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REGIONAL TRADE LIBERALISATION AND NON-TARIFF BARRIERS: THE CASE OF BANGLADESH'S TRADE WITH SOUTH ASIA

Abstract

Although trade liberalisation measures are in place for eight years, intra-regional trade in South Asia has been meagre and is not encouraging at all as Bangladesh's export market in the region. India also granted duty free quota free access to almost all traded Bangladeshi products, which is also not showing significant increase in Bangladesh's export to reduce the country's mounting trade deficit with India. Therefore, overwhelming presence of non-tariff barriers has been perceived to be resulted in intra-regional trade significantly lower than expected. Given this context, the paper tries to identify the non-tariff barriers in South Asia in the context of Bangladesh's export expansion in this region. It takes a few product-specific cases in both export and import of Bangladesh to examine the barriers prevailing in neighbouring countries, *viz.* India, Nepal and Bhutan. The paper reveals that such barriers are related to bonded warehouse, gate pass, shipment and customs, infrastructure in land customs stations, visa, speed money, and excessive checking, which have been suggested to constrain expected gains from regional trade liberalisation measures. The paper argues that India's countervailing duty on garments import has not impacted negatively on Bangladesh's exports, but there is scope for further improvement if the duty is set equally for Indian and foreign manufacturers.

1. Introduction

In the current fiscal year (2013-14), Bangladesh's export to South Asia is going to witness significant fall. The same is going to happen in case of Bangladesh's export to India, the biggest market of the country's exports in South Asia. The growth of Bangladesh's exports to India and South Asia is also not encouraging in the last half a decade despite major initiatives for freeing trade in the region through executing South Asian Free Trade Area (SAFTA) and India's Duty Free Quota Free (DFQF) access to nearly all traded products excluding some items having public health concerns. Why is the intra-regional trade in South Asia not flourishing despite these measures? Or more specifically, Bangladesh's export to India is not increasing significantly even though Indian market is almost open to Bangladeshi products. The educated guess

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and the most pronounced response is the presence of myriad non-tariff measures (NTMs) and barriers (NTBs).

Despite being integral parts of economic integration schemes and more specifically free trade agreements in both developed and developing worlds, the NTMs and NTBs are perceived to be significant restraints to trade flows. Efficiency of trading systems hinges critically on whether and how the trading partners address different barriers, *viz.* tariff, para-tariff and non-tariff ones. While tariffs are being reduced across the world, it is being increasingly realised that NTBs are hampering cross-border trade significantly especially when the trade potential remains high. Most of trade costs are believed to be explained by NTBs, many of which are due to procedural reasons. Overwhelming presence of these barriers have been perceived to account for significantly lower than expected intra-regional trade despite SAFTA being in place since mid-2006. Recent studies reveal that a range of NTBs, especially procedural, has been responsible for triggering costs of doing cross-border trade. Unfortunately, these remain to be not addressed adequately by policy-makers across the borders. A recent study indicates a considerable 'static' loss of consumer welfare due to non-cooperation in trade within South Asia due to sensitive list maintained by SATFA, which is estimated to be US$ 1.95 billion or 31.36 per cent of current value of imports of these items from outside the region.[1]

Given this context, the objective of the paper is to identify and analyse the NTBs that are prevalent in general in South Asian countries along with their nature, depth and extent. A product-specific case has been analysed to more vividly comprehend the effects of NTBs on Bangladesh's external trade with South Asian countries. In doing so, an import and export item has been taken through secondary analysis and primary investigation among business association leaders and other key stakeholders. In-depth interviewees were from higher officials of Federation of Bangladesh Chambers of Commerce and Industry (FBCCI), India-Bangladesh Chamber of Commerce and Industry (IBCCI), PRAN Group and Phoenix Group, and selected trade experts in Bangladesh. The purpose of this exercise is to bring out the views and concerns of the business community and other stakeholders about NTBs affecting cross-border trade and to suggest policy recommendations for the removal of such NTBs. The paper intends to understand the NTBs in two products — one on imports and the other on exports—in the context of Bangladesh's trade with South Asian countries. Understandably, the items are cheaper if traded within South Asia compared to importing from rest of the world and for that matter indicating loss of consumer welfare due to relatively low trading from within the region. The contributions of the paper are mainly twofold. *First*, it provides an analytical insight of the nature and extent of product-specific NTBs in Bangladesh's trade in South Asia along with its impacts, which is currently missing in the existing literature. *Second,* it draws some concrete lessons which can be readily addressed by the regional policy-

[1] B. Chaterjee and J. George, *Consumers and Economic Cooperation: Cost of Economic Non-Cooperation to Consumers in South Asia*, Jaipur: CUTS International, 2012.

makers to foster regional trade without substantive reform in the existing trading regime.

The paper has been organised as follows. Section 2 provides an overview of NTBs in South Asian countries with an analysis of their possible effects on Bangladesh's exports to South Asia. Section 3 discusses the product-specific exports of Bangladesh in South Asian countries and reveals NTBs in entering the markets of India, Nepal and Bhutan from Bangladesh perspective.[2] Section 4 explains the product-specific imports of Bangladesh from South Asia and identifies the NTBs. Based on the analyses, Section 5 briefly examines whether India's NTBs in general and countervailing duty on RMGs act as a significant barriers to export. Finally, concluding remarks with some tentative recommendations have been made in Section 6.

