailing Measures	1.2

Source: Quantification of South Asian Trade Benefits (ADB).

Section VI. Addressing the Non-Tariff Barriers to Trade in India

NTBs: Complaints and Responses Submitted at the Meeting of CoE

Exporting Country: Bangladesh; Responding Country: India

Type of NTB	Response from India
Detailed product information (all prepackaged goods)	These are statutory requirement under the Consumer Protection Act.
Bio-security and sanitary permit (Primary agricultural products)	Requirement has been set as per Articles 2 of the Agreement on Sanitary and Phyto Sanitary Measures (SPS) under WTO.
Compliance of Food Adulteration Act regarding shelf life of goods (processed food products)	Compliance of shelf life is mandatory for all processed food item but determination is not arbitrary. It is based on PFA Rules 1955.
Special labeling of country of origin (jute bags/sacks)	The rationale is that the country of origin on product is to be mentioned because if there is any irregularity in the quality of the imported item, the source could be tracked.



Section VI. Addressing the Non-Tariff Barriers to Trade in India

Exporting Country: Bangladesh; Responding Country: India (Contd.)

Type of NTB	Response from India
License from Bureau of Indian Standards cement, gelatin, condensed milk, electrical appliances, mineral water, steel products, leather products, x-ray equipments, dry cell battery, thermometers,, helmets and gas cylinders)	The following steps have been taken: 1) number of items for which certification is needed has been reduced from 109 to 68, 2) marking fees for BIS license has been reduced for SAARC countries, and 3) processing charge for SAARC countries has been abolished.
Requirement of laboratory testing (all products)	100% checks are done on only 14 high risk food items.
Requirement of chemical testing (leather and melamine)	The following steps have been taken; 1) mandatory license is required only for safety boots and shoes for minors, 2) license for safety boots and shoes for minors can be obtained from BIS, and 3) every consignment is not required to be checked by BIS.



Section VI. Addressing the Non-Tariff Barriers to Trade in India

Exporting Country: Bangladesh; Responding Country: India (Contd.)

Type of NTB	Response from India
Certificate of non-halogenated hydrocarbon (jute products)	Domestic producers face the same stipulation.
Pre-shipment certificate about presence of no hazardous dyes (textile and textile products)	The provisions are also in effect for domestic industries.
Registration of the drug with the Central Drug Standard Control Organization (pharmaceutical products)	No import license is required for import of pharmaceuticals. All import of bulk drugs are set as per the EXIM policy 2004-2009.
Requirement of import license (mostly consumer goods)	Requirement of import licenses are under exception clauses of Article XX and Article XXI of GATT.

**Section VI. Addressing the Non-Tariff Barriers to Trade in India****Exporting Country: India; Responding Country: Bangladesh**

Type of NTB	Response from Bangladesh
Ban on import (poultry related products)	To protect human and animal/health. In view of recent partial spread of Avian Influenza, Bangladesh needs to continue such measures.
Same name registration of drug in a developed country (drugs)	Registration and Free Sale Certificate (FSC) duly signed in original by the Health Authority of the country of origin and at least one FSC from a developed country.
15% VAT (all goods)	15% VAT is also imposed on domestic products. Therefore, imposition of VAT should not be treated as para-tariff.
Non-issue of khamarbari Certificate (Potatoes)	Potatoes are not allowed to be imported into Bangladesh from any country; (because of three serious pests, namely Black wart, Golden nematode and potato beetle) unless this is accompanied by Phytosanitary Certificate from the country of origin.
Allowed through land route only (Yarn)	This measure is not applicable for a specific country. The provision has been relaxed for yarn imported under back-to-back LC through land customs.

**Section VI. Addressing the Non-Tariff Barriers to Trade in India****Exporting Country: India; Responding Country: Bangladesh (Contd.)**

Type of NTB	Response from Bangladesh
Non acceptance of cargo by road/rail/rover routes (all goods)	Currently, necessary equipments and physical infrastructure are not available to handle containerized cargoes. Thus, containerized cargoes via land, river and rail routes are not permitted.
L/C requirement (all products)	Bangladesh Bank feels that this instruction is necessary to ensure entry of imported materials/goods into the country against paid money and this has not been applied as a non-tariff barrier.
Radioactivity test (directly consumable stuff)	All imports of food items require radioactivity test report. However, radioactivity test requirement has been relaxed for SAARC countries.
PSI certificate	Any exporter from any part of North East India can get the service of the PSI office in Shilong within 24 hours. Moreover, it must be noted that most of the products exported to Bangladesh from North East India are non-PSI items
Non-payment of irrevocable L/Cs by various banks in (all exports)	The issue is being addressed by a joint group on Banking sector.
Reluctance to open new trade routes and certain notified Land Customs Stations	Teghamukh and Ramgarh are situated in remote areas where traveling and communication is very difficult. Besides, there are 4/5 land customs stations close to these places, which can cover the trade with Mizoram.



