Nepal-Bangladesh merchandise trade: opportunities and challenges

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

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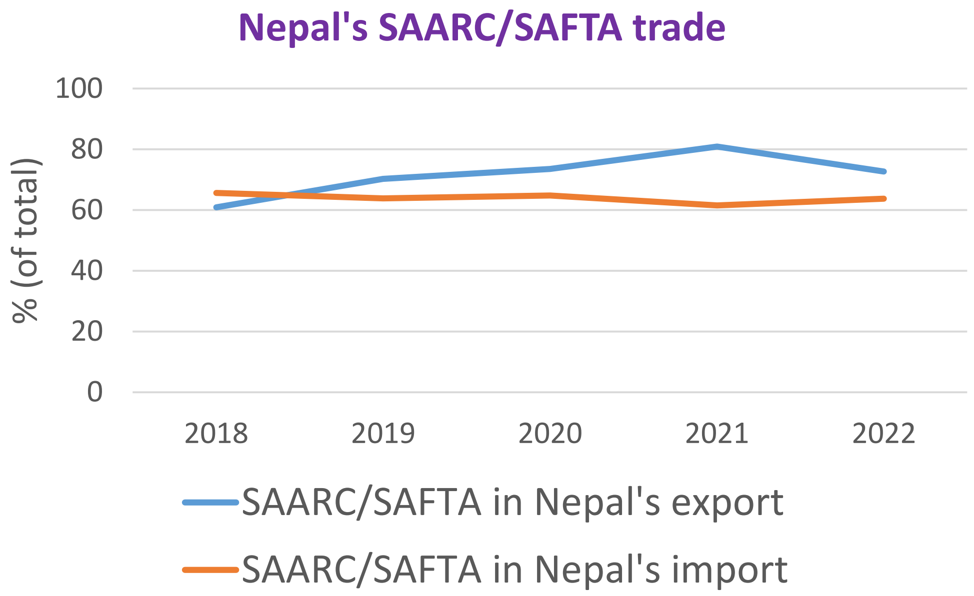
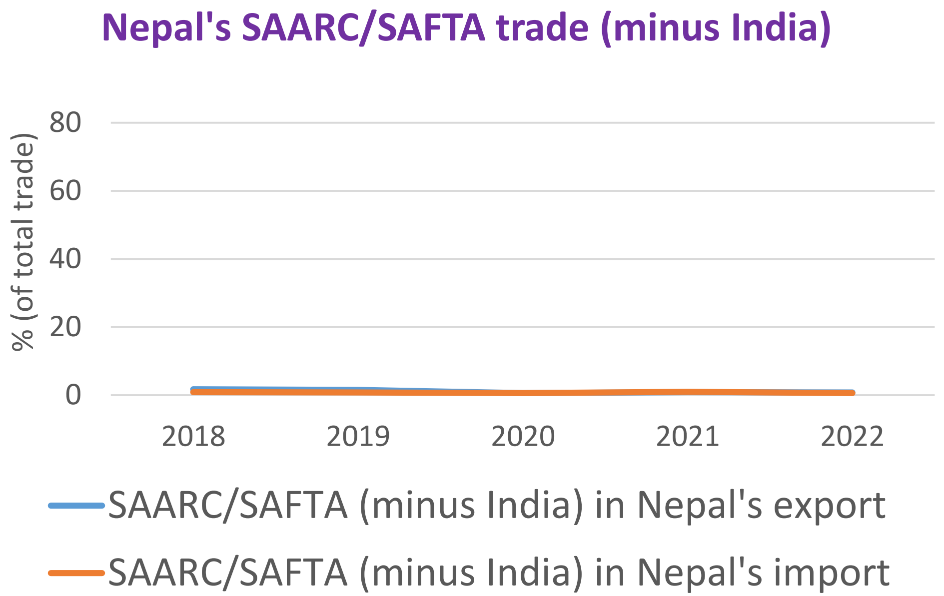
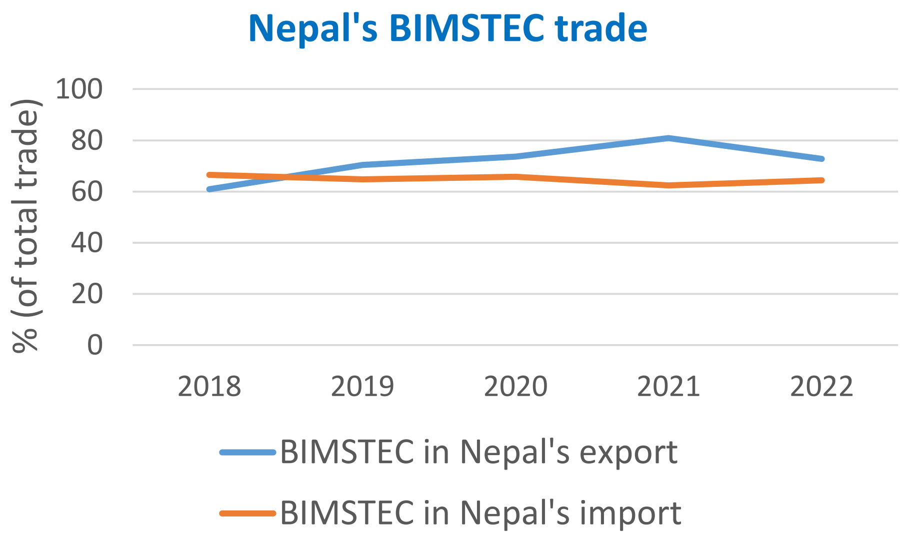
Nepal’s regional trade







