Nepal-Bangladesh merchandise trade: opportunities and challenges

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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%

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

Data source: ITC Trade Map
### Nepal’s top 10 imports from Bangladesh

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

**Source:** Department of Customs and author's calculation

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### Nepal’s imports from Bangladesh, by Category

- Oilseeds, fats and oils
- Textiles
- Chemicals
- Electrical machinery
- Fruit, vegetables, plants
- Cereals and preparations
- Wood, paper, etc.
- Minerals and metals
- Clothing
- Beverages and tobacco
- Non-electrical machinery
- Coffee, tea
- Other agricultural products
- Petroleum
- Sugars and confectionery
- Manufactures, not elsewhere specified
- Leather, footwear, etc.
- Transport equipment
- Dairy products
- Animal products

**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, organdies, 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

- Minerals and metals: 25
- Textiles: 17
- Chemicals: 11
- Clothing: 10
- Animal products: 10
- Cereals and preparations: 8
- Fruit, vegetables, plants: 5
- Wood, paper, etc.: 4
- Leather, footwear, etc.: 4
- Manufactures, not elsewhere classified: 3
- Cereals and preparations: 2
- Non-electrical machinery: 1
- Animal products: 1
- Dairy products: 1
- Coffee, tea: 1

Nepal's average export of identified products

- Oilseeds, fats and oils
- Textiles
- Other agricultural products
- Minerals and metals
- Clothing
- Chemicals
- Fruit, vegetables, plants
- Coffee, tea
- Leather, footwear, etc.
- Wood, paper, etc.
- Manufactures, not elsewhere classified
- Cereals and preparations
- Animal products
- Non-electrical machinery
- Dairy products

Nepal's average export

- US$ thousand
- Nepal's average export to BGD

Agricultural products
- Non-agricultural products
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**

<table>
<thead>
<tr>
<th>Duty-free</th>
<th>0&lt;=5</th>
<th>5&lt;=10</th>
<th>10&lt;=15</th>
<th>15&lt;=25</th>
<th>NAV</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>19</td>
<td>20</td>
<td>2</td>
<td>0</td>
<td>2</td>
</tr>
</tbody>
</table>

**Import duties summary (%)**

<table>
<thead>
<tr>
<th></th>
<th>Min</th>
<th>Median</th>
<th>Mean</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customs Duty (MFN)</td>
<td>0</td>
<td>25</td>
<td>16.58</td>
<td>25</td>
</tr>
<tr>
<td>Customs Duty (applied)</td>
<td>0</td>
<td>5</td>
<td>9.636</td>
<td>25</td>
</tr>
<tr>
<td>Total Tax Incidence (applied/SAFTA)</td>
<td>0</td>
<td>34.6</td>
<td>46.65</td>
<td>131.2</td>
</tr>
</tbody>
</table>
Potential export products: tariff profile

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

<table>
<thead>
<tr>
<th>Duties for identified products that qualify for SAFTA preference</th>
<th>Min</th>
<th>Median</th>
<th>Mean</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>CD (MFN)</td>
<td>5.00</td>
<td>25.00</td>
<td>17.62</td>
<td>25.00</td>
</tr>
<tr>
<td>CD(applied/SAFTA)</td>
<td>0.00</td>
<td>3.00</td>
<td>3.56</td>
<td>5.00</td>
</tr>
<tr>
<td>TTI(applied/SAFTA)</td>
<td>5.00</td>
<td>31.00</td>
<td>38.26</td>
<td>112.36</td>
</tr>
</tbody>
</table>

• 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

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

*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)

### Trade summary of products in the request list

- **Fruit, vegetables, plants**: 22
- **Textiles**: 14
- **Coffee, tea**: 9
- **Dairy products**: 7
- **Leather, footwear, etc.**: 5
- **Minerals and metals**: 4
- **Other agricultural products**: 4
- **Clothing**: 3
- **Beverages and tobacco**: 2
- **Cereals and preparations**: 2
- **Manufactures, not...**: 2
- **Wood, paper, etc.**: 1

### Bangladesh's share in Nepal's export of request list items (%)

- **Agricultural products**: 6.431
- **Non-agricultural products**: 0.005

### Products in Nepal’s request list (HS6)

- **Agricultural products**: 46%
- **Non-agricultural products**: 29%
Nepal’s request list: tariff profile

Customs Duty ranges for Nepal’s request list

<table>
<thead>
<tr>
<th>Duty range</th>
<th>Count</th>
<th>Count (applied)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duty-free</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>0&lt;=5</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>5&lt;=10</td>
<td>16</td>
<td>16</td>
</tr>
<tr>
<td>15&lt;=25</td>
<td>24</td>
<td>24</td>
</tr>
<tr>
<td>NAV</td>
<td>99</td>
<td>99</td>
</tr>
</tbody>
</table>

Import taxes summary (%)

<table>
<thead>
<tr>
<th></th>
<th>Min</th>
<th>Median</th>
<th>Mean</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customs Duty</td>
<td>0.00</td>
<td>25.00</td>
<td>21.33</td>
<td>25.00</td>
</tr>
<tr>
<td>Customs Duty (Nepal/SAFTA)</td>
<td>0.00</td>
<td>5.00</td>
<td>11.37</td>
<td>25.00</td>
</tr>
<tr>
<td>Total tax incidence (Nepal/SAFTA)</td>
<td>0.00</td>
<td>58.60</td>
<td>58.45</td>
<td>289.00</td>
</tr>
</tbody>
</table>
Bangladesh’s offer: perhaps not substantial

**Number of products at Tariff Line (request vs offer)**

- **Nepal's request**: 130
- **Bangladesh's offer**: 27

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

- **Nepal's total average trade (request list)**: 299.2
- **Nepal's average export of products in the offer list**: 113.9

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

- Duty-free (Min, Median, Mean, Max):
  - 4, 2, 0
  - 16, 3, 20
  - 67, 20, 41
  - 0, 0, 2

- 0, 2, 1

<table>
<thead>
<tr>
<th></th>
<th>Min</th>
<th>Median</th>
<th>Mean</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Customs Duty (before)</strong></td>
<td>0</td>
<td>5</td>
<td>11.37</td>
<td>25</td>
</tr>
<tr>
<td><strong>Customs Duty (after)</strong></td>
<td>0</td>
<td>5</td>
<td>10.42</td>
<td>25</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Min</th>
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<th>Mean</th>
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<tbody>
<tr>
<td><strong>Total tax incidence (before)</strong></td>
<td>0</td>
<td>58.6</td>
<td>58.45</td>
<td>289</td>
</tr>
<tr>
<td><strong>Total tax incidence (before)</strong></td>
<td>0</td>
<td>58.6</td>
<td>57.02</td>
<td>289</td>
</tr>
</tbody>
</table>
Bangladesh’s request

• 31 products at tariff line level

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

Summary of customs duty on products requested by BGD

<table>
<thead>
<tr>
<th></th>
<th>Min</th>
<th>Median</th>
<th>Mean</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customs Duty (MFN)</td>
<td>0</td>
<td>35.6</td>
<td>38.69</td>
<td>61.59</td>
</tr>
<tr>
<td>Customs Duty (SAFTA)</td>
<td>0</td>
<td>24.67</td>
<td>28.49</td>
<td>53.99</td>
</tr>
</tbody>
</table>
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.