

Nepal-Bangladesh merchandise trade: opportunities and challenges

Neelu Thapa

South Asia Watch on Trade, Economics and Environment (SAWTEE)

22 January 2024

Surkhet

Draws on the study and presentations on “Assessment of Nepal Bangladesh Trade” by Kshitiz Dahal and Ayush Poudel

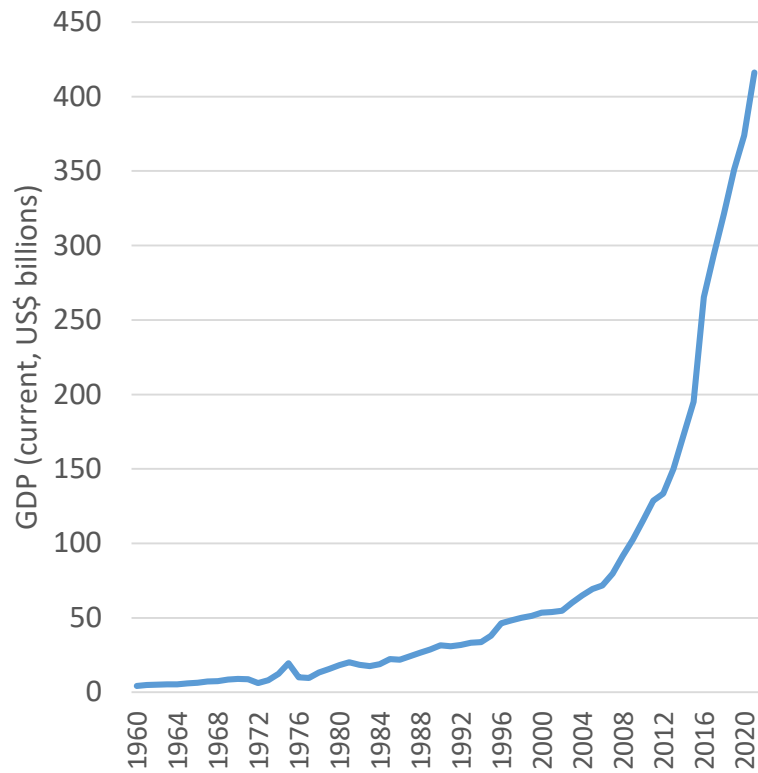
Need and possibility of Nepal-Bangladesh Trade

- **Trade Dependence on India**
- **Need for market diversification**
- **Bangladesh as a potential market due to the following features**
 - **Proximity:** Kakarvitta (Nepal)-Panitanki (India)-Fulbari (India)-Banglabandha (Bangladesh)
 - **A long history of cooperation:** seventh to recognize Bangladesh as an independent country; diplomatic relations started formally on 8 April 1972; Trade and Payments Agreement, 1976 and Transit Agreement, 1976
 - **Parties to a FTA:** SAFTA (since 2006)
 - **Partners in regional cooperation initiatives:** SAARC, BIMSTEC, BBIN

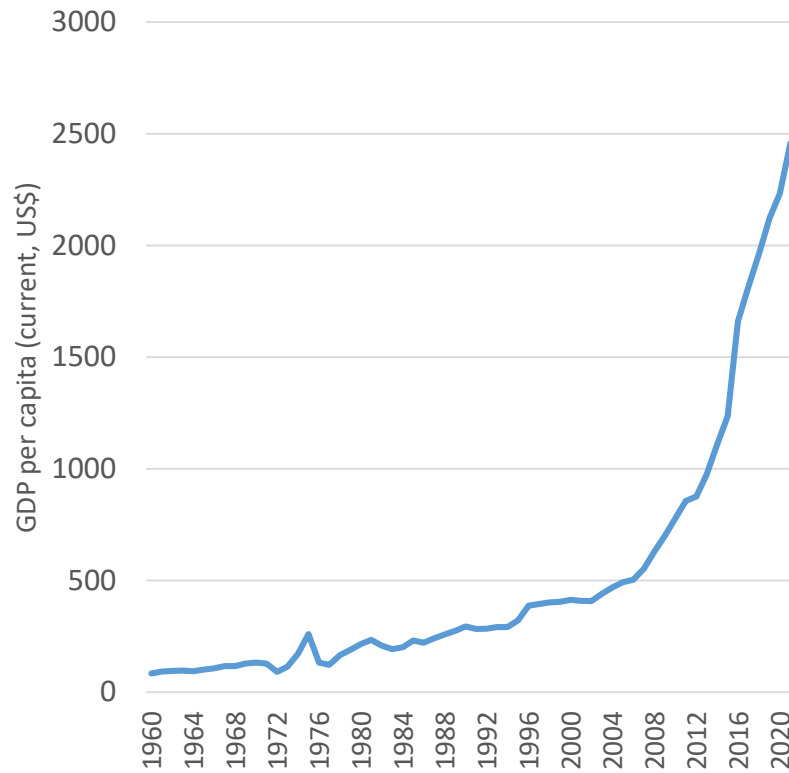
Bangladesh as a potential market for diversification