2. An Overview of NTBs in South Asia

The use of NTMs and NTBs has given rise to significant debate in the international trade discourse after notable reduction in tariff use under the World Trade Organization (WTO) rules. The SAARC members are mostly developing countries and Least Developed Countries (LDCs). Though the import tariffs of the countries in the region have been significantly reduced in the recent past, the use of various NTMs and NTBs are increasing as a result of opening trade regimes (*e.g.*, due to WTO and SAFTA). In the early years of South Asian Association for Regional Cooperation (SAARC), the popular perception was that high customs duty was leading to low intra-regional trade. High customs duties were reduced significantly over time due to increased international trade, implementation of WTO rules and SAFTA. Despite significant reduction in customs duty in the region, the intra-SAARC trade is still hovering at a meagre 5 per cent of the region's world trade. Fingers are now pointed to the NTBs.[3] Indeed, the NTBs are quite high in South Asia and the SAFTA Agreement had not adequately addressed this issue.[4]

[2] The study tried to cover product-specific NTBs in all countries of South Asia for Bangladesh's trade but found data of Bhutan, India, Nepal, Maldives, Pakistan and Sri Lanka. However, among these countries the notable NTBs were found in the first three countries in trade of selected items as reported by the interviewees.

[3] S. Raihan, M. A. Khan and S. Quoreshi, *NTMs in South Asia: Assessment and Analysis*, Kathmandu: SAARC-TPN Secretariat, 2014.

[4] A. Hussain, "The Political Economy of Trade Facilitation and Regional Connectivity in South Asia", Paper presented at the *Third SAARC Business Leaders Conclave*, Colombo, 22-23 November 2009.

Table 1: Bangladesh's Trade with South Asia, 2012-13 (million US$)						
Country	Exports	% of Exports to World	Imports	% of Imports from World	Total	% of Trade with World
Afghanistan	3.57	0.01	2.41	0.01	5.98	0.01
Bhutan	1.82	0.01	25.34	0.07	27.16	0.04
India	563.96	2.09	4,907.89	14.01	5,471.85	8.83
Maldives	1.53	0.01	0.67	0.00	2.2	0.00
Nepal	26.41	0.10	37.01	0.11	63.42	0.10
Pakistan	68.70	0.26	503.55	1.44	572.25	0.92
Sri Lanka	23.69	0.09	40.93	0.12	64.62	0.10
South Asia	689.68	2.56	5,517.8	15.75	6,207.48	10.02
Rest of the World	26,236.05	97.44	29,507.34	84.25	55,743.39	89.98
Bangladesh's World Trade	26,925.73	100.00	35,025.14	100.00	61,950.87	100.00

Source: Statistics Department, Bangladesh Bank and Export Promotion Bureau of Bangladesh.

Table 1 describes Bangladesh's trade with South Asian countries, which reveals that the country suffers from huge trade deficit with South Asia. However, the country enjoys small trade surplus with only Afghanistan and Maldives, even though the amount of trade is quite meagre. Table 2 reveals that export to South Asia had been increasing up to FY 2012-13, while in 2013-14, the estimated export to South Asia decreased significantly but increased to rest of the world.

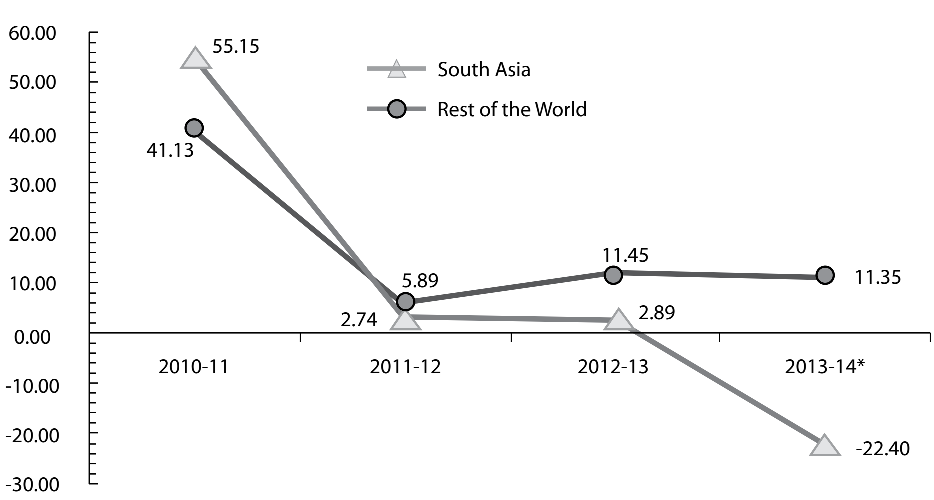
Table 2: Trend of Bangladesh's Exports to South Asia (million US$)					
	2009-10	2010-11	2011-12	2012-13	2013-14*
Afghanistan	2.74	3.53	3.59	3.57	3.55
Bhutan	2.24	3.12	9.13	1.82	1.87
India	304.63	512.51	498.42	563.96	432.90
Maldives	0.74	0.93	1.78	1.53	1.66
Nepal	8.79	10.84	41.58	26.41	11.05
Pakistan	77.67	86.79	73.21	68.70	56.88
Sri Lanka	23.73	34.73	42.59	23.69	27.27
South Asia	420.54	652.45	670.30	689.68	535.17
Rest of the World	15,751.52	22,230.46	23,540.40	26,236.05	29,214.60

* Projection based on July 2013-May 2014 data.

Figure 1 shows a trend of proportional change in export to South Asia and rest of the world. It reveals that in Fiscal Year (FY) 2010-11, the export to rest of the world witnessed magnificent growth while the growth reduced to only about 5 per cent in the following year. It reveals about 11 per cent change since 2012-13. On the other hand, despite DFQF access to Indian market and SAFTA, total export to South

Asia shows a generally declining trend during this period. In 2013-14, the change was 22.5 per cent after about 3 per cent change in the last two years. It implies that customs tariff elimination is necessary but not sufficient in boosting trade if NTBs are prevalent and influential.

Figure 1: Changes of Bangladesh's Exports (%) [5]



In terms of impact on trade flow, the NTBs are broadly categorised into two: important and relatively unimportant. While the examples of important ones are quotas, voluntary export restraints, non-automatic import authorisations and variable import levies, relatively unimportant NTBs are cited to be packaging and labelling requirements. Table 3 provides a latest inventory of major NTBs — general and specific — prevailing in South Asian countries.

