BANGLADESH'S EXPORT OPPORTUNITIES IN THE INDIAN MARKET: ADDRESSING BARRIERS AND STRATEGIES FOR FUTURE

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The present paper titled **Bangladesh's Export Opportunities in the Indian Market: Addressing Barriers and Strategies for Future** has been prepared under the CPD programme on *Trade Related Research and Policy Development (TRRPD)*. The paper has been prepared by *Professor Mustafizur Rahman*, Executive Director, CPD, *Mr Towfiqul Islam Khan*, Senior Research Associate, CPD, *Mr Ashiqun Nabi*, Research Associate, CPD and *Mr Tapas Kumar Paul*, Research Associate, CPD.

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Acronyms

ADD	Anti-dumping Duty
APTA	Asia-Pacific Trade Agreement
ASEAN	Association of Southeast Asian Nations
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BIS	Bureau of Indian Standards
BOI	Board of Investment
BSTI	Bangladesh Standards and Technical Institution
CVD	Counter Veiling Duty
CGE	Computable General Equilibrium
CoE	Committee of Experts
DF-QF	Duty-free Quota-free
EPB	Export Promotion Bureau
EPZ	Export Processing Zone
EU	European Union
FDI	Foreign Direct Investment
FSC	Free Sale Certificate
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GLS	Generalized Least Square
GSP	Generalized System of Preference
LDC	Least Developed Country
L/C	Letter of Credit
MFN	Most Favoured Nation
MT	Metric Ton
MoU	Memorandum of Understanding
NAA	Norwegian Accreditation Authority
NABL	National Accreditation Board for Testing and Calibration Laboratories
NBR	National Board of Revenue
NTB	Non-tariff Barrier
NTM	Non-tariff Measure
PSI	Pre-shipment Inspection
RCA	Revealed Comparative Advantage
RMG	Readymade Garments
RTA	Regional Trading Agreement
RoO	Rules of Origin
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Area
SAPTA	SAARC Preferential Trading Arrangement
SARSO	South Asian Regional Standard Organization
SATIS	SAARC Agreement on Trade in Services
SPS	Sanitary and Phytosanitary
TBT	Technical Barrier to Trade
TLP	Trade Liberalization Plan
TRQ	Tariff Rate Quota
TTI	Total Tax Incidence
US	United States
USD	United States Dollar
VAT	Value Added Tax
WTO	World Trade Organization

1. INTRODUCTION

India continues to remain one of Bangladesh's major trading partners, accounting for 8.7 per cent of Bangladesh's global trade in FY2008-09, a year when India was Bangladesh's fourth most important trading partner.[1] However, with an import to export ratio of 10.3 to 1 and an increasing bilateral trade deficit, issues of barriers to trade with India and search for avenues to enhance Bangladesh's export opportunities in the growing Indian market, have assumed high significance and prominence in related discourse in Bangladesh in recent times. Underlying factors contributing to India's strong presence in Bangladesh's import market are well known. As Bangladesh started to open up in the early 1990s, India, with its geographical proximity, familiarity with the Bangladesh market, lower transport cost and increasing competitive strength, was able to take advantage of the growing Bangladesh market, accounting for about 12.6 per cent for Bangladesh's total import in FY2008-09.

However, in spite of the fact that India herself also emerged as a significant importer over this same period (India's global import was to the tune of USD 300 billion in FY2008-09), Bangladesh had not been able to match India's performance and her export to India continued to remain low. This consequently resulted in a growing bilateral trade deficit with India. It needs to be recognised in this connection that in a globalised world, bilateral deficit should not be of much concern and what should receive attention is global trade deficit of a country. For developing countries such as Bangladesh large trade deficits with some of the trading partners are to be expected and should not be cause for undue concern as long as the deficits can be financed (Rahman *et al.* 2008). Moreover, as is known, a significant part of the import from India goes as inputs to Bangladesh's export-oriented industries.[2] Imports from India help Bangladeshi enterprises access inputs at lower costs and enable these to remain competitive in domestic and foreign markets; import of consumer goods help stabilise prices of some key essential items in Bangladesh. However, all these does not in anyway undermine or minimise the importance of the need to enhance and realise Bangladesh's own export opportunities in the Indian market.

It is to be recalled in the above connection that Bangladesh has been a member of the SAARC Preferential Trading Arrangement (SAPTA)[3] and the South Asian Free Trade Area

[1]The European Union (EU) taken as one entity was the largest trading partner of Bangladesh in FY2008-09 with trade value of about USD 8.6 billion; EU was followed by the United States (US) with trade value of USD 4.5 billion, and China with trade value of USD 3.5 billion for this particular year.

[2]For example, textiles and fabrics imported from India by Bangladesh, which account for about 22 per cent of total imports from the country, help Bangladesh maintain robust trade surpluses with US and EU through export of readymade garments (RMG) items using those inputs.

[3]The framework agreement on SAPTA was approved in 1993. SAPTA became operational by the end of December 1995, two years ahead of the planned period. Since 1995, four rounds of negotiations were held under SAPTA; tariff concession on nearly 5,500 products was exchanged. However, except for India, product coverage and extent of concessions granted by the member countries to the least developed countries (LDCs) were not significant. India granted 10 to 50 per cent concession to all member countries for 788 products. In addition, 15 to 100 per cent concession was granted for 2,576 products from all LDC members. From Bangladesh's part, 10 to 15 per cent concession was granted to the member countries for 645 items. For LDC members, Bangladesh granted the same extent of concession for 265 items additionally. However, exchange of request and offer lists under the SAPTA, and the resultant schedule of preferences failed to enhance intra-regional trade in SAARC in any significant way (Rahman 2006).

(SAFTA)[4] along with India and other South Asian Association for Regional Cooperation (SAARC) countries. Bangladesh has received preferential market access treatment from India for a large number of items of export under the four rounds of SAPTA negotiations and also as part of Trade Liberalization Plan (TLP) of the SAFTA. Bangladesh and India are also members of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), Free Trade Agreement (FTA)[5], and the Asia-Pacific Trade Agreement (APTA).[6] As an LDC member, Bangladesh has been receiving various derogations and special and differential treatments offered by India under the aforesaid Regional Trading Agreements (RTAs). In recent times, India has also mooted the idea of signing a Bilateral Free Trade Agreement with Bangladesh. In spite of the initiatives under the various RTAs and also bilateral market access initiatives export from Bangladesh to India has tended to remain at low levels reaching USD 276.6 million in FY2008-09 which was a mere 1.8 per cent of Bangladesh's global export.[7]

The above trends notwithstanding, recent dynamics of trade between the two countries does indicate new developments with regard to Bangladesh's export to India. Evidence suggests that Bangladesh's export to India has been on the rise in the recent past. A number of initiatives have been put in place to stimulate Bangladesh's export to India, both as part of measures in the RTAs and also thanks to unilateral initiatives by India. However, a host of factors including the remaining tariff barriers, various para-tariffs in place, Non-tariff barriers (NTBs) of various types, restricted market access on account of the sensitive list continue to inhibit the realisation of the full potential in this context. These constraining factors have come under renewed scrutiny also following the high-level bilateral talks held recently between Bangladesh and India.[8]

In view of above, the present article attempts to address the following issues relating to stimulating Bangladesh's exports to India.

Following the Introduction, Section 2 presents a review of relevant literature on Bangladesh-India trading relations, and articulates the methodology followed in the present study; Section 3 deals with an analysis of recent trends in Bangladesh exports to India and the dynamics of change in composition of the exports; Section 4 presents an analysis of Bangladesh's export potential in the Indian market on the basis of estimates of Revealed Comparative Advantages (RCAs); Section 5 deals with tariff barriers currently faced by

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[4]At the 12th SAARC Summit in Islamabad, SAFTA was signed and entered into force on 1 July 2006.
[5]The BIMSTEC Agreement, founded by Bangladesh, India, Myanmar, Sri Lanka and Thailand, and later joined by Nepal and Bhutan, was signed in 2004.
[6]The Bangkok Agreement, the first RTA in the Asia-Pacific region, was signed in 1975 by Bangladesh, India, Lao-PDR, Republic of Korea and Sri Lanka. Later, in 2001, beside these founder members, China joined in. In November 2005, in a meeting held in Beijing, the Bangkok Agreement was renamed as the Asia-Pacific Trade Agreement (APTA).
[7]At the same point, India's export to Bangladesh as a share of India's global export declined to 1.5 per cent and India's import from Bangladesh as a share of her global import remained about the same at only 0.1 per cent.
[8]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 10-13 January 2010. The joint communiqué emerging from this visit mentions about deepening bilateral economic cooperation between the two countries in several areas including reduction of India's sensitive list, addressing NTBs, strengthening capacity to address standards requirement, allowing use of Chittagong and Mongla Ports by India, and offer by India of a USD 1.0 billion credit line to build the required infrastructure towards better connectivity.