A rapidly growing dynamic market  A high capacity to absorb imports

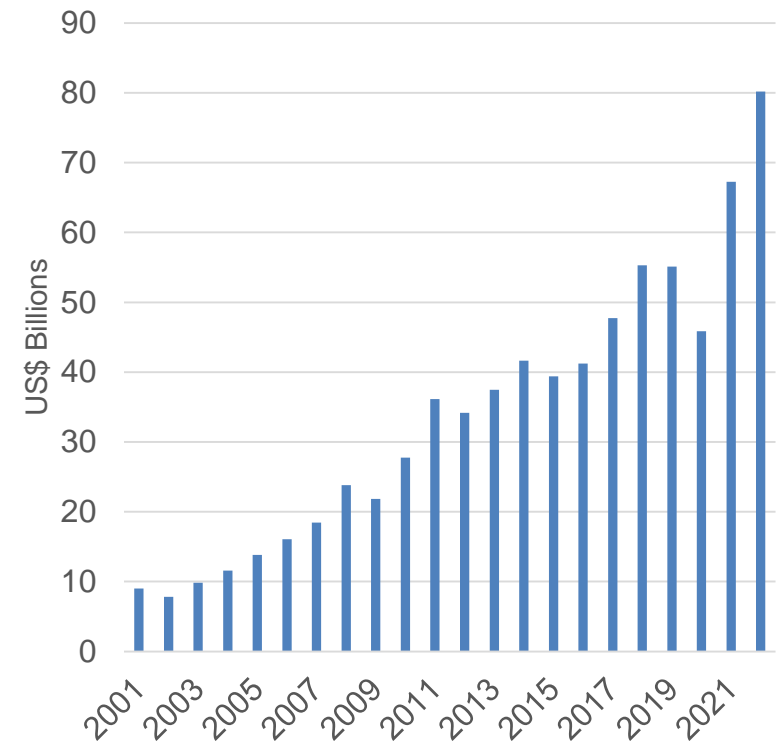
A rapidly growing economy



Rapidly increasing purchasing power

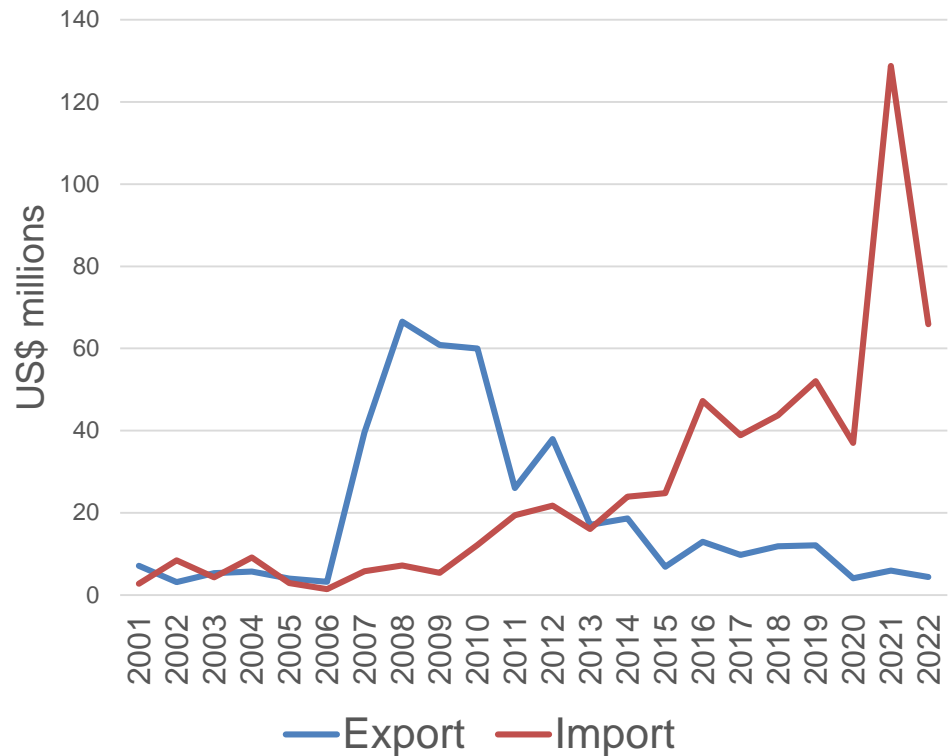


A rapidly rising import

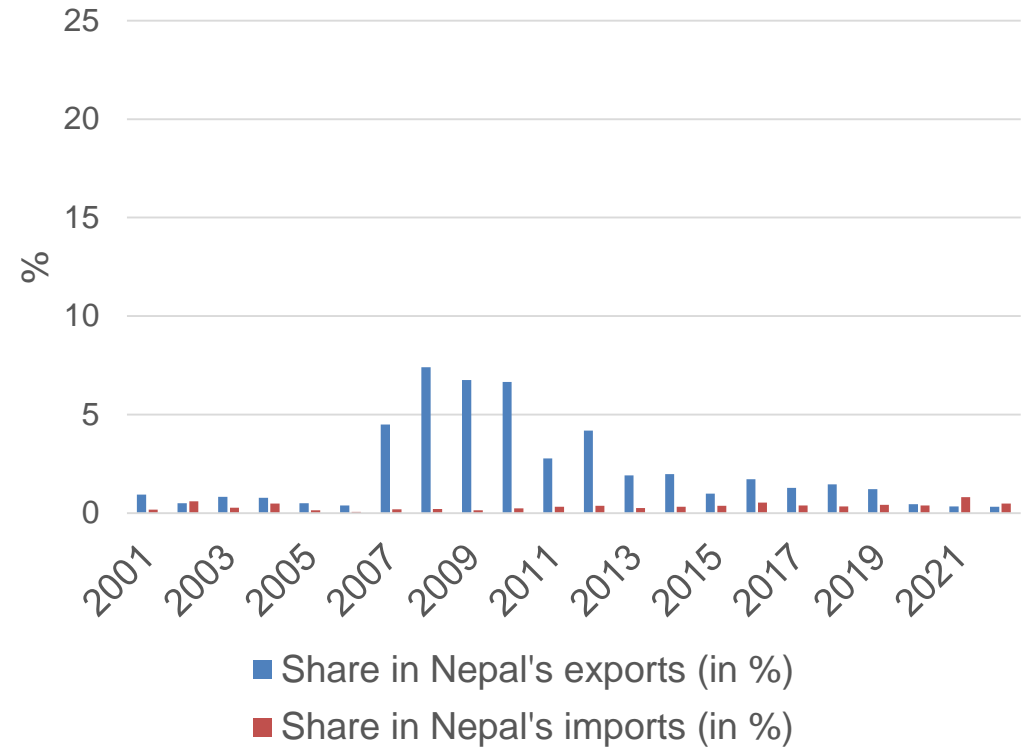


Vastly unrealized trade potential

Nepal-Bangladesh trade trends



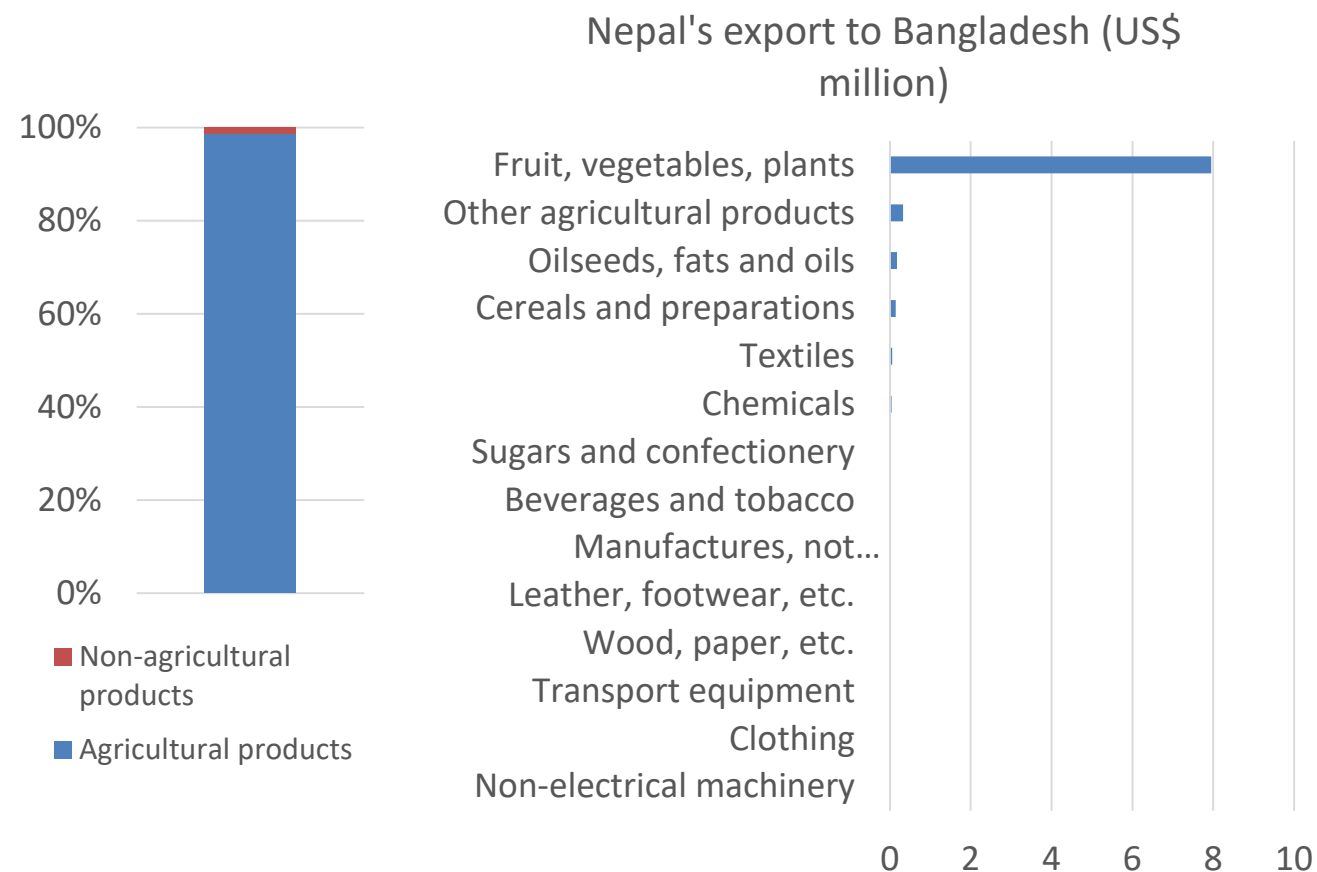
Bangladesh's share in Nepal's total trade



Nepal's export profile: narrow and concentrated

Top 10 exports to Bangladesh (5-year average):
98.5%

HS6	Description	Average export (US\$ million)	Share in Nepal's export to Bangladesh (%)
071340	Lentils	7.83	89.52
230690	Oil-cake	0.17	1.93
230250	Bran, sharps and other residues	0.14	1.65
210690	Food preparations	0.14	1.65
121190	MAPS	0.10	1.11
050690	Animal products--bones and horn	0.08	0.91
230230	Bran, sharps and other residues; of wheat	0.06	0.64
091011	Ginger (sutho)	0.04	0.44
631010	Rags	0.03	0.35
320190	Tanning extracts of vegetable origin	0.02	0.26