Data source: TEPC

Need to diversify trade destinations

- High concentration in India
- LDC graduation: need to find other markets to overcome upcoming tariff hikes in some destinations
- Regional markets can be a springboard to enhance cross-border trade and investment engagements

Bangladesh as a potential market for diversification

Features of Nepal-Bangladesh Trade

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

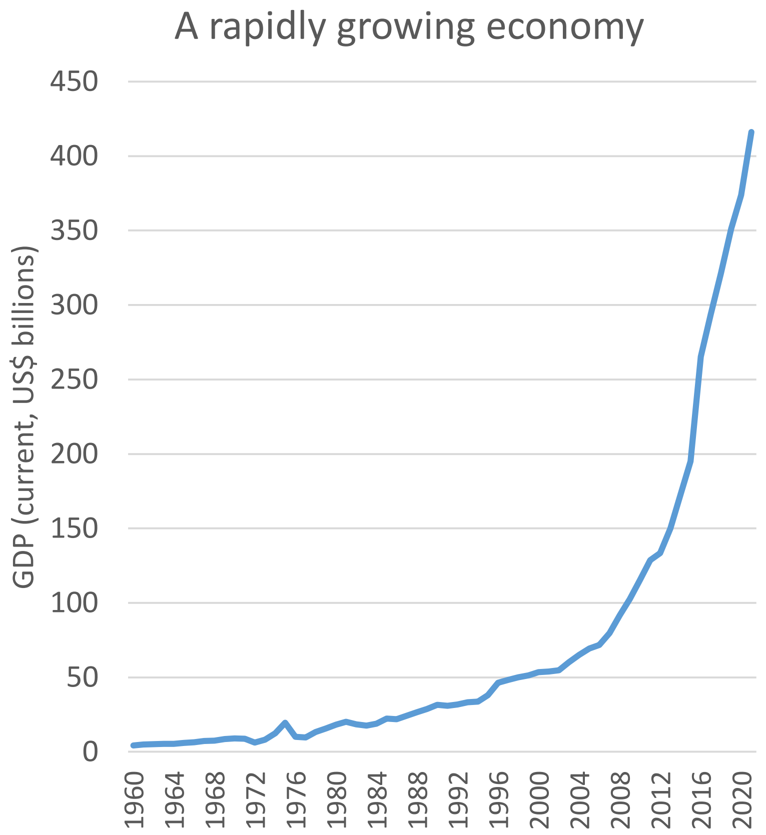
Parties to a FTA: SAFTA (since 2006)

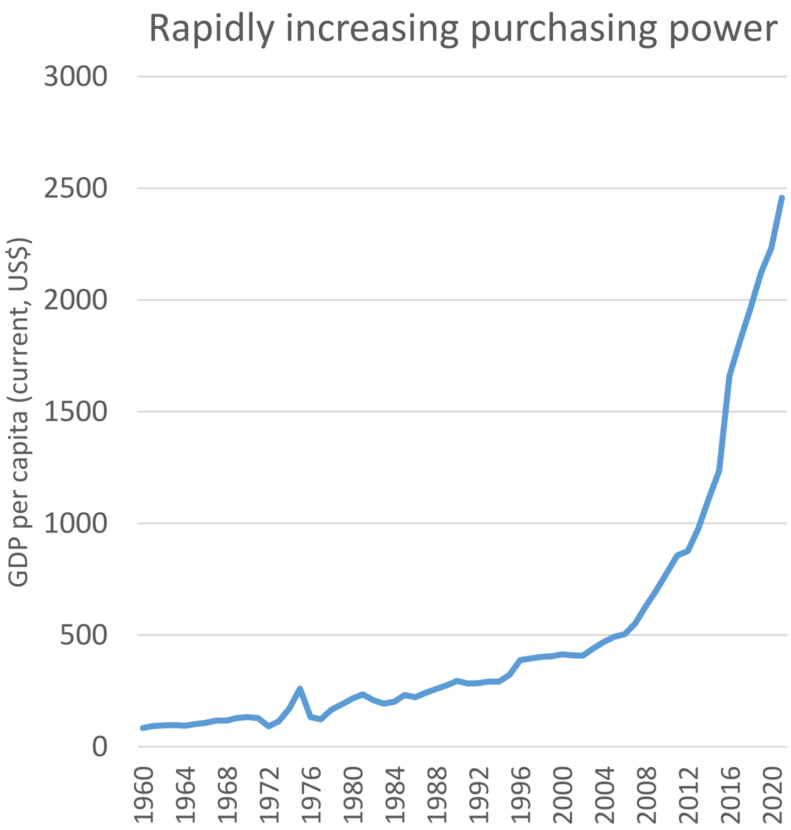
Partners in regional cooperation initiatives: SAARC, BIMSTEC, BBIN