Bangladesh in the Indian market and presents a strategy for reducing India's sensitive list to Bangladesh's advantage; Section 6 focuses on the issue of NTBs and the modalities to address these; Section 7 concludes.

2. LITERATURE REVIEW AND METHODOLOGY

2.1 Literature Review

As it would appear, a significant part of the literature on the state of bilateral and regional economic and trade cooperation in South Asia deals with factors contributing to weak state of integration in the region. According to Sawhney and Kumar (2008), the underlying reasons originate from a combination of political, economic and institutional factors. A large segment of relevant literature deals with identifying opportunities that could emerge from closer cooperation among countries in the region. Three strands of discourse are commonly discernible in this context: *firstly*, identification of challenges and opportunities of cooperation through regional and bilateral trade and other agreements with participation of SAARC member countries; *secondly*, quantitative assessments of economic gains, welfare losses which could potentially originate from such cooperation; and *thirdly*, evidence-based assessments of trade potentialities at sectoral levels.

Along with analysis at the regional level, some part of the literature has explored the relevant issues at the bilateral level. A number of studies have attempted to assess whether a bilateral route is more preferable to a regional one in advancing the level of trade and economic cooperation in the context of South Asia.

In recent times, increasing attention is being given to the state of bilateral economic cooperation between Bangladesh and India. One nagging limitation in this connection has been the lack of adequate data on informal trade which has tended to constrain the scope of analysis pertaining to bilateral and regional trade in South Asia.[9] Only a few studies have attempted to capture this important aspect of trade in the region (Bakht 1996; World Bank 2006).

In a feasibility study on the prospects of bilateral FTA between Bangladesh and India, Bhuyan and Ray (2006) conclude that such agreement between the two countries would bring about substantial benefits to both partners. In contrast to the multilateral arrangements, bilateral FTAs could be fast-tracked and would offer additional preferential treatment to the partner countries. Based on a review of bilateral FTAs, they conclude that this mode of trading arrangement has shown a better record of success in expanding trade between countries, and stimulates investment compared to regional or sub-regional integration schemes. De and Bhattacharyay (2007) argue that a bilateral FTA with India would enable Bangladesh to strengthen her foothold in the Indian market. In view of the NTBs that severely limit the opportunities of bilateral trade between these countries, the study suggests that an FTA with India would be the best way to address the issue of NTBs. Some of the other studies have put more emphasis on the regional route. Among those, Sawhney and Kumar (2008) hold that implementation of the regional free trade

[9]India shares 4,096 km border with Bangladesh; of which 2,979 km is the land border, and 1,116 km over rivers.

agreement (e.g. SAFTA) would result in positive outcomes for all member countries. The authors also conclude that regional cooperation through FTAs such as SAFTA could lead to higher volume of trade in goods and services through allocative efficiency and enhanced production capacity.

Rahman (2001) identifies a number of issues which would need urgent attention if Bangladesh-India bilateral economic relation is to gain momentum including multilateralism versus bilateralism, sectoral versus comprehensive approach, duty-free market access, rules of origin (RoO), removal of NTBs and the need for policy coordination to stimulate investment. A number of studies have argued in favour of taking a holistic approach embracing cooperation in areas of trade, investment, transport and infrastructure in order to realise the potential opportunities of bilateral economic cooperation involving SAARC member countries (CPD 2004).

However, in articulating a contrasting view, Baysan *et al.* (2006) argue that the SAFTA makes sense only in the context of a much broader strategy of creating a larger preferential trade area in the region that would need to encompass China and also members of the Association of Southeast Asian Nations (ASEAN). Assuming that the SAFTA agreement was there to stay, the authors recommend a number of steps towards promotion of intra-regional trade in a manner that minimises likely trade diversion costs and maximises potential benefits. In this context, some studies have highlighted the positive impact in terms of growth and poverty reduction through regional cooperation by citing other RTAs such as South East Asian and European regional entities (Sawhney and Kumar 2008).

In recent times, a number of studies have tried to quantify the potential benefits arising from cooperation among SAARC countries, both at regional and bilateral levels. A number of studies have tried to estimate the degree of market access under the preferential treatment. Mukherji (2000) estimates that the annual value of all imports that entered the SAARC member countries under SAPTA preferences amounted to approximately USD 480 million at the end of the 1990s. According to his estimates, the share of intra-regional imports covered by the SAPTA preferences was the highest for Pakistan (39.6 per cent), followed by Nepal (35.2 per cent), India (30 per cent), Bhutan (17 per cent) and Sri Lanka (12 per cent). In contrast the import value coverage of Bangladesh and Maldives was relatively low. Based on import data for FY1997-98, highest revenue loss was sustained by India (USD 2.45 million), whereas that of Bangladesh was relatively modest (USD 0.02 million).[10]

In a more recent study undertaken to evaluate the performance of SAPTA that also explored the prospects of the then proposed SAFTA, Hirantha (2004) applied the well-known gravity model to estimate potential benefits of an FTA in South Asia.[11] The study finds that there will be substantial trade creation in the region under SAPTA with no significant trade diversion impact. The estimated results for 2002 showed that bilateral trade between any two pairs of SAARC member countries would be about 10.5 times higher under the SAPTA compared to two otherwise similar countries in absence of an

[10]India's revenue loss was primarily on account of trade with Bangladesh.

[11]Both panel and cross-sectional data for 1996-2002 was used to estimate trade creation and trade diversion effects under the existing arrangement.

RTA. Moreover, according to estimated coefficients, not only would intra-regional trade be enhanced, but this would also lead to increased bilateral trade with non-members. This result contradicted earlier study of (Hassan 2001) which indicated that lowering of trade among SAARC countries would not result in substantial benefits and would lead result in reduced trade with non-members.[12] Rahman *et al.* (2006) supported the earlier findings of Hirantha (2004) and argued that there would be significant intra-bloc export creation as a result of SAPTA; though there would be net export diversion.[13] However, results of this study showed that Bangladesh, India and Pakistan were expected to gain by joining the RTA, while Nepal, Maldives and Sri Lanka would be negatively affected.

Given the fact of Bangladesh's export opportunities in India, a number of studies have tried to identify potential market opportunities for Bangladeshi sectors/products particularly in the Indian market. Based on analysis of secondary data and stakeholders' perception, Bhuyan and Ray (2006) identify a set of potential exportable products from Bangladesh that could enjoy export potential in the Indian market. These were fish products (including shrimp), leather goods, cement, light engineering items, jute products, pharmaceutical products, ceramic products and processed agro-products. The authors recommended that an FTA with India would enable Bangladeshi producers and exporters to have access to the much needed raw materials and semi-finished products at competitive price. In yet another study, applying a computable general equilibrium (CGE) framework, Siriwardana and Yang (2007) estimate that a number of Bangladeshi items, including beverages and tobacco, fabricated metal products, textile and leather, petroleum and other minerals, food manufactures, and vegetables and fruits sector, will gain substantially in the Indian market both in the short-run as well as long-run, if import duties are abolished by India.

In a recent study, the World Bank (2006), however, finds that the prospect for trade between Bangladesh and India, through a bilateral FTA, to be rather limited. Analysis undertaken for a number of items including cement, light bulbs, bicycle rickshaw tyres and sugar indicate that if a bilateral FTA is signed with India it will be India which would be able to expand her exports to Bangladesh; Bangladesh's export potential in the Indian market is rather limited. The study points out the reasons being (a) faster productivity growth in India bolstering India's comparative advantage in competing goods, and/or (b) tariff and NTBs constraining Bangladesh's major exports (RMG) as well as minor exports which have experienced rapid growth in other markets. The study argues that in a situation where an Indian supplier gets advantage of captive protected market under the bilateral FTA with Bangladesh, there was likelihood of collusion amongst Indian producers or between them and Bangladeshi importers which would reduce some of the welfare gains. According to this

[12]The study has used the 1997 annual trade data for 27 countries and has run GLS (Generalized Least Square) regression adjusted for heteroskedasticity and autocorrelation.

[13]The study used the augmented gravity model to identify trade creation and trade diversion effects originating from SAPTA. The gravity models basically try to explain bilateral trade flows with a set of explanatory variables that try to predict the impact of the arrangement on bilateral trade flows. In a typical manner, the exercise involves estimating a bilateral trade flow equation with bilateral trade (imports, exports or total trade at the aggregate or sector level) as the dependent variable and country characteristics such as the gross domestic product (GDP), population, land area, distance, the commonality of language or cultural ties and the existence of preferential trade arrangements as independent variables. Once estimated, the equation can then be used to predict the impact of a union between country pairs that did not have such a union during the sample period.

study, Bangladesh's interests would be better served through multilateral liberalisation. In a similar vein, Bandara and Yu (2003) also conclude that SAFTA would lead to a marginal 0.21 per cent gain in real income for India, 0.03 per cent gain for Sri Lanka, 0.10 per cent loss for Bangladesh, while the rest of South Asia would gain 0.08 per cent in terms of real income.