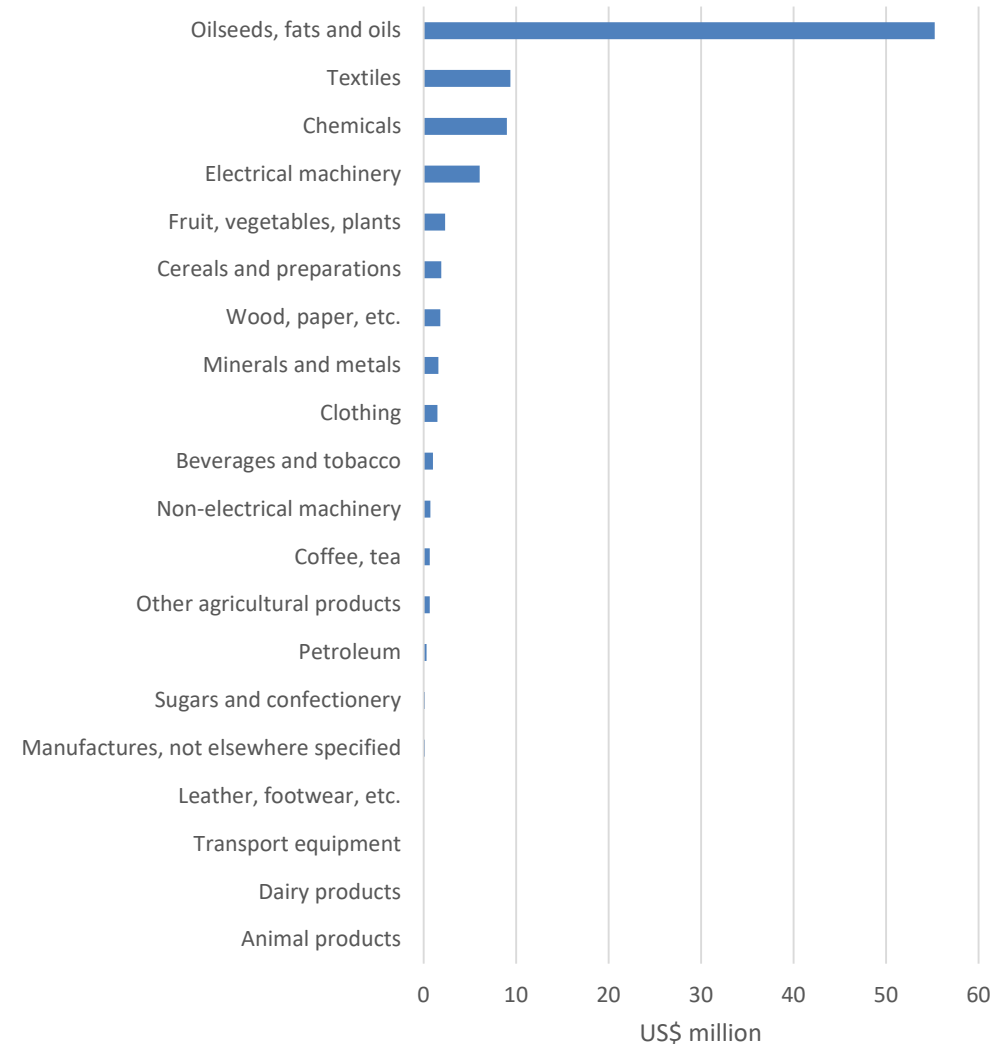
Data source: ITC Trade Map

Nepal's top 10 imports from Bangladesh

HS6	Description	Import from Bangladesh (US\$ million)	Share in Nepal's total import from Bangladesh (%)
230400	Oil-cake and other solid residues, of soyabean	44.12	47.6
120190	Soyabean (not seed)	11.16	12.04
530310	Raw Jute	5.44	5.87
850710	Lead-acid accumulators	4.07	4.39
300490	Other - Medicaments put up in measured doses	2.76	2.97
70190	Potatoes, fresh or chilled (not seed)	2.26	2.44
700510	Non-wired glass	1.39	1.5
300420	Medicaments of other antibiotics	1.35	1.46
190540	Rusks, toasted bread	1.25	1.35
300660	Chemical contraceptive preparations	1.24	1.33

Top 10 imports from Bangladesh

Source: Department of Customs and author's calculation



Nepal's imports from Bangladesh, by Category

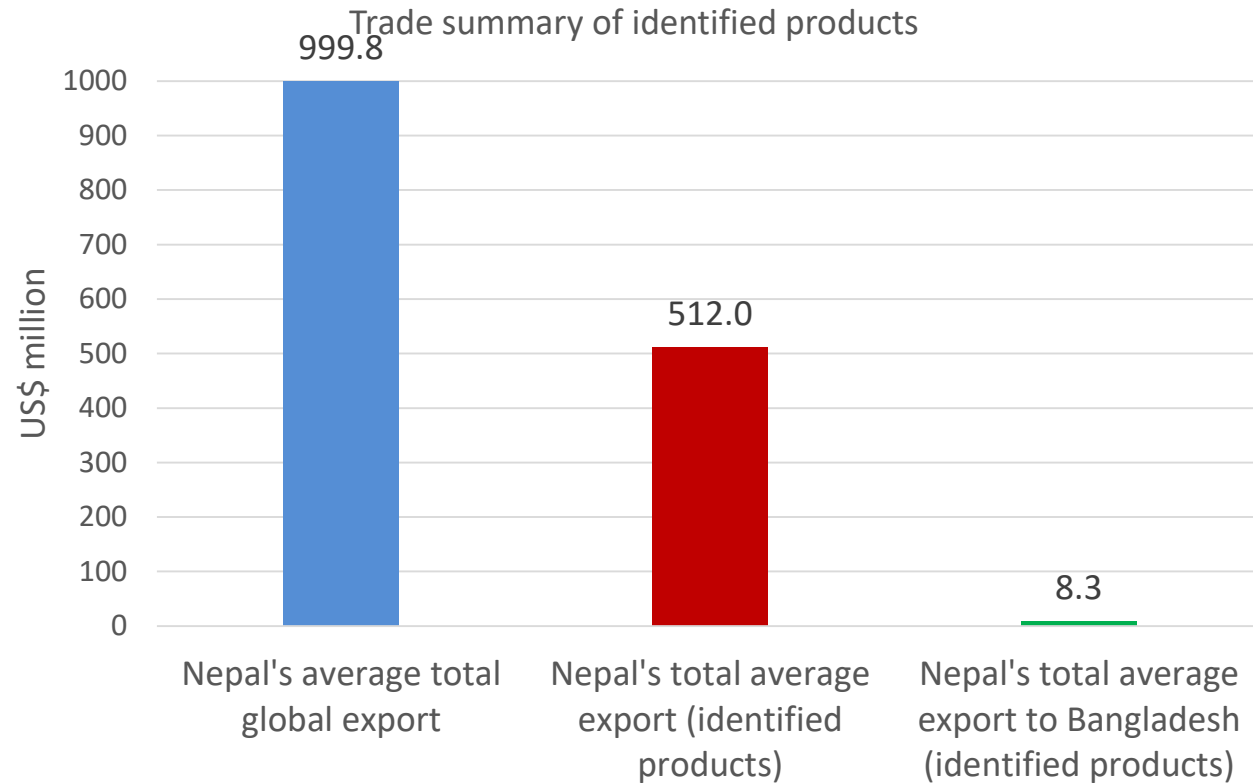
Source: Department of Customs and author's calculation

Potential export products: study methodology

1. Compile trade data for 5 years (ITC trade map)
2. Remove products that have been exported by Nepal for only 2 years or less or imported by Bangladesh for 2 years or less
3. Average Bangladesh import of product (HS6) > US\$ 1 million
4. Nepal's average RCA > 1 and average export (HS6) > US\$ 100000
5. Remove products that have declining import in Bangladesh
6. Add products prioritized by the government and stakeholders. The consultation with stakeholders have revealed these products as Yoghurt, buttermilk, fats and oils , processed cheese, vegetables-Tomatoes , cauliflowers, cabbage etc. fruits- avocados, oranges, kiwi fruit etc. Other vegetable products such as rudrakshya and amriso.