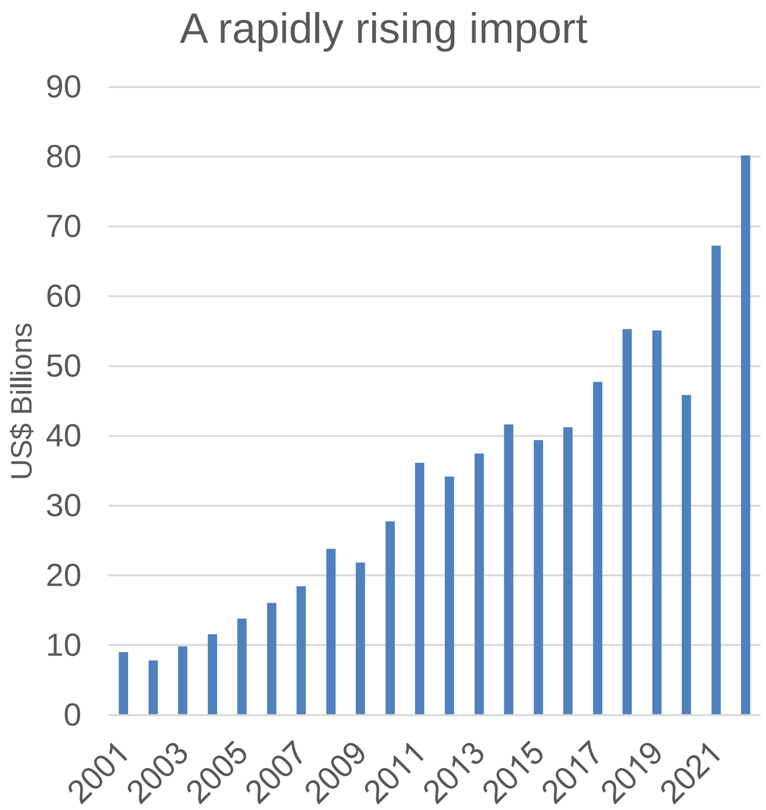
But, trade potential vastly unrealized

Bangladesh as a potential market for diversification

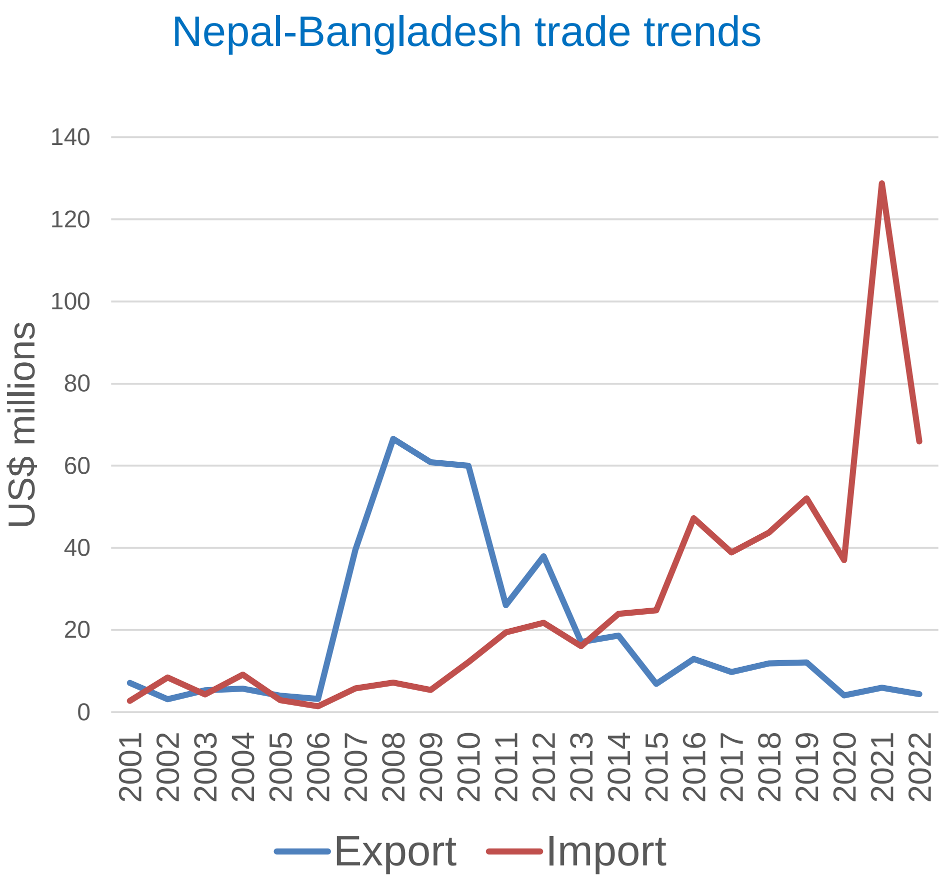
A rapidly growing dynamic market ➡ A high capacity to absorb imports