[5]Author's calculation based on the data of Export Promotion Bureau of Bangladesh.

Table 3: Country-Specific NTBs in SAARC[6]	
Afghanistan	▪ Some temporary geographic prohibitions on imports of many products, mostly food items from specific countries on SPS grounds, such as, nuclear radiation, mad-cow disease, etc. ▪ Several long forms need to be filled up for external trade related transactions, e.g., customs clearance. ▪ Financial fees and charges are involved for licensing, often in form of post-transaction levies and royalty at pro-rata basis on the invoice price. ▪ Mandatory bank guarantee covering part or all of the duties and taxes on the truck carrying Afghan goods passing through Pakistan territory.
Bangladesh	▪ Imports of a number of products are subject to quality standards. ▪ Imports of all food items are subject to radioactivity test reports by Bangladesh Atomic Energy Commission. ▪ Supplementary and regulatory duties on a number of products (para-tariffs). ▪ Restricted port of entry and exit (land port) and complex customs clearance procedures. ▪ Pre-registration is required for import of selected sensitive products, such as iron scrap, used vehicles, etc. ▪ Packaging, labelling, certifications, and conformity assessments, etc. (TBT) under UNCTAD classification (Category B) for 218 product categories. ▪ Varying standards and procedural steps (e.g., non-acceptance of quality certificates).
Bhutan	▪ Import license for all consignments originating from countries entering Bhutan by road through India (transit). ▪ An importer (other than importers generating foreign exchange) can import a certain product from any country except India, up to a maximum 4 containers a year (Quantitative Restrictions). ▪ Restricted import of used clothes and textile items. ▪ Temporary restriction on import of motor vehicles, furniture and alcohol. ▪ Import of raw materials for industrial use must have a minimum 40% of value addition.

[6] S. Raihan *et al*. (2014), *op. cit*.

India	▪ 428 products at 8 digit HS code level cannot be imported without license. ▪ Import prohibition on 52 HS lines, in addition to 33 other products that are allowed to be imported only by State Trading Enterprise. ▪ Prohibited import of beef in any form and import of products containing beef in any form. ▪ Import of Genetically Modified (GM) food, feed, Organism (GMOs) and Living Modified Organisms (LMOs) or any product containing any of these is subject to several certifications, and other TBT measures. ▪ 74 products subject to mandatory compliance of Bureau of Indian Standards. ▪ State-level para-tariffs (tax, fee, education and higher education cess, duty, etc.) ▪ Health and sanitary regulations (quarantine fees). ▪ Restricted ports of entry and inland customs ports. ▪ Anti-dumping and countervailing duties, and safeguard measures.
Maldives	▪ Licensing for all imports. ▪ State Trading Organisation is the main government-controlled entity in imports.
Nepal	▪ Six categories of products (i.e., selected narcotics, beef, plastic materials, etc.) banned for import on religious, public health, and environmental grounds. ▪ Separate licenses required to import, sell or store excisable goods. ▪ Para-tariffs (environment tax) on imported petroleum products.
Pakistan	▪ 13 categories of live animals, birds, books, and some other products are banned for imports on health, safety, and religious or moral reasons. ▪ 44 other industrial products banned for imports for economic and/or protective reasons. ▪ Nine broad categories of used machinery and equipment banned for imports. ▪ 56 categories of items, including some animal and plant products restricted for import. ▪ Imports of a number of products are subject to quality standards and regulatory duty. ▪ Anti-dumping duty. ▪ Packaging, labelling, certifications, and conformity assessments, or other restrictions (TBT). ▪ Varying standards and procedural steps.

Sri Lanka	▪ 38 categories of plants or plant materials banned and/or restricted for imports. ▪ Animals and animal products from ruminant origin from 22 countries banned for imports. ▪ 9 categories of food items require test certificates for radiation level. ▪ Imports of a number of products subject to quality standards. ▪ 15 categories of food items that contain colours not permitted under regulatory measures are prohibited from import. ▪ Health and sanitary regulations (e.g., restricted import of GMO food).

The above table reveals that NTBs include both important and unimportant trade barriers that include quality standard, license, para-tariff, labelling, anti-dumping duty, and arbitrary imposition of requirement that vary over time. There are some country-specific more prevalent NTBs that are applied to protect the interest of domestic business and achieve political objectives of the individual countries rather than promoting consumer interest through maximising economic welfare. In the available studies the generally prevailed non-tariff measures are: Sanitary and Phytosanitary (SPS) measures, Technical Barriers to Trade (TBT), quotas, anti-dumping measures, license requirements, and countervailing measures, customs regulations, and environmental measures, barriers to cross the border, labelling requirements, rules of origin, visa requirement and lack of infrastructure and connectivity.[7]

Thus, strong presence of NTBs is one of the major obstacles to promote SAFTA for increasing intra-regional trade. Besides the NTBs directed at India by Pakistan, the NTBs in the region prevails in the forms of tariff rate quotas, restricted ports of entry, import bans, and the excessive use of health and SPS measures. The use of NTBs is justified by India under General Agreement on Tariffs and Trade (GATT) Article XVII-2(b). Bangladesh has complaints against India that include high documentation requirements, varying methods of assessing duties, expensive mandatory certificates on technical and health standards that need to be collected from distant locations such as Kolkata and Delhi, non-recognition of Bangladeshi certification and testing laboratories, etc. A major impediment towards growth of intra-SAARC trade is India's NTBs which include *ad hoc* change of policies regarding various tariff quotas, limited number of designated ports of entry and administrative procedures.