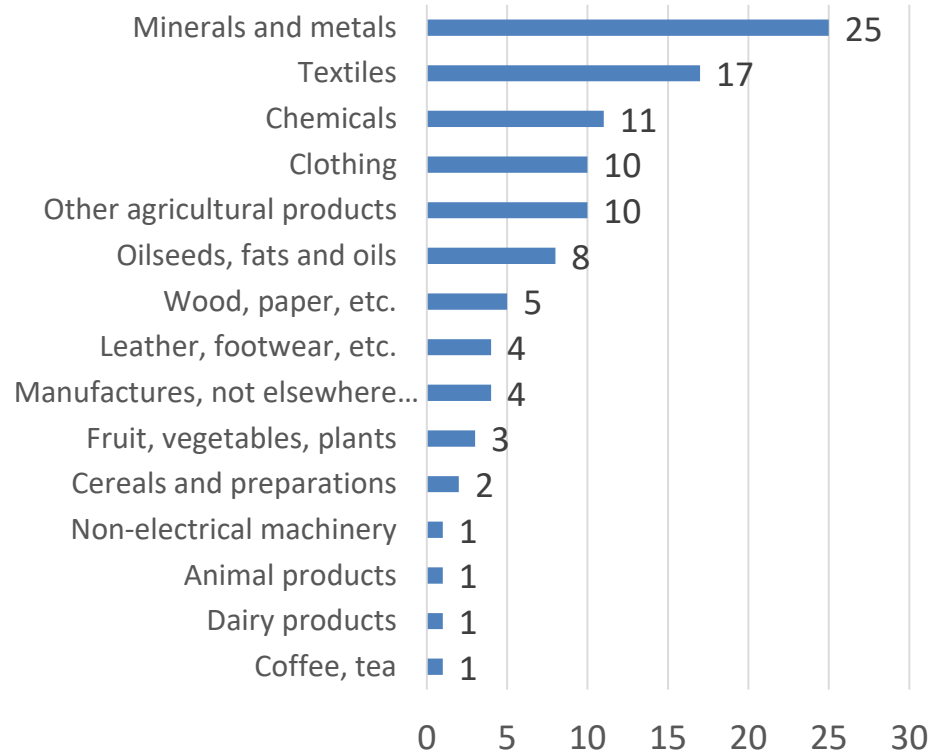
Potential Export Products

- 103 products (at HS6 level)/164 products (at HS8 level) if 'declining imports' not accounted for
- 58 products (at HS6 level) if 'declining imports' accounted for

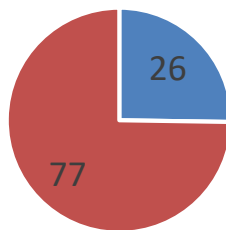
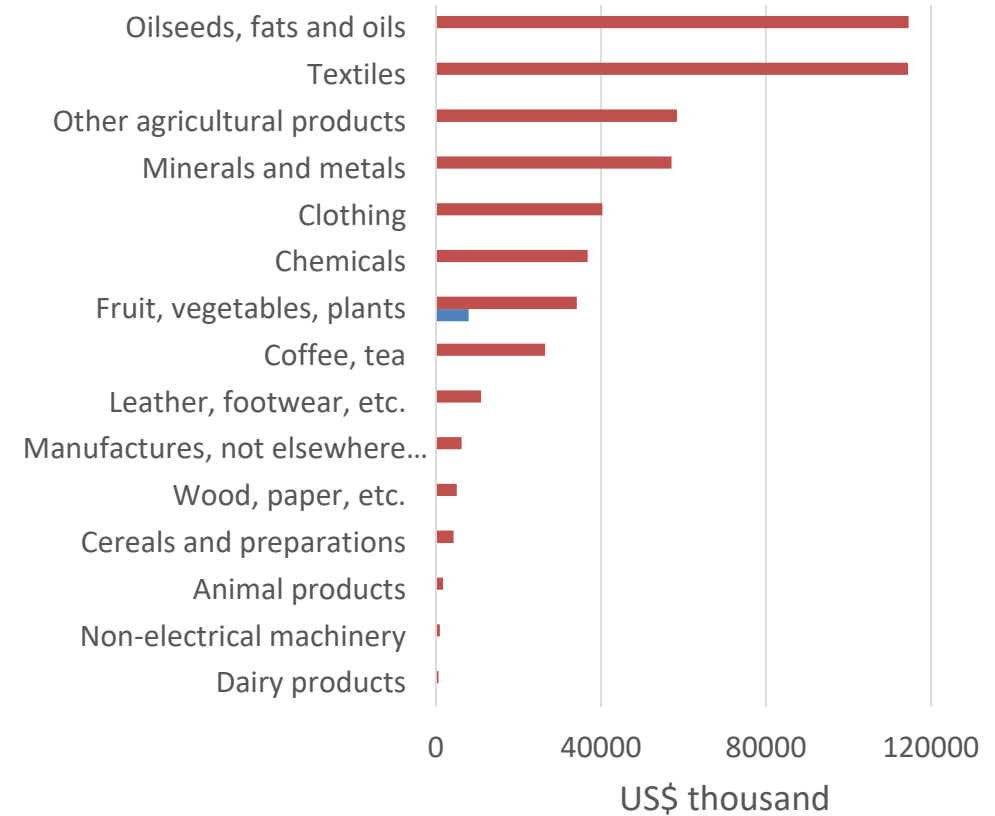