More recently, Raihan (2008) used the WITS/SMART model and carried out simulation exercise in view of various scenarios under the SAFTA accord (removal of intra-regional tariff for all countries). The study makes an attempt to quantify export potentials of Bangladesh in the Indian market. The modeling exercise identifies export items of Bangladesh at disaggregated HS 6 digit level which were likely to expand in the Indian market under the SAFTA. The study finds that under the SAFTA Bangladesh's exports to Indian market would rise by only about USD 78 million. Top 30 products (at the 6 digit HS code), together, account for 83 per cent of the increase in Bangladesh's export earnings (USD 64.9 million).

A review of literature indicates that the majority of studies have tended to focus on tariff barriers and the impact of removal of duties on regional and bilateral trade. However, the presence of large number of NTBs was also recognised as a major constraint in these and other studies. Rahman (2010) identifies salient features of the NTBs prevailing in South Asian trade, and examined cross-country experiences in addressing the NTBs. The study also documented how the NTBs are being addressed within the SAFTA architecture. Particularly, an in-depth look at NTB-related issues has become even more necessary in view of the recent debates, and the modalities that are being put in place to address those.

An important recent study by Razzaque (2010), which combines qualitative analysis with three different types of quantitative analyses (gravity model, CGE model and GTAP) argues that the weaker economies in the SAARC region are expected to lose significantly from the SAFTA agreement, at least in its current form. The study shows that the losses for the weaker economies, particularly for Bangladesh and Nepal, arise from increased imports from regional partners, nominal increase in exports within the region and loss of tariff revenue. Results of estimation carried out in this study based on WITS/SMART simulation, are similar to that of Bandra and Yu (2003), and shows that SAFTA will lead to an increase in Bangladesh imports from the region of about USD 400 million compared to rise in regional exports of only about USD 33 million. Results of the study also show that only India stands to experience regional export gains that would be higher than imports from regional sources. The gravity simulation results suggest that SAFTA would influence regional trade flows mainly by increasing India's exports, and Bangladesh and Nepal's imports. For every USD 100 worth of new export trade almost USD 78 would accrue to India, whereas share of Bangladesh, Maldives and Bhutan would be insignificant. The authors recommend that LDC members of the SAFTA should continue with their respective policy reforms, and will need to address supply-side bottlenecks in order to benefit from the increasingly larger regional market.

In another study, Raihan and Razzaque (2007) ran two different simulations using the GTAP model and database. In the first scenario, the authors depict a case in which all member countries eliminate their intra-regional tariffs but retain their respective tariffs with the rest of the world intact. In the second scenario, in addition to SAFTA tariff cuts, the authors let Bangladesh slash its tariffs against the rest of the world by 50 per cent. Comparisons of the various scenarios give an opportunity to examine trade diversion effects when determining the overall welfare effects for Bangladesh. The results show that full tariff liberalisation under SAFTA alone would lead to a net welfare loss of USD 184 million for Bangladesh. India, Sri Lanka, and the rest of South Asia in this scenario register welfare gains, as trade creation effects dominate trade diversion effects. However, when Bangladesh undertakes MFN (most favoured nation) tariff cuts by 50 per cent along with the full tariff liberalisation for SAFTA members, it stands to gain by USD 84.1 million. In the latter exercise, the positive welfare gains of other countries were maintained.

ADB and UNCTAD (2008) finds that the welfare gains, based on CGE analysis, for Bangladesh are likely to be one of the highest. According to the study, export gains for Bangladesh in SAFTA market under the phase-I of liberalisation (2008-09) would be significant (38.08 per cent to South Asia), but not as high as the peak export growth to SAFTA seen by other countries. The study further contends that Bangladesh will be able to increase her global exports by about 4.3 per cent by 2016 on account of SAFTA.

A number of authors have highlighted the importance of better regional connectivity to foster and promote intra-regional trade and deepen economic cooperation among the regional countries. Rahmatullah (2010) points out in this connection that due to lack of integration of the transport system in South Asia, logistics costs are very high and ranges between 13-14 per cent of GDP, compared to 8 per cent in the US.

Whilst many studies have focused on aggregate level gains and losses originating from regional cooperation among SAARC countries, those focusing on identifying potential opportunities of bilateral trade between Bangladesh and India, at a disaggregated level, as was pointed out above are few. Additionally, in view of the rapid changes in the structure of bilateral trade in recent times, a closer look at the relevant issues has become even more urgent. Since the sensitive lists have emerged as a major area of concern, an in-depth look at the Indian sensitive list, from the Bangladesh perspective, is also called for in order to identify the fall opportunities of market access by Bangladesh in the Indian market.

The issue of signing bilateral FTA as a more comprehensive and speedier tool of enhancing trade among SAARC countries has been highlighted by a number of authors. de Mel (2010) points out in this connection that negative lists of India, Pakistan and Sri Lanka are substantially larger than those in the respective bilateral trade agreements. Echoing this, Weerakoon (2010) observes that SAFTA has already been overtaken by bilateral process in many instances, and would appear to be in danger of being further upstaged by bilateral and other regional initiatives.

A review of literature thus, in general indicates that under the existing scenarios the potential benefits originating from regional trade cooperation among the SAARC countries would not be substantial. Bangladesh's gains also appear to be inconsequential. The idea of bilateral FTA has been examined by some, but here also the positive impact in terms of additional trade flows is rather limit. However, one common limitation of most of these studies had been that these are based on static analysis. One way of addressing this is to examine and analyse the data with regard to the dynamics of trade, its composition and putting under scrutiny factors contributing to and factors constraining the trade flows. This particular study has thus made an attempt to examine Bangladesh-India bilateral trade from this particular perspective.

2.2 Methodology

The present study focuses on issues of bilateral cooperation in trade between Bangladesh and India, with the thrust being on identifying Bangladesh's export opportunities in the Indian market. The study is based on secondary data and information, and various related documents. The paper makes use of trade data generated by government agencies such as Export Promotion Bureau (EPB) of Bangladesh, National Board of Revenue (NBR) of Bangladesh, Tariff Commission of Bangladesh, Ministries of Finance and Commerce of India and Directorate General of Commercial Intelligence and Statistics, India; international trade statistics database such as UN COMTRADE has also been need for the purpose of analysis. The study also reviews a number of government documents of both Bangladesh and India, and various relevant trade-related agreements signed between the two countries to assess their efficacy in terms of addressing the issue of enhancing Bangladesh's export opportunities in the Indian market. Statistical tools were used in the study to arrive at quantitative measures relating to some variables. The paper analyses most recent data on exports from Bangladesh to India, and based on disaggregated product-level analysis attempts to identify Bangladesh's export potential in the Indian market; RCAs were estimated to measure the range of such opportunities. The study has proposed a modality to prune the sensitive list of India with a view to maximising Bangladesh's gains. NTBs being a major constraint to accessing the Indian market, the study has given particular attention to the issue of addressing the NTBs in place in both Bangladesh and India.

3. BANGLADESH'S EXPORT TO INDIA: SOME STYLISED FACTS AND DYNAMICS OF COMPOSITIONAL CHANGES

3.1 Trends of Export from Bangladesh

It is a matter of record that over the recent past Bangladesh has witnessed a widening of trade deficit with India which increased from USD 1.5 billion in FY2003-04, to USD 3.0 billion in FY2007-08, and USD 2.6 billion in FY2008-09[14] (Table 1). This bilateral trade deficit of about USD 3.0 billion would rise significantly if the deficit in the informal trade is also factored into the picture. In the mid-1990s Bangladesh's informal trade with India was estimated to be about 1.4 times more than that of formal trade (Bakht 1996). With significant reduction in rates of MFN tariffs and formalisation of some of the illegal trade (e.g. cattle) in recent years, the size of the informal trade is perceived to have come down, but is still reckoned to be equivalent to about three-fourths of the formal trade (World Bank 2006).

[14]However, on a related note, over the same period Bangladesh's bilateral trade deficit with China has increased at a faster pace, and indeed has surpassed that with India. Bangladesh's trade deficit with China increased to USD 3.3 billion in FY2008-09.

Table 1: Bangladesh's Trade Balance with India

(in Billion USD)

Period	Export	Import	Trade Balance
FY2003-04	0.09	1.60	-1.51
FY2004-05	0.14	2.01	-1.86
FY2005-06	0.24	1.85	-1.61
FY2006-07	0.29	2.23	-1.94
FY2007-08	0.36	3.38	-3.03
FY2008-09	0.28	2.84	-2.56

Source: Export Promotion Bureau (EPB) and Bangladesh Bank (various years).