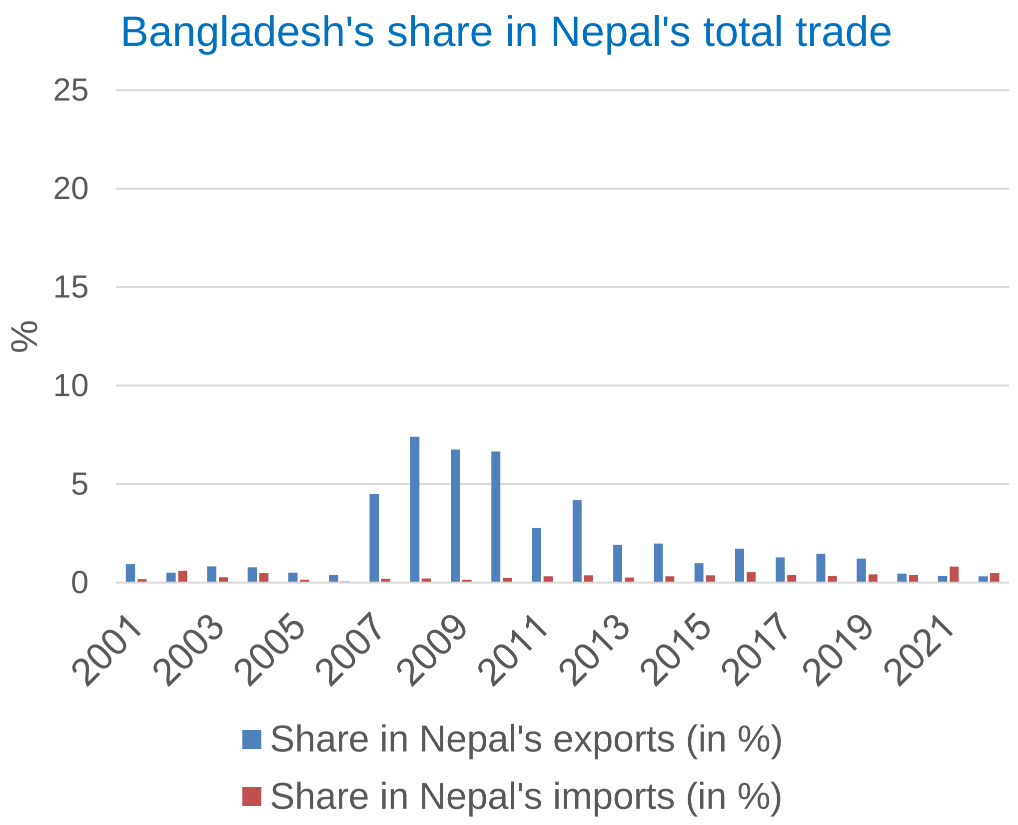






Vastly unrealized trade potential

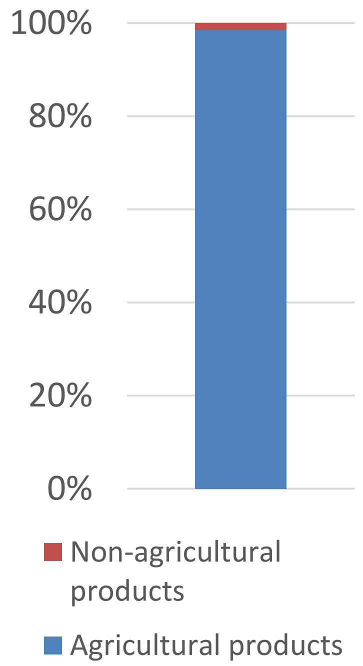


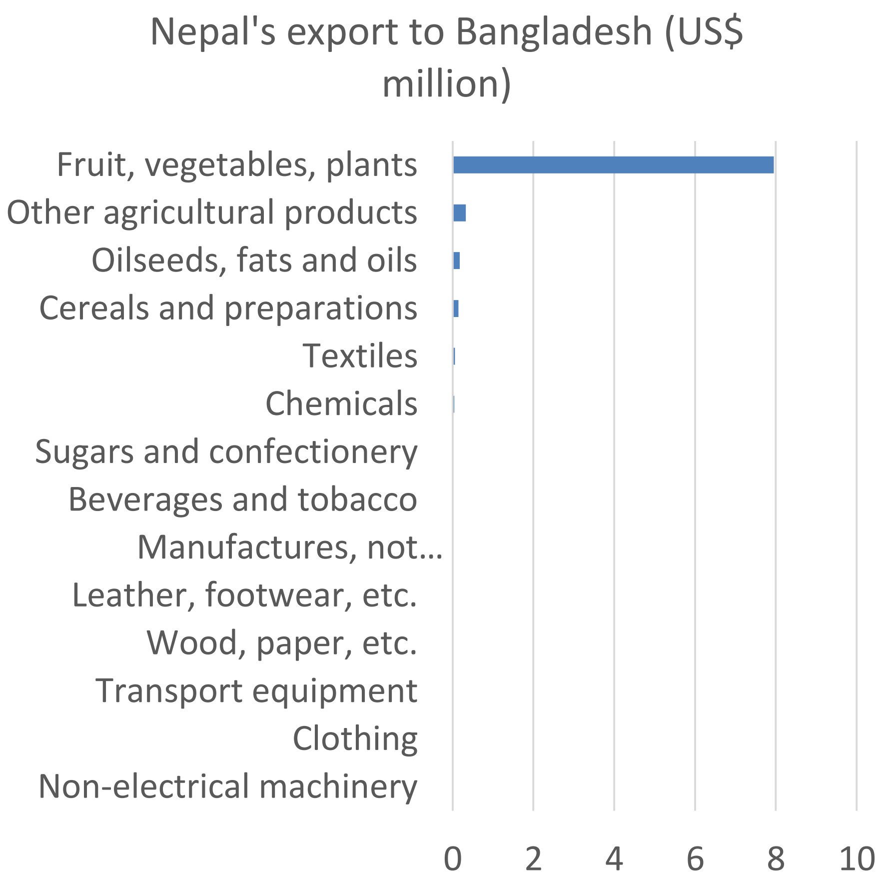


Nepal’s export profile: narrow and concentrated

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