Potential export products profile

Number of identified potential products



Nepal's average export of identified products



■ Agricultural products ■ Non-agricultural products

■ Nepal's average export ■ Nepal's average export to BGD

Reasons for untapped export potential: trade barriers

• Tariff barriers

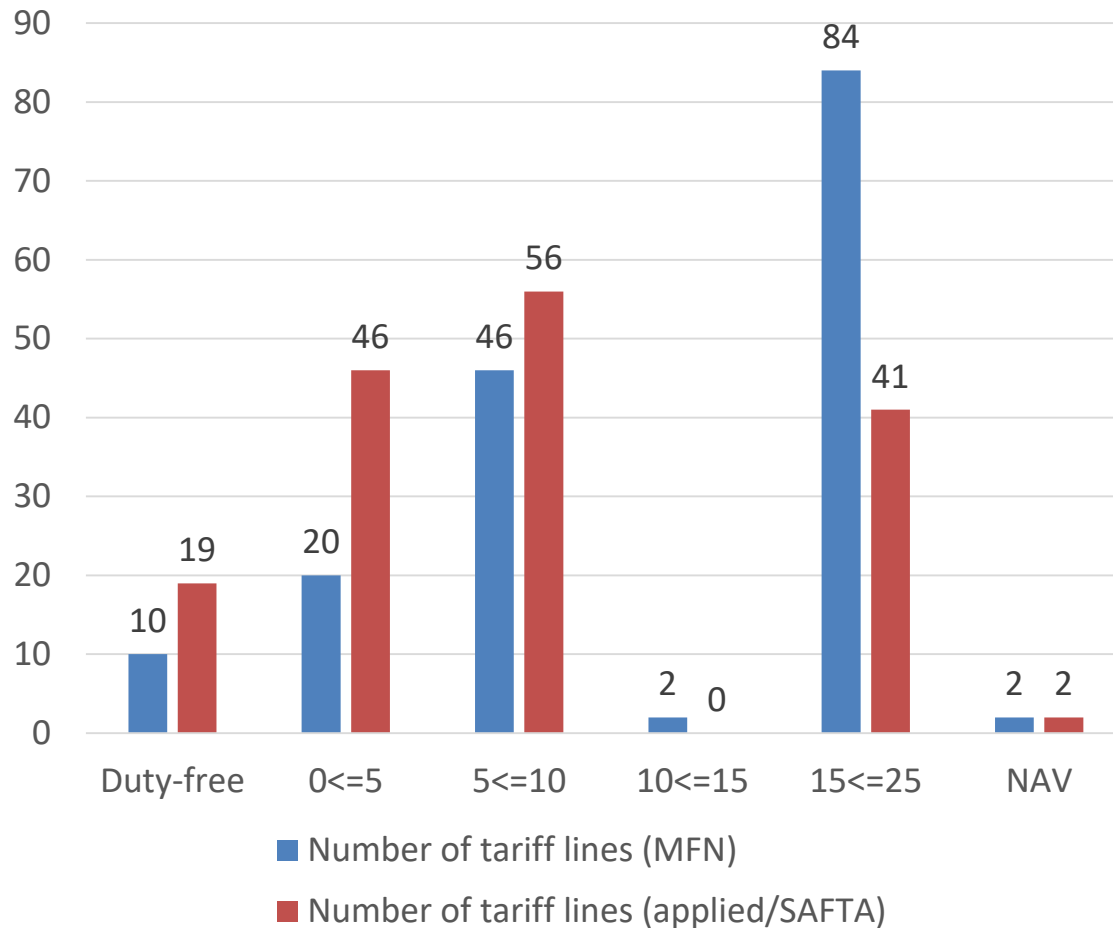
- Tariffs on several products restrictive/prohibitive (25% customs duty)
- Negative preferences due to Bhutan's duty-free plus para-tariff free access on some products (including agricultural products of export interest to Nepal, e.g. large cardamoms, ginger, vegetables, fruits and juice, etc.)

Para-tariff barriers

- Other duties and charges: Regulatory Duty (RD), Supplementary Duty (SD), Value Added Tax (VAT), Advance Income Tax (AIT), and Advance Trade VAT (AVAT) are collected at the Customs point
- Some charges such as regulatory duty (of mostly 3%) apply exclusively for imports and even apparently trade-neutral SD and VAT are para-tariffs in disguise as exemptions are granted for some domestic products (World Bank 2018)
- With the inclusion of para-tariffs, the simple average tariff (FY2016/17) almost doubles, from 13.3% to 25.6% (World Bank 2018)
- **Often identified as the sole reason for zero or low export by exporters**

Potential export products: tariff profile

Customs Duty ranges for identified products



Import duties summary (%)

	Min	Median	Mean	Max
Customs Duty (MFN)	0	25	16.58	25
Customs Duty (applied)	0	5	9.636	25
Total Tax Incidence (applied/SAFTA)	0	34.6	46.65	131.2

Potential export products: tariff profile

- 82 products (out of 164 products at TL) receive SAFTA concessions

Duties for identified products that qualify for SAFTA preference				
	Min	Median	Mean	Max
CD (MFN)	5.00	25.00	17.62	25.00
CD(applied/SAFTA)	0.00	3.00	3.56	5.00
TTI(applied/SAFTA)	5.00	31.00	38.26	112.36

- 10 additional products have zero customs duty (zero MFN); but the average total tax incidence is 14.03%.

Other duties and charges (para-tariffs) in Bangladesh

	Tariff lines affected		Rates (percent of affected tariff lines in parentheses)
	Number	Share, %	
Regulatory Duty	3030	45	3(99%), 15, 20
Supplementary Duty	1523	22.6	20(61%), 45 (21%), 30(5%), 10(4%), 60(4%), and six other rates between 100% and 500% (5%)
Value added tax	730	10.8	15
Advance Income Tax	ALL	100	5
Advance trade VAT	ALL	100	5

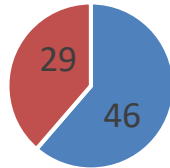
Data Source: World Bank report "A Glass Half Full" and Duty Calculator, Bangladesh Customs

Nepal-Bangladesh Preferential Trade Agreement to counter tariff/para-tariff barriers

- PTA in discussion for some time now
- PTA could enhance Nepal –Bangladesh trade (including currently dismal Nepal’s exports to Bangladesh) against the backdrop of high tariffs and para-tariff barriers
- Some challenges
 - Removal of not only tariff (custom duty) but also para-tariffs
 - Unconditional MFN treatment to India (Nepal-India trade treaty)

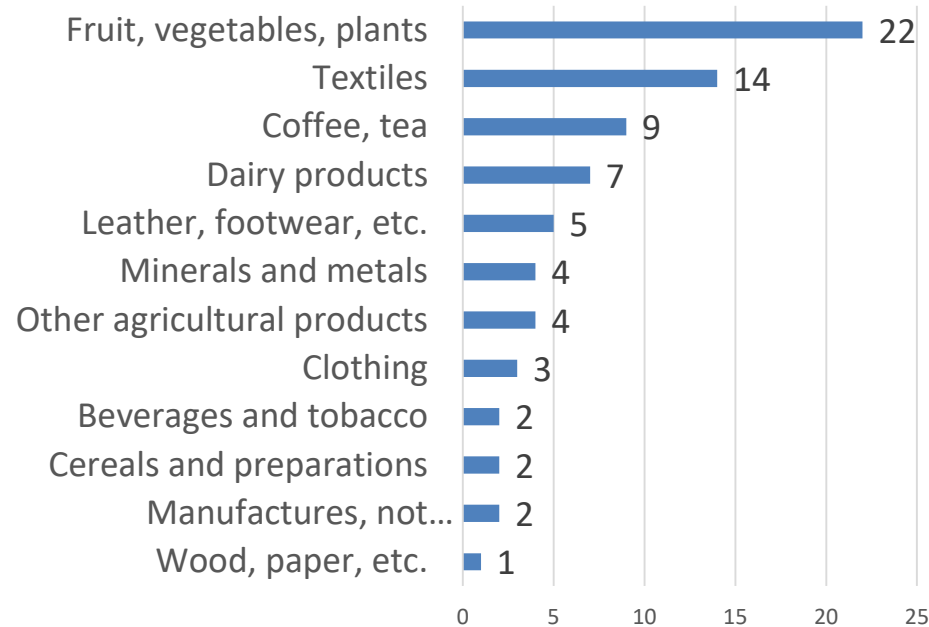
Nepal's request list: 130 (HS8), 75(HS6)