It is important to examine in the above context the dynamics of change that is taking place in the formal trade between Bangladesh and India over the recent past. It is of interest to note here that Bangladesh's export to India, through formal trade, experienced a four-fold increase within the span of the last five years, whilst Bangladesh's global export had only doubled over the comparable period. Indeed, between FY2003-04 and FY2007-08, export to India rose from USD 89.3 million to USD 358.1 million. The export figure, however, dropped to USD 276.6 million in FY2008-09, to a large extent, due to the global financial crisis when Indian imports posted significant decline. Although the significance of such high growth rates should be seen from the perspective of the low-base of exports from Bangladesh to start with, this is no doubt indicative of the potential opportunities to expand Bangladesh's exports to an increasingly expanding Indian market.

3.2 Dynamics of Compositional Change

It is a matter of record that policy of trade liberalisation pursued by South Asian countries in the 1990s had led to significant opening of markets of these countries, to varying degrees. However, it was primarily India, which was able to take advantage of the market opening in the region. In case of Bangladesh, high concentration of export basket both in terms of products (apparels) and markets (North America and the EU) explains, to a large extent, the low share of her regional export in total global export earnings. This also reflects the structural rigidities in the smaller South Asian economies such as Bangladesh which have relatively low capacity in terms of export diversification and ability for entry into the Indian market (Sobhan 2006). Till FY2003-04, more than 90 per cent of Bangladesh's exports to India were comprised of a few traditional items such as chemical fertiliser, raw jute and jute manufactures, frozen fish, RMG etc. (Table 2). In recent years, however, there has been important compositional change in the structure of exports to India, with the share of traditional commodities in total export to India coming down significantly (68.8 per cent in FY2008-09 from 90.5 per cent in FY2003-04), whilst that of non-traditional items posting impressive rise (31.2 per cent in FY2008-09 compared to 9.5 per cent in FY2003-04).[15]

The new Bangladeshi products which were being exported to the Indian market in recent times include textile fabrics, plastic goods, cement, furnace oil, battery, cut flower, pharmaceutical products, copper wire, melamine, etc. (Table 3). Increased export flow to India indicates some export diversification taking place with regard to trade with India. It is, thus, important that a renewed effort needs to be undertaken from the Bangladesh side to support this trend by pursuing appropriate trade and investment policies.

[15] However, it is to be noted that in value terms both indicators have registered a rise.

Table 2: Bangladesh's Export Share of Traditional and Non-traditional Commodities to India

(in Per cent)

Commodity Groups	FY2003-04	FY2007-08	FY2008-09
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 and twine	1.2	3.0	4.6
Others (Non-traditional)	*9.5*	*39.6*	*31.2*
Total	100.0 (89.3)	100.0 (358.1)	100.0 (276.6)

Source: Authors' calculation based on the Export Promotion Bureau (EPB) data for various years.
Note: Figures in parentheses are amounts in million USD.

Table 3: Bangladesh's Export Share of New Commodities to India

(in Per cent)

Commodity Groups	FY2003-04	FY2007-08	FY2008-09
Traditional	90.5	60.4	68.8
Non-traditional	9.5	39.6	31.2
of which			
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 and 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 (89.3)	100.0 (358.1)	100.0 (276.6)

Source: Authors' calculation based on the Export Promotion Bureau (EPB) data for various years.
Note: Figures in parentheses are amounts in million USD.

As is evidenced from Table 4, between FY2003-04 to FY2008-09, share of top five traditional products in Bangladesh's export to India (in FY2003-04) has declined quite sharply, from 75.9 per cent to 46.2 per cent. Over the same period the number of exportable products in the export basket had gone up significantly. Among the 162 product categories in Bangladesh's global export (according to EPB classification) 100 categories were being exported to India in FY2008-09 compared to 86 categories exported in FY2003-04.

Table 4: Diversification of Bangladesh's Export in Indian Market

Period	Share of Product Category (%)		Number of Products Exported (Out of 162 EPB Categories)
	Top 10 in FY2007-08	Top 5 Traditional in FY2003-04	
FY2003-04	78.8	75.9	86
FY2005-06	70.3	58.8	102
FY2007-08	71.8	47.7	94
FY2008-09	60.4	46.2	100

Source: Authors' calculation based on the Export Promotion Bureau (EPB) data.

Increasing diversity of Bangladesh's export is particularly evident in terms of disaggregated 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 to that of 2004 (Table 5). This would mean that within the broad product groups in Bangladesh's export basket, some degree of differentiation has indeed been taking place. However, it is important to analyse which of the export items enjoy comparative advantage in the Indian market.

Table 5: Diversity of Bangladesh's Export to India in terms of Number of Tariff Lines and Export Value

Indicators	No. of Tariff Lines (HS 6 Digit Level)		Value (Million USD)	
	2004	2008	2004	2008
Bangladesh's export to India	219	409	58.80	329.80
RMG (HS 61 + 62)	17 (1+16)	52 (16+36)	0.82 (0.01+0.81)	4.09 (1.12+2.98)
Bangladesh's global export	1151	1732	8267.50	15356.20
RMG (HS 61 + 62)	230 (113+117)	219 (103+116)	6231.30 (3007.00+3224.30)	12440.70 (6,721.5+5719.30)
India's global import	4752	4701	108248.00	315712.00
RMG (HS 61 + 62)	211 (102+109)	217 (106+111)	31.89 (10.33+21.56)	137.70 (50.30 +87.41)

Source: Authors' calculation based on the UN COMTRADE data.

4. BANGLADESH'S EXPORT POTENTIAL IN THE INDIAN MARKET

4.1 Commodity-based Analysis

Market dynamics and growth performance are good indicators to assess the export potentiality of a country in a particular market. The RCA estimates are often used to gauge this potential. RCA estimates have been widely used in the relevant literature in an attempt to understand competitive strength of particular items in an importing market.[16] To ascertain Bangladesh's competitive edge in the Indian market an exercise was undertaken to compute the RCAs of a select set of exportables to the Indian market.

To compute RCAs, export data at HS 6 digit level were accessed from the UN COMTRADE database for the year 2008. HS 6 digit level classifications were matched and clustered with the classification used by the EPB for 162 product groups that are exported to India. Finally, RCAs were estimated both for a select group of broad product groups that are export from Bangladesh and also for items of export at disaggregated level.[17]

As would be expected, in terms of the value of RCA index, raw jute ranks at the top in the Indian market. As is seen from Table 6, other important items with RCA>1 include chemical fertiliser, cement, RMG, leather, battery, textile fabrics, etc.[18]

It is to be noted here that India is a significant importer of many of the items listed in Table 6, from countries other than Bangladesh. Bangladesh's share of these items in the total Indian import is rather small, barring a few items such as raw jute, cane sugar, coriander seed, frozen fish and a few other items. If Bangladeshi items with RCA>1 in India is considered, it is seen that India made about USD 1.4 billion worth of imports of these items in 2008 excluding chemical fertiliser and furnace oil (Table 7). Items with RCA index less than unity (indicating absence of comparative advantage) was found for such Bangladeshi items of export as pharmaceuticals, plastic goods and home textiles. However, within these three product groups, considering items at the HS 6 digit level, three items from pharmaceuticals, 11 items from plastic goods, and one item from home textiles were found to enjoy RCA>1 in the Indian market.

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[16]As is known, Balassa (1977) was among the first to develop the concept which was applied to analyse the pattern of comparative advantage of industrial countries for the period between 1953 to 1971. The index came to be known as *Balassa index*.

[17]The following formula was used to obtain RCA index:

$$RCA = \frac{\text{(Bangladesh's export of commodity j to India) / (India's import of commodity j from world)}}{\text{(Bangladesh's total export to India) / (India's total import from world)}}$$

A comparative advantage is "revealed" if RCA>1, in which case the origin country (Bangladesh) has a revealed comparative advantage to export that particular product in the destination country (India).

[18]It may be noted here that these product groups are similar to the one identified by Bhuyan and Ray (2006), but do not match with that of Siriwardana and Yang (2007).

Table 6: RCA and Share of Bangladesh's Export in India's Global Import: 2008 (Based on Products at 6 Digit Level)

Commodity Groups	RCA	Bangladesh's Export as a Share of India's Import
Raw jute	954.08	99.66
Cane sugar	654.04	68.32
Coriander seed	254.00	26.53
Frozen fish	186.77	19.51
Betel nuts	170.43	17.80
Soap toilet	164.52	17.19
Cement	118.98	12.43
Glass sheet	59.19	6.18
Jute yarn and twine	38.98	4.07
RMG	28.38	2.96
Chemical fertiliser	18.63	1.95
Leather	18.30	1.91
Zinc waste	7.09	0.74
Accumulator battery and parts	5.34	0.56
Textile fabrics	3.13	0.33
Furnace oil	1.82	0.19
Plastic goods	0.76	0.08
Home textiles	0.30	0.03
Pharmaceuticals	0.27	0.03

Source: Authors' estimation based on the UN COMTRADE data.