The knowledge of NTBs is rather sparse and is hampered by the lack of common definitions and methodologies, inadequate quantity and quality of data, and ways and means of quantifying impacts on trade. SPS certifications and laboratory testing results are not universally recognised among SAARC members. Health and

[7] For details, see, U. Wickramasinghe, "Operationalizing SAFTA: Issues and Options", in *South Asian Yearbook on Trade and Development*, Center for Trade and Development, New Delhi, 2006, pp. 389-441; M. Rahman, "Non-tariff Barriers in South Asia: Nature, Implications and Measures to Address the Challenges", in S. Kelegama, R. Adhikari, P. Sharma and P. Kharel (eds.), *Regional Economic Integration: Challenges for South Asia during Turbulent Times*, Kathmandu: SAWTEE and SACEPS, 2012, pp. 55-85; and UNCTAD, *Non-Tariff Measures: Evidence from Selected Developing Countries and Future Research Agenda*, New York and Geneva: United Nations, 2010.

safety standards and regulations are often applied in a discriminatory manner and supporting scientific evidence is often not available to justify the imposition of SPS.[8]

Procedural complexities frequently turn out to be deterrents to Bangladesh-India trade.[9] Despite some improvements in terms of customs automation, the customs offices in Northeast India (NES) still necessitate excessive documentation, especially for imports. Documents are required to be submitted in paper (hard copy). As high as 330 signatures on 17 documents are required at several stages for an Indian exporter who intends to export to Bangladesh.[10] The two governments are alleged to increase the degree of difficulty in bilateral trade by adding avoidable requirements even though majority of these documents are standard for international trade. To address the problems and to stop recurrent problems and anomalies, the bureaucracy introduced new procedures and documents, which in turn considerably increased the cost of doing business without or having meagre effect on the origin of difficulties. Due to the long-standing complex, sluggish and archaic procedure in the official side, the loss of economic gain tends to increase, which also leads to altering the composition and direction of trade in eastern South Asia.[11] After completing all the procedures, time taken in different stages of consignment from origin to destination is considered to be a notable NTB.[12]

Article 1 of SAFTA defines NTBs broadly to include 'any measure, regulation, or practice, other than tariffs.' The articles 7.4 and 7.5 cover all possible restrictions including quantitative restrictions, which can vary in terms of their nature, purposes and the manner of using the barriers.[13] The most significant difficulty is to come to terms with what constitutes restrictions and measures of genuine welfare. Under Article 7.4, the member countries agree to notify the SAARC Secretariat of all non-tariff and para-tariff measures to their trade on an annual basis, which will be reviewed by the Committee of Experts (CoE) to examine their compatibility with relevant WTO provisions and recommend the elimination or implementation of the measures in the least trade restrictive manner. However, there is no binding commitment for countries within the terms of SAFTA to eliminate NTBs.[14] Many NTBs are outcome of inefficient institutional structures.

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[8] ADB and FICCI, *Key Proposals for Harnessing Business Opportunities in South Asia*, Manila: ADB, 2010.
[9] S. Chaturvedi, *An Evaluation of the Need and Cost of Selected Trade Facilitation Measures in India: Implications for the WTO Negotiations*, ARTNeT Working Paper No. 4, UNESCAP, Bangkok, 2006.
[10] P. De and B. Ghosh, "Reassessing transaction costs of trade at the India-Bangladesh border", *Economic and Political Weekly*, Vol. 43, No. 29, 2008, pp. 69-79.
[11] P. De, "Why is Trade at Borders a Costly Affair in South Asia? An Empirical Investigation", *Contemporary South Asia*, Vol. 19, No. 4, 2011, pp. 441-464.
[12] Please see the Appendix.
[13] There are instances of such barriers in Pakistan, India, Nepal and Bhutan. Some of them are explained in Sections 3 and 4 in the case of Bangladesh's product-specific trade.
[14] M. Kabir, "Non-Economic Obstacles in the Prospects of SAARC and SAFTA", in *Korea-South Asia Cooperation in an Era of Rising South Asia*, Seoul: Korea Institute for International Economic Policy, 2010, pp. 71-93.

3. Opportunities in Exports and NTBs

To understand the NTBs in the exports case, the paper focuses on food products of some certain categories, mostly fruit juice and confectionary items that are being exported to South Asian countries with majority to India in considerable volume. The export figure of those items in the just concluded fiscal year 2012-13 has been given in Table 4.

Table 4: Bangladesh's Export to South Asia in Selected Items, 2012-13 (US$)

HS Code	Product	Bhutan	India	Nepal	Pakistan	Rest of the World
170410	Chewing gum containing sugar, except medicinal		36,111	221,082		0
170490	Sugar confectionery nes (including white chocolate), not containing cocoa		2,304,103	473,586	255,303	433,320 (12.5)
200799	Jams, fruit jellies, fruit/nut purée & paste, ckd prep, sugared, sweetened/not		70,781	16,893		85,287 (49.3)
200919	Orange juice & nes, unfermented not spirited, whether or not sugared or sweet	594,478	2,609,699			21,015 (0.65)
200931	Single citrus fruit juice, unfermented, Brix value <= 20 at 20°C			44,763		2,020,203 (97.8)
200990	Mixtures of juices unfermented—spirited whether or not sugared of sweet			27,623		227,996 (89.2)
	Total	594,478	5,020,694	783,947	255,303	2,787,821

Source: Export Promotion Bureau of Bangladesh.

As Table 4 reveals, Bangladesh exports US$ 6.65 million of these three food items to South Asia and US$ 2.79 million to rest of the world. Of this volume, US$ 5.02 million has been exported to India in three items, which was 53.2 per cent of the total exports of these items to the world and exports to other countries of South Asia was 17.3 per cent. After that, Nepal and Bhutan are the most important destinations of these items with 8.3 and 6.3 per cent of the export share, respectively. Given overarching position in South Asia in terms of the volume of export, the business community in Bangladesh perceives that the export potential is much higher than current actual export, but tapping the potential is subject to a number of NTBs.