Products in Nepal's request list (HS6)



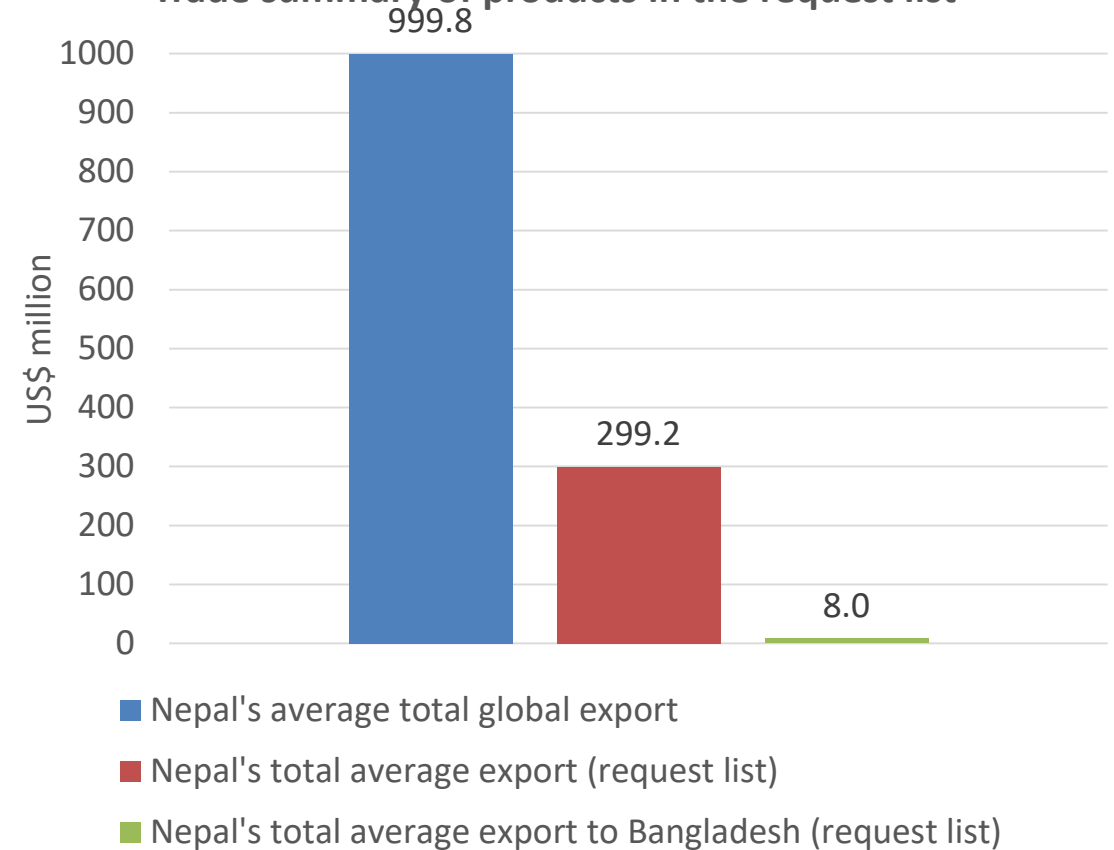
■ Agricultural products ■ Non-agricultural products

Products in Nepal's request list



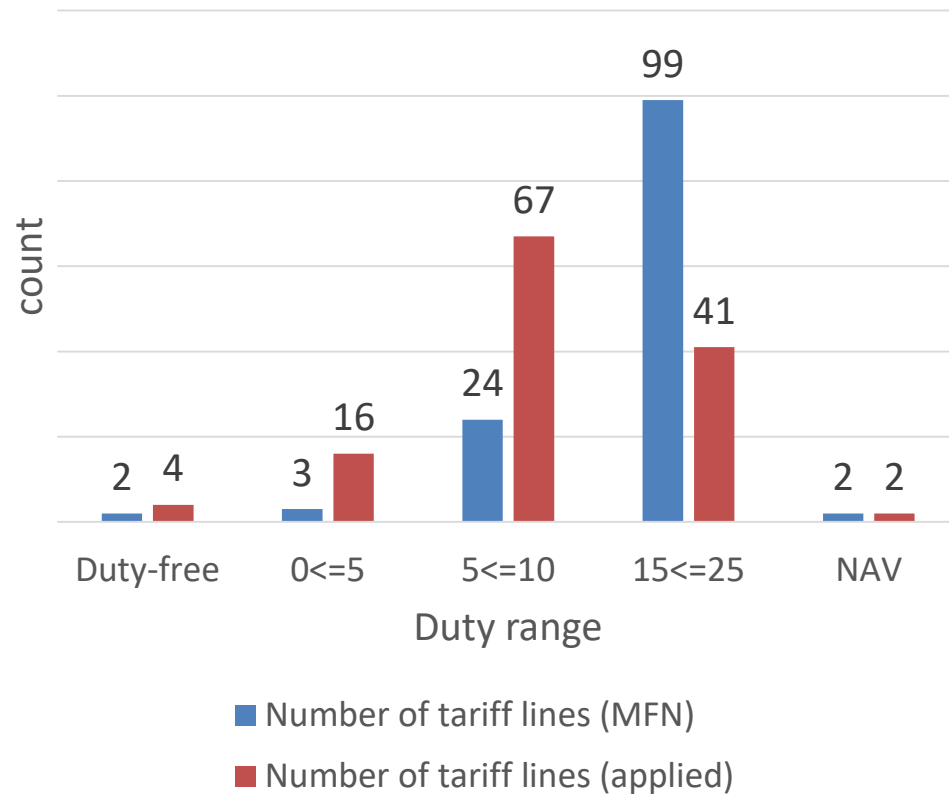
	Bangladesh's share in Nepal's export of request list items (%)
Agricultural products	6.431
Non-agricultural products	0.005

Trade summary of products in the request list



Nepal's request list: tariff profile

Customs Duty ranges for Nepal's request list

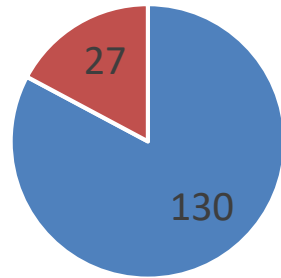


Import taxes summary (%)