Table 7: India's Import Market of Bangladeshi Export Items in 2008

(in Million USD)

Commodity Groups	Bangladesh's Export to India	India Global Import	Import of India from Non-Bangladesh Sources
Accumulator battery and 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 and 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: Authors' estimation based on the UN COMTRADE data.

If pharmaceuticals, plastic goods and home textiles are also included (only those items which have RCA value of greater than one within these three broad product groups), the import market in India was worth about USD 2.0 billion in 2008. There is thus an opportunity to target these items for greater access to the Indian market. However, Bangladesh's ability to realise the potential expansion will depend on a number of critical determinants – (a) supply side capacity in Bangladesh; (b) elasticity of demand for the particular items in India; (c) further reduction of tariff; (d) non-tariff barriers; (e) micro (enterprise) level efficiency and productivity; and (f) quality of the product. It needs to be conceded that Bangladesh will perhaps not be able to tap the market potential worth USD 2.0 billion for these items in India. However, it is possible that Bangladesh should be able to target a significant part of this market as is also evidenced by the recent dynamics of export to India.

From a dynamic perspective, exports could increase at a much faster pace if supportive measures are put in place to target items with export potentials in the Indian market. It may be noted here that between 1990 and 2003 Indian export to Bangladesh rose by 9.3 times, whilst Bangladesh's export to India rose by about 2.7 times. In contrast, between FY2003-04 and FY2008-09 trends actually reversed in Bangladesh's favour: the rise in exports was by 1.8 times and 3.1 times respectively. Thus, backed by appropriate policy support, there is a strong case for growth of export from Bangladesh to India to be further accelerated in the near-term future.

Opportunities to Expand Bangladesh's Trade with India's North Eastern States

The fact of disadvantaged location of the North Eastern states of India[19] from the perspective of trade with rest of India is well known. Bangladesh's geographical location and proximity make her a natural trading partner for the North Eastern states. These landlocked states are connected to the rest of India by a narrow strip of 20 km wide land corridor with Nepal and Bangladesh being on either side of the corridor.[20] It is generally felt that since the region is isolated from the mainland India and thus involves high transportation cost when trading with rest of India, Bangladesh has a natural advantage as her trading partner of the North East. Some often go as far as saying that the North East is a captive market[21] of Bangladeshi products. Often the argument is put forward that if Bangladesh provides connectivity to India, this "captive market" would be lost.

However, it needs to be taken into cognisance that the North East India is a relatively poor region even by All India standards. Only 3.8 per cent people of India reside in the region and the North East's GDP contributes only about 2.7 per cent to India's total domestic product. Within the North East there is a wide variation in terms of value of net domestic production. Assam alone accounts for 65 per cent of the entire net domestic product of the region, followed by Tripura (10.6 per cent) and Meghalaya (7.3 per cent). Per capita net domestic

[19]North East India comprises of seven states commonly known as the "Seven Sisters." These are Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland and Tripura.

[20]The corridor is popularly known as the *Siliguri Corridor* or *Chicken Neck.*

[21]Captive markets are markets where consumers face only a limited number of competitive suppliers; their only choice is to purchase what is available or to make no purchase at all.

product in the seven North Eastern states was only USD 552 in FY2007-08[22] (Table 8), which was about half of that of rest of India (USD 995).

Table 8: Per Capita Net Domestic Product of North Eastern States in India

(in USD)*

State/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
North Eastern States	489.4	494.6	551.5
Rest of India	690.1	771.4	994.9
All India	682.6	750.1	950.6

Source: Authors' estimation based on Ministry of Finance, India (2010).
Note: *At current price.
na refers data is not available.

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. Bangladesh's trade with the North East was only USD 34.2 million of export and USD 73.6 million of import in FY2008-09 (Table 9).[23] As data indicate, there has indeed been some rise in export to North East from Bangladesh in recent years. Share of export to the North Eastern states was about 12.4 per cent of Bangladesh's total export to India in FY2008-09. Major items of export from Bangladesh to North East included RMG, cement, pharmaceuticals, ceramic tiles, hosiery, etc. Many of these are small-scale non-traditional items exported by small and medium enterprise (SME) exporters.

Table 9: Bangladesh's Trade with North East India

(in Million USD)

Year	Export	Import	Major Import Items	Major Export Items
FY2004-05	4.9	50.1	Rice, coal, agarbati, bamboo, natural rubber, limestone, marble slab, fruit, ginger, spices, motorcycle parts, spares of tractor, sanitary ware, fabric, 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		

Source: Authors' estimation based on National Board of Revenue (NBR) customs point data.
Note: 17 land custom stations with North East India were considered.

Although the North Eastern states of India are rich in mineral resources, the region has a low level of industrial development because of lack of market access and inhospitable investment environment (Sobhan 2000). The North East supplies tea, petroleum products, limestone, mineral resources, gas, coal, wood and timber to other states of India, whilst receiving manufactured consumer goods and foodgrains. The Indian inter-state trade profile

[22]The fiscal year in India runs from 1 April to 31 March.
[23]In FY2004-05 this was USD 4.9 million and USD 50.1 million respectively.

of the North East indicates that the region, for a select set of commodities (as shown in Table 10), had an incoming traffic of 5.8 million tonnes and outgoing traffic of 9.1 million tonnes. The figures for agricultural products were 3.9 million metric tonnes (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). Total freight movement between North East states and rest of India is currently estimated at 40 million tonnes.

Table 10: Inward and Outward Movement of Merchandise in North Eastern States and Rest of the States in India through Rail and River for 12 Months (Ending March 2008)

('000 MT)

Commodity Group (Selected)	North Eastern States	
	Inward	Outward
Agricultural products of which		
Rice	2469.7	132.6
Wheat	632.7	25.4
Oil seeds	0.7	0.0
Raw cotton	0.1	0.1
Fruits and vegetables	446.5	0.0
Oil cakes	12.0	124.9
Sugar	368.0	11.2
Industrial products of which		
Coal and coke	27.5	5692.5
Lime and limestone	149.0	120.2
Mineral oils (excluding kerosene)	238.7	2691.9
Cement	1219.3	110.0
Fertiliser and organic manure	263.3	178.5
Total	5827.4	9087.3

Source: Authors' estimation based on Directorate General of Commercial Intelligence and Statistics, Government of India (2009).

Given the location of the North East, connectivity provided by Bangladesh to facilitate movement of cargo between the North Eastern part and rest of India could create opportunities for export of transport services for Bangladesh. According to some estimate (Murshid 2010), if even 25 per cent of the cargo movement between North East and rest of India is allowed to pass through Bangladesh, this could generate revenue earnings of about USD 400.0 million. Half of this would accrue to the NBR (cost of cargo movement by rail would be USD 11/ton against the current USD 30/ton, and by truck USD 50/ton against USD 150/ton). However, this would require major investments in infrastructure and would require setting up of appropriate institutional protocols to facilitate movement of cargo. Exports to India could thus be substantively increased if trade with the North East region is facilitated through greater connectivity. As of now, because of the low purchasing power of the North East the opportunity for higher exports to the region has tended to remain severely limited. If greater connectivity through Bangladesh creates opportunity for faster development of the North East, Bangladesh is likely to gain from the consequent higher purchasing power of its people. In all likelihood, a developed North East will also be in a position to import more from Bangladesh. The "captive market" hypothesis will indeed be proved correct when North East's purchasing power rises, and thanks to its geographical location, Bangladesh is able to take advantage of its growing market. Thus, realisation of

Bangladesh's export opportunities in the Indian market will also critically hinge on the prospects of a more comprehensive economic partnership with India.

Foreign Direct Investment (FDI): A Key Contributing Factor

A key factor in tapping the potential opportunities for Bangladeshi products in the Indian market would be Bangladesh's ability to attract Indian foreign direct investment (FDI) that is targeted to the growing Indian market. Bangladesh could serve as a destination for Indian investment in sectors identified in the study and also other items with export potential. Sobhan (2000) had argued that Bangladesh could emerge as a regional production hub, thanks to such investment. However, as is known, FDI flow to Bangladesh has been rather low and FDI inflow from India has not been an exception, contributing only about 1 per cent of the total FDI inflow to Bangladesh in 2008 (Table 11).[24]

Table 11: FDI Inflow to Bangladesh: 2002-2008

(in Million USD)

Year	Total FDI	India	Share of India (%)
2002	328.3	4.3	1.3
2003	350.3	3.6	1.0
2004	460.4	6.8	1.5
2005	845.3	2.7	0.3
2006	792.5	6.1	0.8
2007	666.4	1.7	0.3
2008	1086.3	11.3	1.0

Source: Authors' compilation based on Bangladesh Bank data.