Section VI. Addressing the Non-Tariff Barriers to Trade in India

Drawing Lessons: The ASEAN Experience

- According to UNCTAD, over the last 10 years, there has been a seven-fold increase in government-mandated testing and certification requirements with increasing costs that had to be borne by exporters involved (to comply with the various technical regulations and standards related requirements).
- To address SPS-TBT related NTBs and disputes, most RTAs have signed mutual recognition agreements whereby certification and laboratory tests and standards of one country are accepted at border points by other member countries.
- ASEAN has signed an agreement on the general framework of a process by which NTBs would be addressed, and subsequently eliminated.
- In ASEAN, SPS-TBT related NTBs were largely resolved through agreements pertaining to mutual recognition of standards and certification.
- The overwhelming majority of NTBs in ASEAN now are related to customs surcharges (70%) and not SPS-TBT.

Table 13: Most Prevalent NTBs in ASEAN

Types of Non-tariff Barriers	Number of Tariff Line Affected	Share of Total
Customs surcharges	2,683	69.4
Additional Charges	126	3.3
Single Channel for Imports	65	1.7
State-trading Administration	10	0.3
Technical Measures	568	14.7
Product Characteristic Requirement	407	10.5
Marketing Requirements	3	0.1
Technical Regulations	3	0.1
Total	3865	100.0

Source: ASEAN Secretariat (2005)



Section VI. Addressing the Non-Tariff Barriers to Trade in India

Drawing Lessons: The ASEAN Experience

- One could infer that a mechanism such as the one in ASEAN could play an important role in reducing the number of NTBs in Bangladesh -India trade.
- Cross-country experiences indicate that the best way go about it is to –
 - build up capacities to ensure compliance
 - sign mutual recognition agreements
 - put in place appropriate institutions to resolve attendant conflicts.



Section VI. Addressing the Non-Tariff Barriers to Trade in India

Policy Initiatives to Address the NTBs

- **General Principles**
 - An agreement may be made to the effect that value of all imported products would be ascertained on the basis of customs valuation assessment (CVA) of the WTO.
- **Strengthening SPS-TBT Related Capacities**
 - Strengthen national capacities in relevant areas through capacity building of standardization institutions
 - India has started to provide some technical assistance towards strengthening of the Bangladesh Standardization and Technical Institute (BSTI)
- **Dispute Settlement Mechanism**
 - Introduce a system of permanent panelists
 - Put in place a transparent system of arbitration involving cases relating to ADD and CVD
 - Introduce transparent procedures for lodging complaints and getting remedy.
- **Establish Accreditation Agencies**



Section VI. Addressing the Non-Tariff Barriers to Trade in India

Policy Initiatives to Address the NTBs

- **SAARC Standardisation Organisation (SARSO)**
 - The proposed SAARC Standardisation Organisation (SARSO) could play an important role in ensuring evolution of common standards in various SPS-TBT, certification, testing related areas and could also play an important role in facilitating the process of putting in place Mutual Recognition Frameworks.
- **Customs Cooperation**
 - A SAARC Agreement on Mutual Administrative Assistance in Customs Matters was finalized by the sub-group on customs cooperation.
 - Speedy completion of the harmonization and computerization of the customs clearance process at border points and ports should be given priority so that disputes at customs point, particularly at land customs points, could be appropriately addressed and reduced.