3.1 *Exports to India*

Bangladesh has the biggest stake in bilateral trade with India in terms of trade volume. However, there is a number of pressing NTBs that are hampering exports to India as reported by the interviewees. Some of the critical NTBs imposed by Indian side in the case of Bangladesh's exports are listed below.

3.1.1 *Bonded Warehouse and Related Rules*

Recently, customs authorities of North East Indian (NEI) states promulgated a new rule, *i.e.*, all importers must have a 'bonded warehouse' collocated to the land port where they will have to keep their imported goods under lock and key until they get the health certificate of those goods. Processed food exporters find it hard to access in NEI market. The Office of the Commissioner of Customs (Preventive) of NEI made the storage of nonperishable food items in bonded warehouses mandatory from 1 June 2010. The Indian importers have to keep imports in these warehouses until laboratory tests on shipments are completed. However, test results from Indian laboratories are normally delayed, which increase the cost of doing business and thus erode competitiveness of Bangladeshi food items in Northeast India. More specifically, exports of food items through Akhaura-Agartala and Tamabil-Dawki borders reduced due to this rule.[15]

To take a bonded warehouse, the importer needs a 'Bank Solvency Certificate' of Rs.5 million.[16] This is a huge amount for an importer. S/he needs to mortgage a big portion of her/his property to get the certificate. Thus, many of the importers are discouraged to do business. For this bonded warehouse, the importers need to pay extra rent, thus the expenses of the importers are increased. This is also hampering the profit and discouraging to continue business.

Previously, the exported goods used to be unloaded in the land port (Indian part) from the exporter's (PRAN) transport, were loaded in the importers' transport and were taken to the importer's warehouse. Now the goods are unloaded in the land port (Indian part) from the exporter's (PRAN) transport, loaded in the importer's transport and then taken to the bonded warehouse.[17]

Laboratory testing is required for all products. Bio-security and SPS requirements are involved for import permit in which risk analysis of the products is complex.[18] However, after getting the 'Health Report', the goods are again taken to the importers' warehouse. Thus, the transport and labour costs become double.

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[15] For details, see, "Food exports to India hit a rough patch", *The Daily Star*, Dhaka, 15 August 2010.

[16] "Regional Trade: Non-tariff Barriers Set Back Exports to India", *The Daily Star*, Dhaka, 24 November 2011.

[17] The same predicaments are reported in "Slow Delivery of Goods at Agartala Worries Exporters", *The New Age*, Dhaka, 11 June 2012.

[18] K. G. Moazzem, "Assessment of Bangladesh-India Trade Potentiality: Need for Cross-Border Transport Facilitation & Mutual Recognition of Standards", Paper presented at *Stakeholders' Conference* organised by CUTS International, Kolkata, 16 November 2013.

As per the decision of customs authority, the bonded warehouse should be located within the perimeter of the land customs station area.[19] At present, the import volume of the PRAN importers increased a lot and the existing bonded warehouses are not sufficient to accommodate the imported goods. Again, at present there is no additional infrastructure on any warehouse collocated to the land customs area which can be rented by the importer and can be made bonded for their use. Therefore, the import volume is being hampered in ratio to potential and the Indian government is losing the import revenue as well.

3.1.2 *Car Pass*

At present a system of 'Car Pass'/'Gate Pass' is practiced in Agartala, Changrabandha and Benapole land ports. Bangladeshi customs authority issues 'Gate Pass' to the Bangladesh vehicles which carry exported goods. Based on the 'Gate Pass', Indian customs authority allows the Bangladesh vehicles to enter the Indian part and go up to maximum of ten yards to unload the goods. But this pass is not allowed in other land ports. Neither Bangladeshi customs issue the 'Gate Pass' in some ports, nor Indian customs honour the 'Gate Pass' and allow the Bangladeshi vehicles to enter into Indian side. Therefore, the vehicles are compelled to unload goods in the 'No Man's Land'. The issue was, however, discussed in India-Bangladesh Joint Trade Customs Meeting in Dhaka on 21-22 October 2013 to introduce 'car pass' system for the truck drivers at land customs stations, but progress was not made.[20]

3.1.3 *Shipment and Customs*

There are shipment related problems recently being faced by the traders at Agartala Port. If the Customs Super of Agartala port remains absent for any reason or goes on leave, that day (those days) the customs does not receive the shipments of food items from Bangladesh side. Moreover, if all the trucks of a particular shipment cannot be sent in a serial, the customs authority does not receive the shipment and returns Bangladeshi trucks. Sometimes, it may happen that one or two trucks are delayed to reach the port due to some mechanical problems on the road.[21] But this is not considered by the Agartala port authority.

Customs office at Indian side remains open from 9 am to 5 pm. Before and after this time, they do not give clearance to entry or exit of any truck. Customs Appellate Office (CAO) is located at Shillong. If any dispute arises at the port requiring the interference or approval of the CAO, it becomes time consuming.

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[19] However, it is not mandatory under India's Customs Act, 1962. Thus, it can be termed as an NTM because it is perhaps imposed arbitrarily by the Indian authority to restrain import.

[20] "Bangladesh to seek removal of CVD on RMG, dev of Indian land ports", *The New Age*, Dhaka, 13 October 2013.

[21] "Regional Trade: Non-tariff barriers set back exports to India", *The Daily Star*, Dhaka, 24 November 2011.

3.1.4 *Infrastructure*

Inadequate infrastructure facilities such as warehouse, transshipment yard, parking yard and connecting roads at land customs stations also hinder exports from Bangladesh. No shed is available on either side of the border in land ports for loading and unloading of products. This causes damage to products during rainy season.[22]

The NTBs restraining Bangladesh's market access to India, especially the Northeastern States, are documented and well-pronounced as it is a natural captured market for Bangladeshi food and other necessary items. However, the barriers to access the other South Asian markets are not cited prominently.