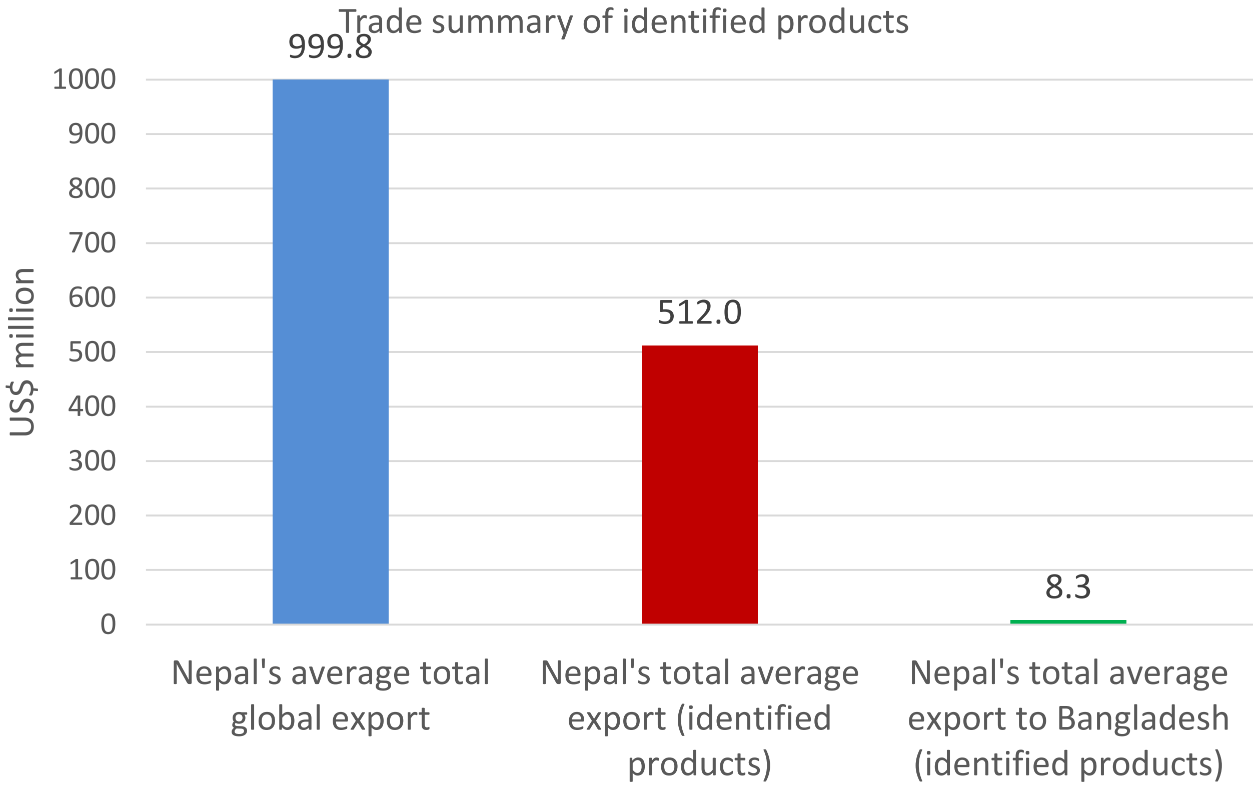
Data source: ITC Trade Map

Potential export products: study methodology

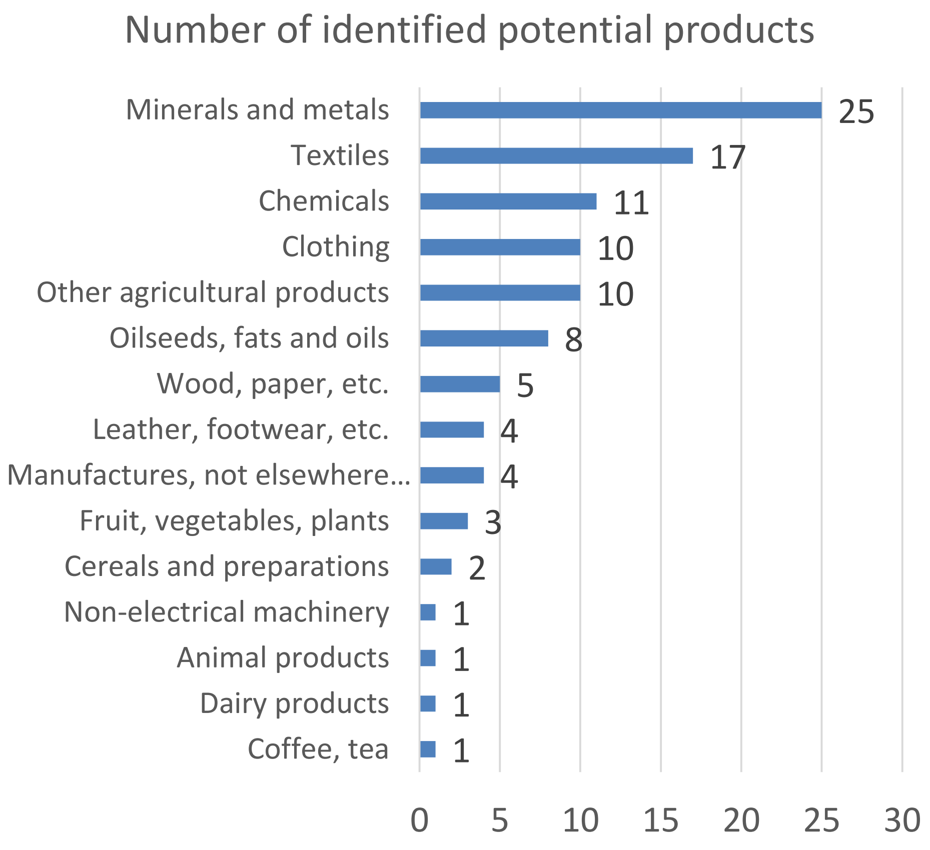
1. Compile trade data for 5 years (ITC trade map)
2. Remove products that have been exported by Nepal for only 2 years or less or imported by Bangladesh for 2 years or less
3. Average Bangladesh import of product (HS6) > US$ 1 million
4. Nepal's average RCA > 1 and average export (HS6)>US$ 100000
5. Remove products that have declining import in Bangladesh
6. Add products prioritized by the government and stakeholders