Section VI. Addressing the Non-Tariff Barriers to Trade in India

Policy Initiatives to Address the NTBs

- **Dealing with Para-tariffs**
 - The two countries could think about coming to an agreement in terms of not imposing any para-tariff/surcharges in intra-regional trade.
- **Mutual Recognition Agreements**
 - Indeed, India had earlier proposed a draft of a framework agreement for mutual recognition agreement
 - Signing mutual recognition agreements (MRAs) with regard to certification, technical regulations, testing etc. could be an important initiative in resolving many of the NTBs
 - There is a need for putting in place the required capacities in this respect



Section VI. Addressing the Non-Tariff Barriers to Trade in India

Policy Initiatives to Address the NTBs

- **Addressing Infrastructure Related Trade Facilitation Bottlenecks**
 - Ensuring seamless movement through regional connectivity and multi-modal transport facility is the long-term solution, from short to medium term perspective
 - There is an urgent need to build the necessary border infrastructure to facilitate cross-border movement of goods
 - Coordination among partner countries in terms of development of the infrastructure facilities is also critical to addressing this issues
 - Trade facilitation is not only important from the perspective of Bangladesh's export. It is also important in reducing Bangladesh's costs of import from India. Even if we are able to reduce import cost by 10%, Bangladesh will be able to make significant savings which will benefit our producers, exporters and consumers

Section VI. Addressing the Non-Tariff Barriers to Trade in India

Proposed Road Map for Upgradation of BSTI Labs

In line with India's intention to provide capacity building support to BSTI, Bangladesh has proposed a road map for upgradation of BSTI labs. The communiqué also mentions that the Indian Prime Minister has "agreed to support the upgradation of the Bangladesh Standard Testing Institute (BSTI) with a view to building capacity on certification".

According to the Roadmap:

- BSTI is to send pre-assessment reports and report on actions taken and under process by BSTI to Norwegian Accreditation Authority (NAA) and Bureau of Indian Standards (BIS).
- BIS resource persons will visit BSTI to provide technical assistance to address issues of accreditation. Additional trainings may be arranged.
- If NAA gives a sensitive response, BSTI will immediately apply to the National Accreditation Board for Testing and Calibration laboratories (NABL) of India for accreditation of its food laboratory. There is a strong case for giving this route due priority.
- After completion of all due processes, the BIS team may visit BSTI and make recommendations.

These will need to be speedily implemented

Section VII. Potentials for Bangladesh's Trade with India's North-Eastern States

Table 14: Per Capita Net Domestic Product

(at current prices in USD)

Region	FY2005-06	FY2006-07	FY2007-08
Arunachal Pradesh	574.3	639.5	837.7
Assam	455.7	491.7	611.5
Manipur	434.4	459.7	561.4
Meghalaya	589.3	658.8	847.4
Mizoram	615.6	660.9	820.3
Nagaland	573.3	na	na
Tripura	621.2	636.7	na
NE States	489.4	494.6	551.5
Rest of India	690.1	771.4	994.9
All-India	682.6	750.1	950.6

Note: na refers data is not available

Source: Estimation based on CPD database compiled from Economic Survey 2009-2010, India

- North-East (7 sisters) remains relatively poor region by all-India standards. Per capita NDP in the 7 North-Eastern states was only \$552 in FY2007-8 which was just about half of that of rest of India (\$995).
- It is thus not surprising that North-East states' capacity to import is rather limited and trade of North-East with Bangladesh has also tended to remain very low.



Section VII. Potentials for Bangladesh's Trade with India's North-Eastern States

Table 15: Bangladesh's Trade with North East India (million \$)

FY	Export	Import	Major Import Items	Major Export Items
FY2004-05	4.9	50.1	Rice, Coal, Agarbati, Bamboo, Natural rubber, Lime stone, Marble slab, Fruit, Ginger, Spices, Motorcycle parts, Spares of tractor, Sanitary ware, Fabrics, Watch.	RMG, Cement, Pharmaceuticals, Ceramic tiles, Hosiery, Food products, Bleaching powder, Sari, Poly fabric, Cotton waste, Glass sheet, Fish, Lichi, Brick, Furniture, Plastic products, Battery, Molasses.
FY2005-06	11.4	52.2		
FY2006-07	18.4	73.6		
FY2007-08	30.2	83.6		
FY2008-09	34.2	73.6		

Note: 17 land custom stations with North-East were considered
Source: Estimated from NBR data

- Bangladesh's trade with north-east Indian states was only \$34.2 million of export and \$73.6 million of import in FY2008-09. In FY2004-05 this was \$4.9 million and \$50.1 million respectively. There has been some rise in export to North-East from Bangladesh in recent years.
- Compared to total export to India, Bangladesh's share of export trade with North-Eastern states was about 12.4% in FY2008-09
- Major export items for Bangladesh included RMG, cement, pharmaceuticals, ceramic tiles, hosiery etc. All these, excepting RMG, are small-scale non-traditional products by SME exporters.