As Board of Investment (BOI) data indicates, registration of FDI proposals by Indian investors in recent times has also tended to be abysmally low. Improvement of overall investment environment in Bangladesh, including availability of power and adequate infrastructure and trade facilitation, will be crucial in realising opportunities of intra-regional investment in Bangladesh. Establishment of private export processing zones (EPZs), guaranteed buy-back arrangements and special incentives for Indian investors may need to be considered to stimulate Indian FDI-induced exports to the Indian market from Bangladesh.

5. AN EXAMINATION OF INDIAN SENSITIVE LIST UNDER SAFTA AND MFN TARIFF BARRIERS

SAPTA is often considered as the first significant step towards economic cooperation between India and Bangladesh, under the regional umbrella. SAPTA, as is known, envisaged a *Positive List* approach. However, as this approach was found to be both time-consuming and cumbersome (Rahman 2006), subsequently SAARC countries moved to a *Negative* (sensitive) *List* approach when the FTA was negotiated. Indeed, three lists were negotiated: the *Negative List*, the *Positive List* and the *Residual List*. As per SAFTA Trade Liberalization Plan (SAFTA-TLP), duties on items outside the sensitive list were to be reduced to 0 to 5 per cent at the very outset (positive list); some of the other items would be reduced gradually to 0 to 5 per cent over 7 years for non-LDCs and over 10 years for LDCs (residual list); items in the sensitive list of a country would be outside the ambit of tariff reduction and would need

[24]FDI from India has been concentrated mainly in banking and textile sectors.

to enter that country by paying MFN duties at the customs points.[25] According to the SAFTA accord, the sensitive list of a member country is to be reviewed every three years. India's initial sensitive list of 763 items for LDCs was perceived to be rather restrictive.[26] However, India has agreed to review her sensitive list at an accelerated pace, and has revised the list twice since 2006. The number of items in the sensitive list for SAARC LDCs was reduced to 744, in 2005 and then further reduced to 480 items in 2008.[27] Outside of the sensitive list, India has provided accelerated duty-free treatment for almost all items, excepting a few where tariffs were reduced to between 0 and 5 per cent. It is, however, important to mention that, out of these 480 items 154 items belong to the RMG category (HS 61 and HS 62). Since Maldives, Nepal and Bhutan (as well as Sri Lanka) have signed bilateral FTAs with India, from a practical point of view the issue of restricted items in the Indian sensitive lists for LDCs is of importance only to Bangladesh (other than newly accessed Afghanistan). Given that Bangladesh has relatively strong supply-side capacity, the issue of apparels items in the sensitive list under the SAFTA is of relevance with regard to Bangladesh's market access compared to other LDCs in the region which enjoy FTA status under bilateral FTAs in any case. As is known, on a unilateral basis India has offered to provide zero duty market access for upto 8 million pieces of garments from Bangladesh (Tariff Rate Quota (TRQ)) without any sourcing conditionality as per a memorandum of understanding (MoU) between the two countries in 2008.[28] However, only 44 per cent and 52 per cent of the TRQ could be utilised in 2008 (April-December) and 2009 respectively. It is an encouraging sign that export of RMG products to India under the TRQ has risen significantly in recent times – about 20 per cent of the TRQ could be utilised during the first two months of 2010 in contrast to the very low figure of utilisation during the matched period of earlier two years.

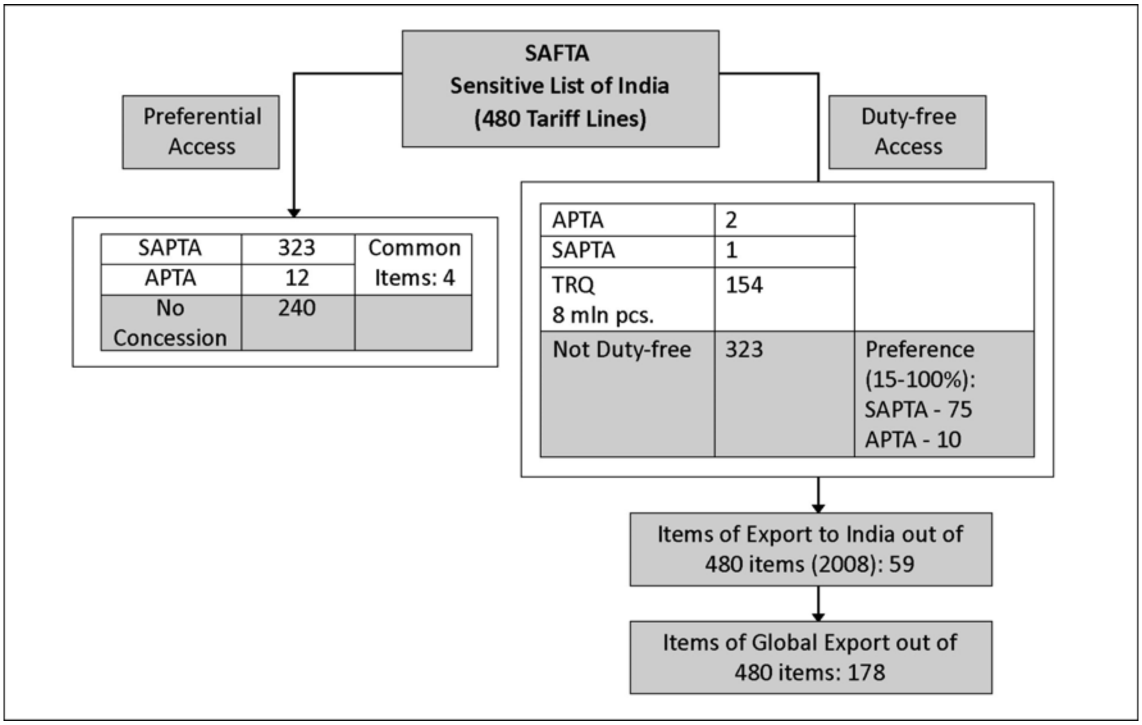
In 2008, Bangladesh sent a list of 101 items[29] to India with a request to exclude these from the Indian sensitive list. Of these India had agreed to take out 47 items[30] when the negative list was reduced from 744 items to 480 items. The MFN duties on the rest 54 items in the list of 101 items ranged from 5 per cent to 100 per cent with the median being 10 per cent. However, it is to be noted that 48 items out of these 54 were already enjoying concessional treatment under the four rounds of SAPTA (preferential margin ranging from between 50 per cent to 60 per cent). In view of the above, Bangladesh has requested India to take out items from the sensitive list which are accorded preferential treatment under the SAPTA.

Out of the 480 items in the current sensitive list of India, 323 were actually subject to various levels of tariffs whilst 157 items currently enjoy duty-free access under TRQ and various other RTAs; 85 items out of the 323 items enjoyed concessional duties (ranging from 15 per cent to 100 per cent) under SAPTA and APTA (Figure 1). In 2008, out of the aforesaid 480 items, 59 items were actually exported to India from Bangladesh of which 36 were

[25]However, the concessional treatments under other regional agreements (e.g. SAPTA, APTA, etc.) remain valid for these items.
[26]India's sensitive list for non-LDCs included 884 items. Bangladesh's own sensitive list included 1,249 items for LDCs and 1,254 items for non-LDCs.
[27]Number of tariff lines traded, at 6 digit HS code, for India was 5,054 in 2008.
[28]It is to be noted in this connection that most apparels items continue to remain in the sensitive list of India.
[29]48 of these were RMG items while 53 were non-RMG.
[30]Five of these are RMG items.

subjected to MFN duties.[31] Thus, the argument that tariffs on items in the sensitive list being a major constraining factor is gradually losing its validity.

Figure 1: Sensitive List of India and its Implications for Bangladesh



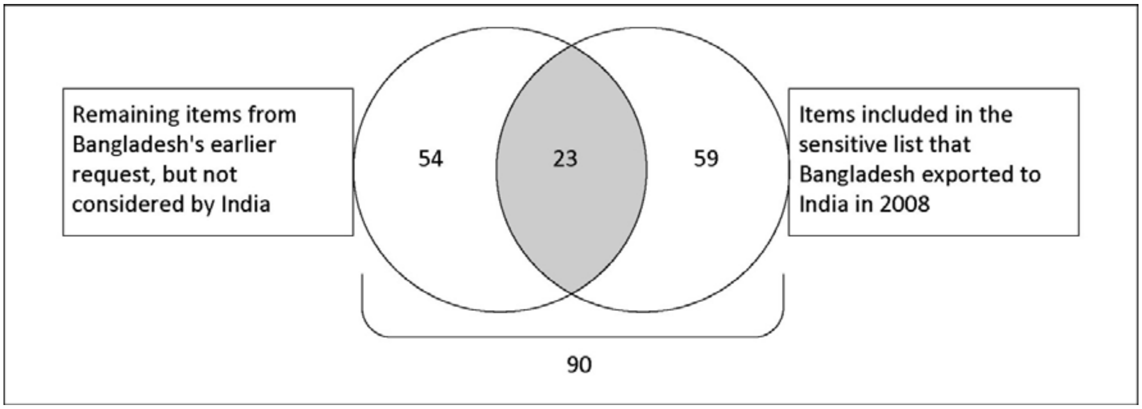
Source: Tariff Commission and Authors' estimation.