The sub-sections 3.2 and 3.3 try to portray some of the recent NTBs of Nepal and Bhutan as these countries import considerable processed food items from Bangladesh (see Table 4).

3.2 *Exports to Nepal*

The business community reported that the export potential of the selected food items to Nepal is triple of the actual volume. Majority of exported items to Nepal are drinks (both fruit and non-fruit), confectionary items, snacks, toast, jam-jelly-chutney, etc. The basic duty of food products coming from Bangladesh is very high, which is 30 per cent as Bangladesh is not enjoying the SAFTA facilities in Nepal for these items. Nepal included Bangladeshi food products on the 'sensitive list', which restricts duty free entry of these products in Nepal. This hinders Bangladeshi food products to compete in Nepal with other foreign products.

3.3 *Exports to Bhutan*

Similar to the case of Nepal, the interviewed businesspersons reported that the major exported items to Bhutan are juice (both fruit and nonfruit), confectionary items, snacks, toast, etc. with two-fold potential than the actual exports. The exported products of Bangladesh had duty free access to Bhutan. They only used to take the Bhutan Sales Tax (BST) for their imported items. The amount of tax was 30 per cent for product of up to 250 gm for 15 per cent above 250 gm. However, the country currently maintains a heavily restrictive barrier through introducing 50 per cent basic duty on the juice items for which it has become very difficult for the Bhutanese importers to import these items from Bangladesh. More specifically, an agreement was signed between the Commerce Ministers of Bangladesh and Bhutan in 2009, under which Bhutanese government was allowing to import the juice items under the H.S. Code 2009.31, which was duty free. But recently, they are now allowing the import of mango and litchi juice under that H.S. Code. They are referring separate H.S.

[22] "Analysts urge India to erase trade barriers to Bangladesh", *The Daily Star*, Dhaka, 11 January 2010.

Code which falls under 50 per cent basic duty. Conversely, India is getting duty free access for its juice items, which is the main competitor of Bangladesh for these items.

On the other note, it was opined that the physical infrastructure, especially road condition, on the other side of the border is very poor. It seriously inhibits the desired commodity flow from Bangladesh to Bhutan. Sometimes, the Indian authority does not cooperate with Bhutanese importers to carry products from Bangladesh through its land.

4. Opportunities in Imports and NTBs

The paper focuses on the 'iron and steel' and 'articles of iron and steel' to be the items for understanding the impact of NTBs on imports from South Asia. These items are considered to be important for promoting industrial development, especially manufacturing sector and supporting construction sector that demonstrated high growth of Bangladesh in the recent years.

Table 5: Bangladesh's Import in 2011-12 (million US$)

HS Code	Product	Bhutan	India	Maldives	Pakistan	Sri Lanka	Rest of the World	Total import
72	Iron and Steel	0.654	135.114	0.251	0.071		1,420.582	1,556.672
73	Articles of Iron and Steel		25.999		0.096	0.478	109.245	135.818
	Total	0.654	161.113	0.251	0.167	0.478	1,529.827	1,692.490

Source: Bangladesh Bank (2013).

If the country's volume of imports of these items from the world is considered, South Asia as the source plays insignificant role. As revealed from Table 5, Bangladesh imported as high as 90.4 per cent of these products from beyond South Asia in fiscal year 2011-12, and within this region the sources were six SAARC countries except Nepal. However, India supplies the majority — 9.5 per cent of imports while the other countries jointly supply only 0.1 per cent. The country is also an important destination of Bangladesh's exports of these two items even though there is a considerable trade deficit disfavouring Bangladesh.

Table 6: Bangladesh-India Trade of Iron & Steel and their Articles, 2012-13 (million US$)				
2-digit HS Code	Product	Bangladesh's Import from India	Bangladesh's Export to India	Net Export
72	Iron and Steel	135.114	5.255	-129.859
73	Articles of Iron and Steel	25.999	8.380	-17.619
Total		161.113	13.635	-147.478

Source: Bangladesh Bank (2013).

The net export of Bangladesh in bilateral comparison with India was negative, which can be seen from Table 6. The import of iron and steel in 2011-12 from rest of the world was 91.26 per cent. But the trade facilitation within the SAARC region can save import-export execution cost. The creation of trade bloc within the SAARC region will benefit other SAARC nations along with India.

Considering the dominant position of India as a source country and its export to the world market of US$ 6,996.228 million imply that the volume of imports of US$ 1,355 million from outside South Asia in 2010-11 could be easily met by India, thus, reducing costs (both explicit and implicit) due to its locational advantage. A trade potential of US$ 936 million could be realised by effectively improving trade ties between the two countries.[23]

The trade potential could not be realised due to a number of NTBs as mentioned by the interviewed importers, which are described below. A summary of specific import related NTBs has also been listed in Table 7.

- ***Infrastructural deficiency*:** The most obvious problem is poor and insufficient infrastructure at ports, connecting roads, inadequate place which creates a long queue of vehicles, limited number of bonded warehouses and storages.[24] The roads are not capable enough of bearing 20 tones trucks. Loading and unloading problems often cause damage to imported goods. The businessmen are bound to pay extra money and extra hour to the loading-unloading workers at port who do not take any responsibility if the goods are damaged. There is scarcity of instruments for unloading. To unload products from ships to land, extra platform is needed as rivers are not deep enough for the ships to catch land.
- ***Business visa*:** To get a business visa for India, businessmen often do not get enough time to fill the application forms online and because of huge application forms, sometimes the server do not work properly. After this when they

[23] CUTS International, *Reforming Non-Tariff Barriers: Case for a Participatory Approach in South Asia*, Jaipur: CUTS International, 2013, pp. 117-118.
[24] "Time and Costs of Trade in SASEC", available at http://www.sawtee.org/presentations/1Oct2013DayOne-2III.pdf, accessed on 27 March 2014.

could make time and fill the 4-5 pages form out, they cannot find the visa interview dates, which could only be found at mid-night and after 15 days of submitting application forms. Also, sometimes they are not granted visa that restrains attending important business meetings in India.[25] The problem of getting visa has intensified in the recent days.