Section VII. Potentials for Bangladesh's Trade with India's North-Eastern States

Table 16: Inward & Outward Movement of Merchandise through Rail and River in North Eastern States and Rest of the States in India for the Twelve Months Ending March 2008 (*000 MT)

- The trade profile for the North East indicates that the region, for a select set of commodities as shown in Table 17, had an incoming traffic of 5.8 million tons and 9.1 million tons of outgoing trade.
- The figures for agricultural products were 3.9 million MT (incoming) and 0.3 million MT (outgoing) and for industrial products these were 1.9 million MT (incoming) and 8.8 million MT (outgoing).

Source: Estimation based on CPD database compiled from Directorate General of Commercial Intelligence and Statistics, Kolkata, GOI

Commodity Group (selected)	North Eastern States	
	Inward	Outward
<i>Agricultural products of which</i>		
Rice	2,469.7	132.6
Wheat	632.7	25.4
Oil seeds	0.7	0.0
Raw cotton	0.1	0.1
Fruits & vegetables	446.5	0.0
Oil cakes	12.0	124.9
Sugar	368.0	11.2
<i>Industrial products of which</i>		
Coal & coke	27.5	5692.5
Lime & lime stone	149.0	120.2
Mineral oils (exc. kerosene)	238.7	2691.9
Cement	1,219.3	110.0
Fertilizer & organic manure	263.3	178.5
Total	5,827.4	9,087.3



Section VII. Potentials for Bangladesh's Trade with India's North-Eastern States

- Connectivity that facilitates movement of cargo between North-East and rest of India could create opportunities for export of transport services for Bangladesh.
- Total freight movement between North East states and rest of India is currently estimated at 40 million tons.
- Facilitating the movement of about 25% of this cargo by providing connectivity could generate according to some estimate (Murshid, K. 2010) revenue earnings of about \$400.0 million; of which about half would accrue to NBR [cost of cargo movement by rail \$11/ton against \$30/ton and by truck \$50/ton against \$150/ton].
- However, this would require major investments and setting up of the appropriate institutional protocols.



Section VIII. Concluding Remarks: Way Forward

- As the analysis has indicated, abolition of Sensitive list is likely to have only insignificant adverse impact on the Indian economy (0.023% of India's custom duty and 0.004% of total government revenue). On the other hand, just a DF-QF market access is also unlikely to enhance Bangladesh's export in any significant way. Under this circumstances India should be persuaded to provide duty-free market access for all exports originating from Bangladesh on an immediate basis, and Bangladesh will need to put emphasis on export of identified products with export potential.
- As it emerges from our analysis, a comprehensive mechanism will need to be put in place to deal with NTBs. Some of the next steps have been articulated in the preceding sections including the signing of mutual recognition agreement and strengthening of supply-side capacities (BSTI).
- Improvement of trade-related infrastructure at border and customs points are critical to not only increasing Bangladesh's export opportunities, but also bringing down cost of import from India.
- Attracting investment from India, targeting the Indian market, will be critical to realising Bangladesh's export opportunities in India.



Section VIII. Concluding Remarks: Way Forward

- North-Eastern region of India presents a good opportunity for Bangladesh's exports. These opportunities can be best realised if North-East develops economically at a faster pace and Bangladesh facilitates this process through various avenues of deepening cooperation with India.
- As was noted, proposal for a BFTA with India, put forward by India, has been on the table for some time. This is now being examined by Bangladesh. There is a need to take a decision on this by articulating best possible options for Bangladesh, as an LDC partner, with regard to (a) market access and Sensitive List, (b) Rules of Origin, (c) Addressing the NTBs and DSM, (d) investment promotion measures and (e) trade facilitation.
- Providing connectivity and use of port facilities could open up opportunities of export of services by Bangladesh which could significantly enhance Bangladesh's export to India. But this will require appropriate homework. Indeed, given the limited scope of a BFTA, a broad-based, two-track Common Economic Partnership Agreement, that includes trade in goods, services and investment related aspects along with scope for sectoral cooperation, in a phased manner, may be a better option for Bangladesh.



THANK YOU