Estimates carried out for this study indicate that under a "duty-free" scenario, the possible revenue loss to India would be around only USD 4.9 million (0.023 per cent of India's custom duty and 0.004 per cent of total government revenue earnings of India) on an export of about USD 15.2 million from Bangladesh in 2008. Thus, India does not stand to lose revenue in any significant manner if the entire sensitive list is eliminated for Bangladesh, on an immediate basis.

In spite of some initial difficulties which constrained Bangladesh's ability to take advantage of the TRQ given by India, as was pointed out above, the record for the first few months indicate some improvement in quota utilisation. This would mean that Bangladesh has an interest to take out the 154 RMG items from the negative list of India along with the non-RMG items that are in India's negative list and are exported to India by Bangladesh. As was noted earlier, 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. During subsequent negotiations, Bangladesh could pursue exclusion of a total of 90 items at HS 6 digit level that includes 59 items mentioned above plus another 31 items that were part of the previous request list from Bangladesh, but were not taken out of the sensitive list in 2008 (Figure 2).

[31]This implies that there is another 287 items in the sensitive list out of 323 items with MFN duties which Bangladesh did not export to India in 2008.

Figure 2: Bangladesh's Potential Offer List for India's Consideration to be Taken out from the Sensitive List



Source: Authors' estimation based on data from UN COMTRADE and Tariff Commission, Bangladesh.

In the course of future trade negotiations with India, Bangladesh may consider the following strategies. *Firstly*, India should be pursued to take out items from the sensitive list for which Bangladesh gets preferential treatment under the SAPTA. *Secondly*, as India's total revenue loss would be rather insignificant even if all Bangladeshi products get duty-free access, India should be persuaded to offer duty-free market access for all Bangladeshi products on an immediate basis. *Thirdly*, Bangladesh remains the only SAARC LDC for which sensitive list of India remains to be of some importance – as was mentioned above; most LDCs (barring Bangladesh and Afghanistan) have signed bilateral FTAs with India and are enjoying duty-free bilateral treatment for their respective export to India. Indeed, proposal for bilateral FTA was put forward by India in 2007 and is being considered by Bangladesh's policymakers.[32] It is important for Bangladesh to firm up her position with regard to this, and design a strategy to enable Bangladesh to maximise her benefits if and when such a bilateral FTA is signed.

6. NON-TARIFF BARRIERS TO TRADE WITH INDIA

Evidence suggests that various types of NTBs often tend to undermine the potential benefits that partner countries could reap from membership in RTAs. SAFTA has not been an exception in this regard. Indeed, the low level of intra-regional trade among members of the SAFTA has often been attributed to the presence of NTBs. Although, the SAFTA accord itself stipulates various measures and initiatives to facilitate intra-SAARC trade, the fact of the matter is that NTBs, real and perceived, are a major concern in South Asia. Thus, the issue of NTBs and modalities to address the attendant issues merit special attention in the context of present discussion.

6.1 NTBs in South Asia

NTBs that inhibit intra-SAARC trade are large in number, and the related disputes and complaints encompass a wide range of issues. A survey of NTBs reported by SAARC member

[32]Pakistan and Sri Lanka have also submitted similar proposals for bilateral FTAs with Bangladesh.

countries to the Committee of Experts (CoE) shows that SPS-TBT (sanitary and phytosanitary-technical barrier to trade) related NTBs are the most frequently present NTBs to trade as far as SAARC countries were concerned; others include quotas, license requirements and anti-dumping countervailing measures.[33] Documentation procedures and SAPTA/SAFTA certification for RoO are also considered to be NTBs by exporters. ADB and UNCTAD (2008) estimated that SPS-TBT and related measures account for about 86.3 per cent of NTBs in the region (Table 12).

Table 12: Category-wise Share of NTBs in SAARC

Non-tariff Barrier	**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: ADB and UNCTAD (2008).
Note: Percentage shares exceed 100 per cent since number of cases varies.

Bangladeshi exporters have also complained that total tax incidence (TTI) of various customs surcharges in place in India is rather high, varying between 8.3 per cent and 12.7 per cent (4.4 per cent to 8.6 per cent if additional excise duty is excluded). However, in this context, India has argued that such surcharges are imposed on all imports and that these are not country-specific, and are on MFN basis. Bangladeshi exporters have urged for elimination of at least the additional excise duty which is eligible for duty drawback in India at the time of payment of value added tax (VAT) on the following grounds. *Firstly*, Indian importers tend to set price for items imported from Bangladesh by taking into cognisance duties paid at the customs point; this makes Bangladeshi goods less competitive. *Secondly*, a part of importers' capital is stuck on account of the duties paid. *Thirdly*, there will be no revenue loss for the Government of India if this is allowed since these duties are rebatable in any case.

6.2 Rules of Origin in SAFTA

Under SAFTA, the general RoO is 40 per cent value addition plus change in classification at the four digit level (CTH). For LDCs, the RoO is 30 per cent value addition plus CTH. Under regional cumulation rules of SAFTA, applicable rules relate to provision of value addition criterion only. In this case, 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 to be no less than 20 per cent of the export value. The aggregate content (value of inputs originating in any contracting state plus domestic value addition in further manufacture) is to be no less than 50 per cent of the export value. It needs to be noted here that both are subject to change in classification at the four digit level (CTH), or change in classification at the six digit level (CTSH). There is a need to make these rules less cumbersome and more export-friendly. A 25 per cent flat RoO for LDCs (as in the

[33] The CoE serves as the SAARC arbitration bodies that include government officials of various SAARC countries.

Canadian Generalized System of Preference (GSP)) will make both compliance and implementation easier.

6.3 Mechanism for Complaint and Response

The SAFTA CoE has been entrusted with the responsibility of dealing with notifications and collating and considering responses with regard to NTBs. The member countries, on an annual basis, notify the SAARC Secretariat about NTBs which are perceived to be hindering their respective trade. Consequently, the CoE reviews them to examine their compatibility with relevant World Trade Organization (WTO) provisions, and recommends elimination, or failing that, implementation of measures in the least trade-restrictive manner in order to facilitate intra-SAARC trade. As of now, four sub-group meetings on NTBs have taken place. Notifications and complaints are generally dealt with through bilateral negotiations (Rahman 2010).

With regard to trade between Bangladesh and India, both countries have submitted detailed list of NTBs which are perceived to be constraining their trade with each other, at and beyond the border, for consideration by the CoE. The detailed list of notification and response of partner countries has been presented in Annex 1. It was found that, all member countries have tried to justify their responses on the ground that measures taken by them did not violate national treatment and non-discrimination principles of the WTO. A large number of NTBs originated from health-hygiene and other admissible concerns. Rahman (2010) has categorised the NTBs in the following manner: (a) market access difficulties faced on account of requirements relating to SPS-TBT, certification, labeling, registration, laboratory testing and standardisation in place in partner countries; (b) difficulties faced in partner countries due to infrastructural constraints that impede cross-border movement of goods from the exporting countries (lack of infrastructure, low handling capacity, lack of warehouse facilities, etc.); (c) imposition of para-tariffs, surcharges, cess, VAT, sales tax, and other duties beyond MFN tariffs; (e) requirements of licenses and permits from importing countries; (f) anti-dumping and countervailing measures; (g) interpretation of RoO; and (h) lack of availability of adequate letter of credit (L/C) facilities and necessary financial intermediation. However, responses from partner countries have tended to argue that NTB or NTMs (non-tariff measures) in place in their countries should not be interpreted as such because: (a) SPS-TBT and other related complaints should not be perceived as NTBs since these have been put in place to ensure compliance with national relevant standards, rules and regulations related to health, sanitation and hygiene requirements; (b) measures perceived as NTBs are of MFN nature and are not directed to specific countries; (c) these measures were WTO-compatible; (d) some of the measures relate to security concerns; (e) partner country has also imposed similar barriers; (f) lack of domestic capacity to develop necessary infrastructure has led to infrastructure-related constraints in importing countries, and these should not be perceived as NTBs. In only a few cases did the partner country, in response, has mentioned that the complaint was a valid one and it was taking corrective steps to address the concern (building of infrastructure) or that relevant authorities (often central banks) have been asked to provide clarification about the complaint. Thus, in spite of the best efforts of the CoE to resolve the existing NTB-related issues, much still remains to be done among the SAARC nations.