	Min	Median	Mean	Max
Customs Duty	0.00	25.00	21.33	25.00
Customs Duty (Nepal/SAFTA)	0.00	5.00	11.37	25.00
Total tax incidence (Nepal/SAFTA)	0.00	58.60	58.45	289.00

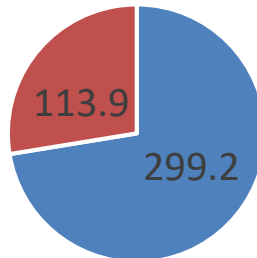
Bangladesh's offer: perhaps not substantial

Number of products at Tariff Line
(request vs offer)



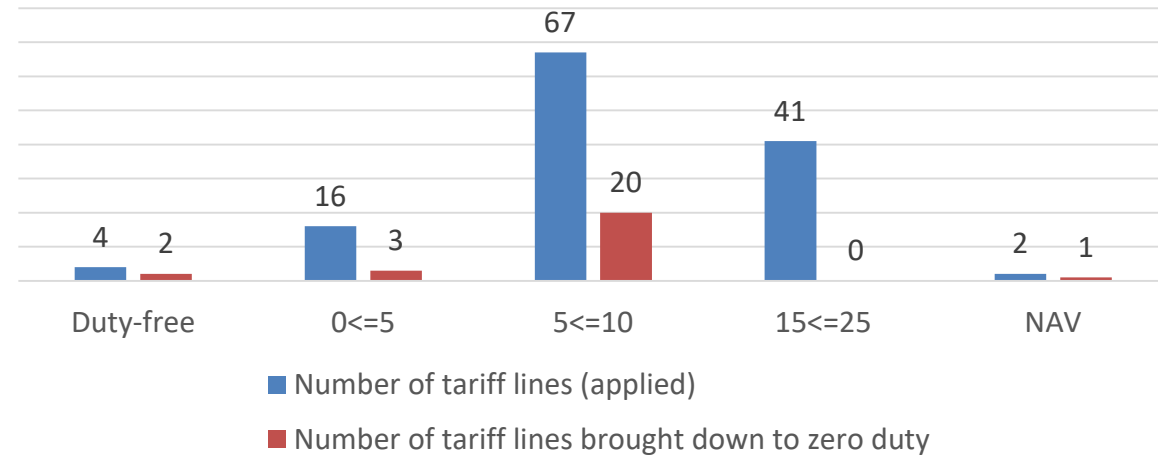
■ Nepal's request ■ Bangladesh's offer

Bangladesh's offer (by value) against Nepal's request



■ Nepal's total average trade (request list)
■ Nepal's average export of products in the offer list

Duty-free offer by Bangladesh in Nepal's request list

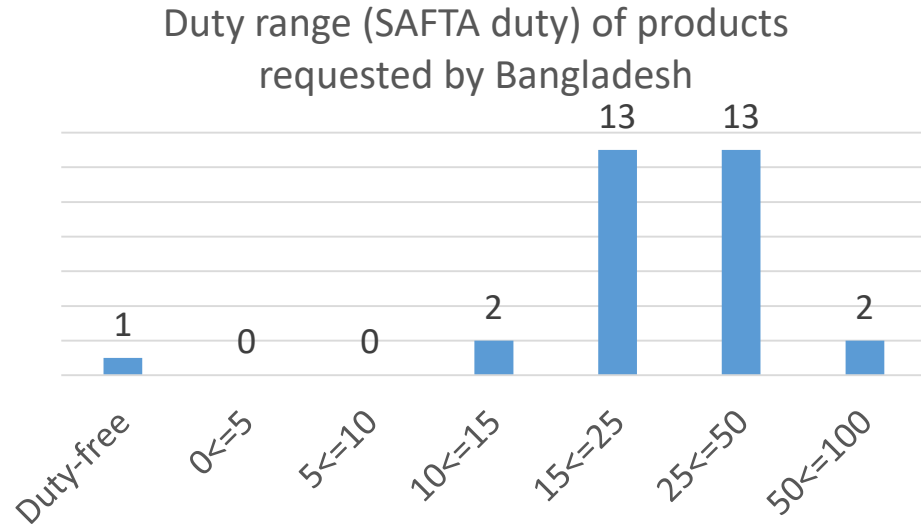


	Min	Median	Mean	Max
Customs Duty (before)	0	5	11.37	25
Customs Duty (after)	0	5	10.42	25

	Min	Median	Mean	Max
Total tax incidence (before)	0	58.6	58.45	289
Total tax incidence (before)	0	58.6	57.02	289

Bangladesh's request

- 31 products at tariff line level



Summary of customs duty on products requested by BGD

	Min	Median	Mean	Max
Customs Duty (MFN)	0	35.6	38.69	61.59
Customs Duty (SAFTA)	0	24.67	28.49	53.99

Need to consider the impact on domestic industry, jobs, revenue loss (including revenue loss emanating from automatic preference granted to India)

Non-tariff barriers

- A large number of NTMs attracted by agricultural products (many are not yet NTBs!)
- Some NTMs (e.g. certification) are cumbersome
- Lack of advance payment provisions
- Other issues: high reference price, logistics issues (sub-optimal customs infrastructure), business visa issues, harassment/informal payments along the trade route, etc.

Addressing issues to enhance Nepal-Bangladesh trade

- **Addressing tariff/para-tariff barriers:** Preferential Trade Agreement (PTA) that reduces/eliminates tariffs, inclusive of para-tariffs; better dissemination of information regarding SAFTA concessions and certificate of origin (SAFTA)
- **Addressing NTBs and procedural obstacles:** Proactive engagement with Bangladeshi counterparts (and also India) for better trade facilitation, elimination of NTBS, etc. (operationalization of BBIN MVA?)
- Payment issues
- Other issues apart from NTBs
 - customs infrastructure
 - issuance of visa
 - NTWC charge (0.4% of export value)
 - harassment at the border

Summarizing the discourse

- Nepal's regional trade is dismal if we take India out of the equation
- Bangladesh market may be an apt destination because of several features but market access may be an issue: non-tariff barriers, while they exist are not trade impeding, but tariff/para-tariff barriers are
- Successful completion of PTA while safeguarding Nepal's interests such as protection of key industries, jobs, etc. may be a way forward