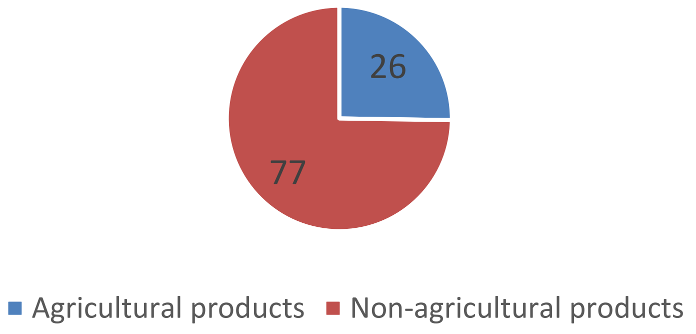
Potential Export Products

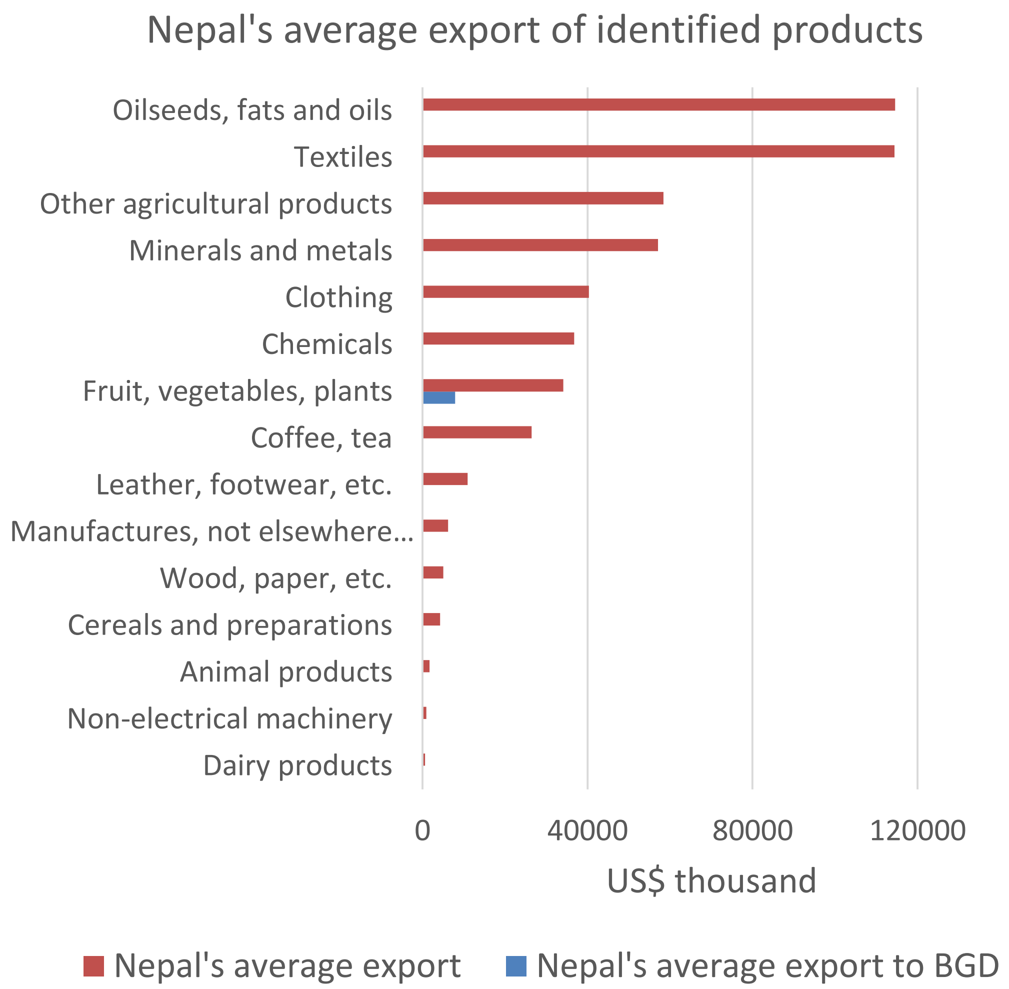
- 103 products (at HS6 level)/164 products (at HS8 level) if 'declining imports' not accounted for
- 58 products (at HS6 level) if 'declining imports' accounted for



Potential export products profile







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 18 products (including agricultural products of export interest to Nepal, e.g. large cardamoms, ginger, vegetables, fruits and juice, etc.)
  - Often identified as the sole reason for zero or low export by exporters