6.4 Drawing Lessons from ASEAN Experience

A majority of RTAs have developed mechanisms to deal with the NTBs, primarily through mutual recognition agreements, where certification, laboratory test results and SPS-TBT standards of one country are accepted at the border points by other member countries. Such mutually beneficial arrangements were found to be an excellent and eminently effective modality to address concerns of RTA member countries with regard to the NTBs.

The experience ASEAN is relevant in the above connection. As Table 13 indicates, the overwhelming majority of NTBs (70 per cent) leading to disputes in ASEAN is related to customs surcharges. To address the attendant problems, ASEAN has signed an agreement on general framework of a process following which NTBs would be addressed, and subsequently eliminated. The process involves: (a) verification of information on NTBs; (b) prioritisation of products/NTBs; (c) developing specific work programmes; and (d) obtaining a mandate from the ASEAN Economic Ministers to implement the work programme. Member countries are now in the process of verifying the list of NTBs and products covered by these measures which is being compiled by the ASEAN Secretariat.

Table 13: Most Prevalent NTBs in ASEAN

Types of Non-tariff Barriers	Number of Tariff Line Affected	Share of Total (%)
Customs surcharges	2683	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).

It is to be noted that, in spite of substantial reduction in MFN tariffs, under autonomous tariff rationalisation and further reduction of tariffs as a result of the preferential treatment offered to member countries, NTBs still continues to persist in intra-ASEAN trade. SPS-TBT-related disputes are being resolved through agreements pertaining to mutual recognition of standards and certification. ASEAN's experience could be highly relevant and pertinent for the SAARC in addressing the oft-quoted problem of NTBs in trade among SAARC member countries.

6.5 Policy Initiatives to Address the NTBs

An examination of cross-country experiences suggest that following policy initiatives may be considered to resolve NTBs in South Asian trade, particularly as they relate to trade between Bangladesh and India.

General Principles

Implementation of on effective agreement that value of all imported products would be ascertained on the basis of customs valuation assessment of the WTO.

Strengthening SPS-TBT-related Capacities

Strengthening national capacities in relevant areas through capacity building of standardisation institutions should be seen as a priority task by the SAARC countries. It needs to be mentioned here that India has been providing some technical assistance towards strengthening of the Bangladesh Standards and Technical Institution (BSTI) (Annex 2). Such cooperation should be further strengthened.

Dispute Settlement Mechanism

SAARC members should introduce a more transparent procedure for lodging complaints and getting remedy. A system of permanent panelists and a transparent system of arbitration involving cases relating to anti-dumping duties (ADDs) and counter veiling duties (CVDs) should be put in place.

Capacity Building

A more towards a common set of standards is critical to resolving the NTB-related disputes. The proposed South Asian Regional Standards Organization (SARSO) is expected to play a key role in ensuring evolution of common standards with regard to various SPS-TBT, certification, testing requirements SARSO could also play an important role in terms of putting in place Framework Agreements for Mutual Recognition of Standards and Certification.

Accreditation Agencies

Support setting up of accreditation agencies to provide certification about standards and compliance.

Customs Cooperation

Cooperation among various customs agencies could play an important role in resolving many of the customs-related disputes in the SAARC. A *SAARC Agreement on Mutual Administrative Assistance in Customs Matters* has been finalised by the sub-group on customs cooperation. Speedy completion of the harmonisation and computerisation of the customs clearance process at border points and ports should be given high priority so that disputes at customs points, particularly at land customs points, could be appropriately addressed, and reduced.

Dealing with Para-tariffs

A number of items traded in the SAARC region and bilaterally (between Bangladesh and India) face para-tariffs of various types. An agreement not to impose any para-tariff/surcharges in bilateral trade could help solve this problem.

Addressing Infrastructure-related Trade Facilitation Bottlenecks

Ensuring seamless movement through regional connectivity and multimodal transport facility is key to resolving many of the NTB-related disputes. There is an urgent need to build the necessary border infrastructure to facilitate cross-border movement of goods between the two countries. Coordination among partner countries in terms of development of the infrastructure facilities is also critical to addressing these issues. Trade facilitation is not only important from the perspective of Bangladesh's export; it is also important in reducing the costs of import from India which has to be borne by Bangladesh's importers. Even if import cost could be reduced by 10 per cent, importers will be able to make significant savings which will benefit the country's producers, exporters and consumers, and enhance Bangladesh's competitive strength.

Widening the Ambit of Cooperation beyond Trade in Goods

Opportunities of cooperation in trade in goods often remain unrealised due to lack of cooperation in trade in services. Successful RTAs have tended to widen their range of economic partnership by facilitating movement of both goods and services to stimulate intra-regional trade. In a significant recent move, the SAARC countries have signed the SAARC Agreement on Trade in Services (SATIS).[34] SATIS envisages progressive liberalisation of services sector, provision of MFN treatment, national treatment, market access, streamlining of domestic regulations relating to various services, and mutual recognition of certification/licensing. It is to be expected that signing of the services agreement will take SAARC cooperation a step forward and will strengthen efforts towards more meaningful regional integration among countries of the SAARC.

7. CONCLUDING REMARKS

As the study has indicated, a number of initiatives could be taken to stimulate bilateral trade between the two countries. As the analysis has shown, abolition of sensitive list is likely to have only an insignificant adverse impact on the Indian economy; on the other hand, mere duty-free quota-free (DF-QF) market access to India is also not likely to enhance Bangladesh's export to India in any significant way. Under these circumstances India should be persuaded to provide duty-free market access for all exports originating from Bangladesh on an immediate basis, and Bangladesh should put renewed emphasis on diversification of her export basket in the Indian market. As emerges from the analysis, a comprehensive mechanism will need to be put in place to deal with the plethora of NTBs that severely constrain intra-regional trade in South Asia. Some of the next steps have been articulated in the preceding sections including the signing of framework agreement for mutual recognition

[34] The Agreement was signed during the SAARC Summit in Bhutan held during 28-29 April 2010.

of standards, and strengthening of supply-side institutional and human resources capacities. Improvements of trade-related infrastructure at border and customs points are critical for not only increasing Bangladesh's export opportunities, but also from the perspective of bringing down the cost of import from India. Attracting investment from India that target the Indian market will be critical to realising Bangladesh's export opportunities in India. It was pointed out in the paper that the North Eastern region of India presents a unique opportunity for enhancing Bangladesh's exports. Deepening of bilateral economic relation Bangladesh and India could create a conducive environment for accelerated development of the economy of the North East, which in its turn could enable Bangladesh to take advantage of the growing purchasing power of that region.

As was noted, India has proposed establishment of a bilateral FTA with Bangladesh. This proposal has been on Bangladesh's table for some time now, and is being examined. There is a need to take a decision on this proposal by articulating the best possible options for Bangladesh, as an LDC partner, with regard to: (a) market access and sensitive list, (b) rules of origin, (c) institutional mechanisms to deal with NTBs, (d) investment promotion measures, (e) trade facilitation, and (f) capacity building support.

As envisaged under the bilateral communiqué following the recent visit to India by Bangladesh's Prime Minister during 10-13 January 2010, 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. However, this will require appropriate homework on Bangladesh's part. Indeed, a broad-based, two-track Common Economic Partnership Agreement, that includes trade in goods, services, connectivity and investment-related aspects along with scope for sectoral cooperation, in a phased manner, could be considered with a view to exploiting the opportunities of multi-dimensional cooperation between the two countries.

Annex 1

4th SAFTA Sub-group Meeting of the Committee of Experts (CoE), 26-27 October 2009, Kathmandu Notification and Responses with regards to Non-tariff and Para-tariff Measures

Exporting Country: Bangladesh; Responding Country: India

Type of NTB	**Response from India**
Detailed product information (all pre-packaged goods)	These are statutory requirement under the *Consumer Protection Act*
Bio-security and sanitary permit (primary agricultural products)	Requirement has been set as per Article 2 of the Agreement on Sanitary and Phytosanitary 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
License from Bureau of Indian Standards (BIS) for 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 per cent 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
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 Export Import 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 General Agreement on Tariffs and Trade (GATT)

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 per cent VAT (all goods)	15 per cent 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 L/C through land customs
Non-acceptance of cargo by road/rail/rover routes (all goods)	Currently, necessary equipments and physical infrastructure are not available to handle containerised cargoes; so, such 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 an NTB
Radioactivity test (directly consumable stuff)	All imports of food items require radioactivity test report; however, radioactivity test requirement has been relaxed for SAARC countries
Pre-shipment inspection (PSI) certificate	Any exporter from any part of North East India can get the service of the PSI office in Shilong within 24 hours; also 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 (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

Annex 2: 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 Standards and Testing Institution (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.

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