- ***Financing*:** The financial barriers regarding getting loans from banks are enormous. In some cases, it has been seen that banks often provide loans to big businessmen rather than the smaller ones. For the new businessmen, banks demand 200-300 per cent collateral. The interest rate is almost 18 per cent for industrial loan, which is very high compared to business abroad.
- ***Hurdles at the ports*:** When the products reach at port in Indian part, there are several problems to get those such as having speed money for the officers, bureaucratic problems and safety measures including harassment. When the consignment reaches at Bangladeshi port, the main issue is rampant speed money and it is a necessary condition to release the product in time. The other problem is the requirement of extra papers by the port authority.
- ***Other issues*:** To get a testing certificate from Bangladesh Standard Testing Institute (BSTI), sometimes they do not have proper instrument to test and their standard is not recognised internationally. There are bureaucratic problems in terms of documentation, submitting extra papers and visiting more than one office to obtain clearance certificates and others. The interviewees also reported that sometimes visiting Bangladeshi businessmen are harassed by the security agency officials of India, which discourages them in trading with their Indian counterparts.

Table 7: List of NTBs Indicated by Importers

Steps	NTBs
Step 1: Visa	▪ Extremely cumbersome application procedure. Sometimes visa is not granted
Step 2: Testing and certificate	▪ Considerable time required and hassles involved
Step 3: Bureaucratic complications	▪ Excessive documentation ▪ Additional paper requirements ▪ Many offices to travel
Step 4: Barriers erected by Indian customs officials after the goods have reached at land port	▪ Bribe ▪ Bureaucratic complications ▪ Security measures: search/harassment

[25] "Bangladeshis stuck in Indian visa complexities", *The Daily Star*, Dhaka, 06 March 2012.

Step 5: Barriers erected by customs official of Bangladesh after the goods have reached the port	▪ Bribing ▪ Document requirement ▪ Customs complication ▪ Wastage of time
Step 6: Port infrastructure and other barriers from Bangladesh side	▪ Connecting road ▪ Inadequacy of space/long queue of vehicles ▪ Loading/unloading problem ▪ Lack of availability of space and additional charge of vehicles ▪ Crisis of bonded warehouse/storage
Step 7: Barriers of financial institutions from Bangladesh side	▪ Excessive documents required ▪ High interest rate, mortgage rate as high as 200-300 per cent
Step 8: Other NTBs from Bangladesh side	▪ Security measures: search/harassment

Source: Compiled from interviews by the author.

5. India's NTBs as Barriers to Export: Countervailing Duty on RMGs

As mentioned earlier, India has granted DFQF access to 46 textile tariff line items from Bangladesh, which were highly sensitive as notified on 6 September 2011 during the then Indian Prime Minister Manmohan Singh's visit to Bangladesh. Later, on 9 November 2011, India granted DFQF access to all export items (except for tobacco and alcohol due to public health concern) of LDC members of SAARC that includes Bangladesh. It created an air of confidence among Bangladeshi exporters who faced unfavourable treatment in Indian market as its customs tariff was traditionally believed to be responsible for mounting trade deficit with India.

It is, however, argued that Bangladesh could not get advantage of DFQF market access due to, among others, infrastructure bottlenecks, inadequate customs and port facilities, and cumbersome export procedure and documentation required. The country also needs diversifying export basket to India. Though the total volume of export increased compared to the period before DFQF access with annual fluctuations, it declined proportionately.[26]

Shortly after granting DFQF, India imposed Countervailing Duty (CVD, an NTM) of 12.36 per cent on imports of Readymade Garments (RMGs) in FY2012-13 (starting from April 2012) for providing national treatment to exports from Bangladesh to India to create 'level playing field' for domestic and imported items.[27] However, countervailing duty is usually imposed on Indian manufacturers instead of excise duty. Now, since India imposes 6 per cent excise duty to branded readymade garments made of cotton, not containing any other textile materials, for Indian

[26] *Dhaka Tribune*, Dhaka, 23 April 2014.
[27] "Bangladesh to seek removal of CVD on RMG, dev of Indian land ports", *op. cit.*

manufacturers, it should also be applicable to imported RMGs to create a real level playing field.[28]

It was popularly claimed, especially from Indian side, that DFQF access would increase Bangladesh export to India significantly in FY2010-11 from FY2009-10, and from half a billion of FY2010-11, the exports would be simply double. Now, let us see whether the DFQF access to Indian market has really impacted significantly on Bangladesh's exports in the presence of NTBs. Table 8 clearly reveals that Bangladesh's exports to India almost doubled in FY2010-11 from FY2009-10, which paradoxically witnessed a fall in the following year instead of doubling. However, as opposed to the expectation of dramatic increase to cross US$ 1 billion, it could never touch even US$ 600 million. The growth of export experienced both positive and negative trends since FY2010-11 with a significant estimated decline in FY2013-14 (Figure 2).

Table 8: Trend of Bangladesh's Export to India (million US$)[29]

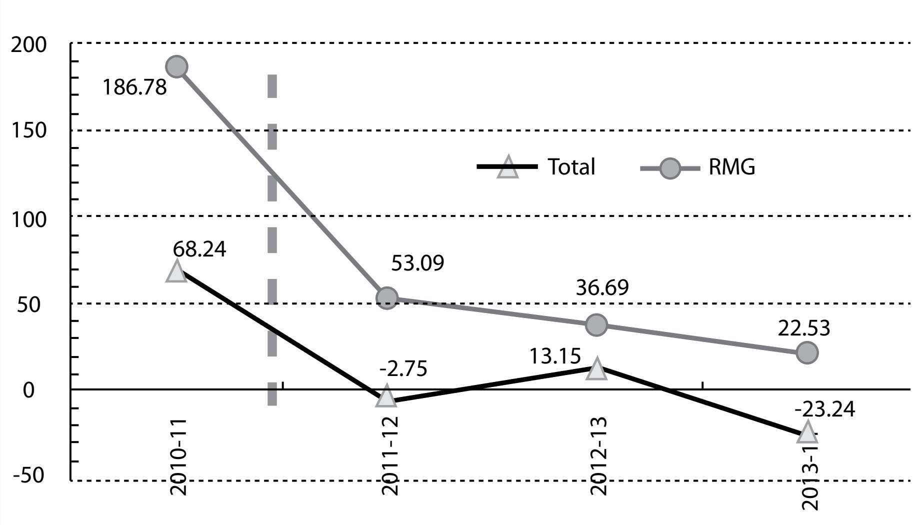
Year	Total	RMG (HS 61&62)
2009-10	304.625	12.533
2010-11	512.506	35.942
2011-12	498.419	55.024
2012-13	563.960	75.214
2013-14*	432.897	92.163

* Projection based on July 2013-May 2014 data.

On the other hand, it can be useful to examine whether CVD on Bangladeshi RMGs has created negative impact on export growth. After granting DFQF Bangladesh's access RMG exports to India did not experience magical growth altering the situation, although the growth has been quite impressive as can be seen in Figure 2. While the total export declined at 2.75 per cent, RMG export witnessed 53 per cent growth in FY2011-12. Conversely, while total export is estimated to decline by 23 per cent in FY2013-14, the RMG exports continue to demonstrate an impressive growth of 22.5 per cent. Thus, it can be concluded that there is no instance of considerably negative impact of India's introduction of CVD on Bangladesh's RMG export to that market, although there is a scope for further improvement of exports through equal treatment by lowering CVD rate for Bangladeshi RMGs to 6 per cent.

[28] As per consultation with Manzur Ahmed, Adviser, Federation of Bangladesh Chambers of Commerce and Industry (FBCCI), Dhaka.
[29] Extracted from the database of Export Promotion Bureau of Bangladesh.

Figure 2: Changes of Total Export versus RMG Export to India (%)[30]



6. Concluding Remarks

Even though SAFTA brought about some dynamism in intra-South Asian trade, the NTBs in many different forms are still significant barriers to give further boost in regional trade flow towards the potential. To reap the real benefit of trade liberalisation scheme of SAFTA and DFQF access in Indian market for LDCs of SAARC including Bangladesh, the following specific measures should be urgently taken towards reducing the miseries of NTBs:

- The existing warehouse of the importers should be considered as bonded warehouse by India. Until getting the health report the products will be kept in the importers' warehouse under lock and key. They will start selling the products after getting the health clearance.
- Indian land customs should entertain the 'Gate Pass' and allow Bangladesh vehicle to enter Indian part to unload the goods.
- The maximum distance for the vehicle entrance should be 20 km so that the vehicles can unload the goods to the importers' nearby warehouse.
- Shipment should be allowed in absence of Customs Super and some Acting Customs Super should perform this activity.
- Shipment should be allowed if the trucks reach to the port in a particular day (even not in a serial).

[30] Author's calculation based on the data of Export Promotion Bureau of Bangladesh.

- The working period of land ports should be increased and it should be minimum 12 hours a day, from 7 am to 7 pm.
- Arbitrary shifting of products from 'duty-free' to 'heavy duty' category is clearly against the spirit of SAFTA. This should be reversed to reap benefits of this regional agreement.
- Construction of warehouse and vehicle loading-unloading shed is essential.
- Restricted port of entry has led to 'overload' on some specific ports like Benapole and Tamabil. This should be given a second thought to utilise capacity of other land ports and reduce cost of doing business.
- Mutual recognition of standards, especially between Bangladesh and India, should be introduced to promote trade flow. Currently, the agreement is waiting for approval by the two governments.

Appendix: Instances of NTBs in Bangladesh-India Trade[31]

Table A1: Time Taken for Export Shipments from Kolkata to Bangladesh

Activity	Hours
Loading at Kolkata	5.00
Transit time from Kolkata to Bongaon	10.00
Waiting time at the outskirts of Bongaon and Petrapole	52.00
Waiting time at Central Warehousing Corporation parking yard	52.00
Waiting time at the border gate for entry into Bangladesh	2.00
Unloading at Benapole	22.00
Return to Petrapole	5.10
Total	**148.10**

Table A2: Share of Tariff and Non-Tariff Costs in Exports from Bangladesh to India

Head of Expenses	Value (INR)	% of Tariff and Non-Tariff Costs
Price (f.o.b.)	230	
Customs Duty	29.9	12.3
Other non-tariffs (Avoidable)	34.5	14.2
1. Extra Cost of Truck	18.4	7.6
2. Additional loading unloading at port	6.9	2.8
3. Additional carrying cost	9.2	3.8
CFL test	4.6	1.9
Others		
1. Importer's margin	14.7	6.0
2. Onward Freight (Importer to SS)	15	6.2
3. SS Margin	14.7	6.0
4. Onward Freight (SS to Distributor)	15	6.2
5. Sales tax (VAT)	45.67	18.8
6. Distributor's Margin	23	9.5
7. Retailer's Margin	46	18.9
MRP	473.07	

Note: 12.3 per cent of the cost is increasing due to customs duty while the avoidable NTBs lead to increase in product cost to 14.2 per cent. The calculation of Table A2 has been revised by the author.

[31] M. M. Islam, "Trade Cooperation between Bangladesh and India with Special Reference to the North-East India", *Dialogue*, Vol. 12, No. 4, 2011.