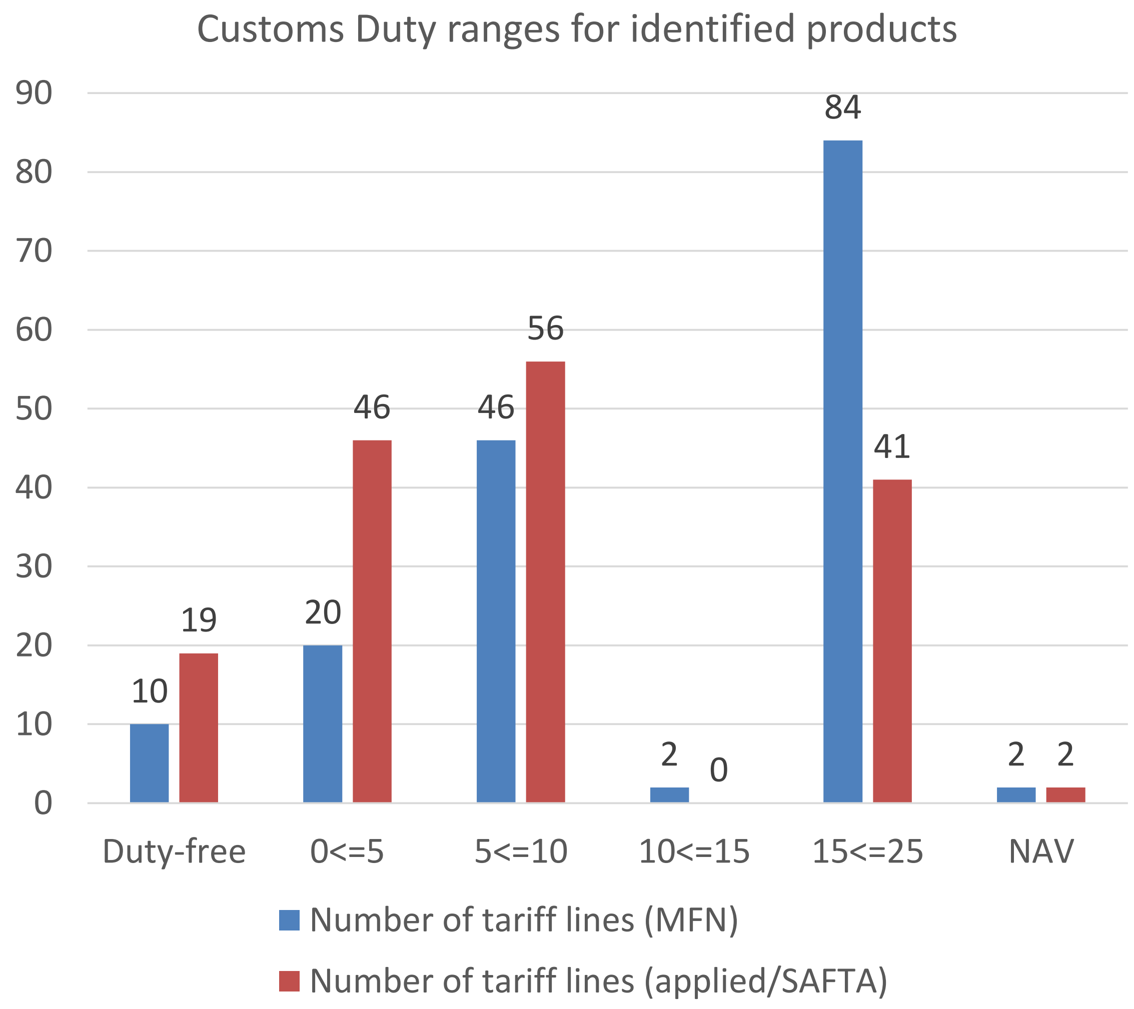
Para-tariff barriers

- 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

Potential export products: tariff profile



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%.

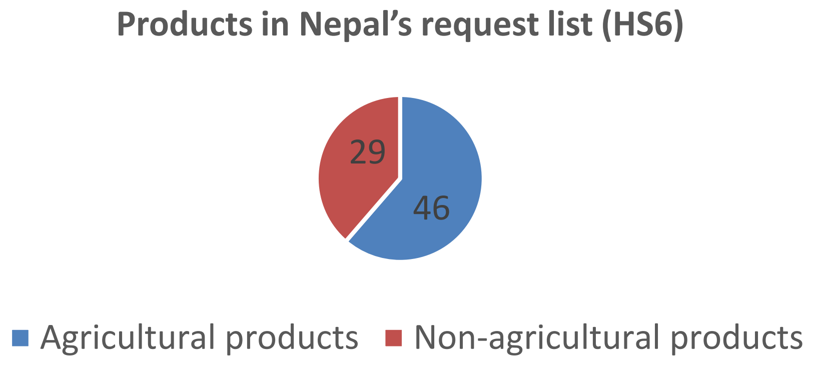
Nepal-Bangladesh Preferential Trade Agreement to counter tariff/para-tariff barriers

- PTA in discussion for some time now

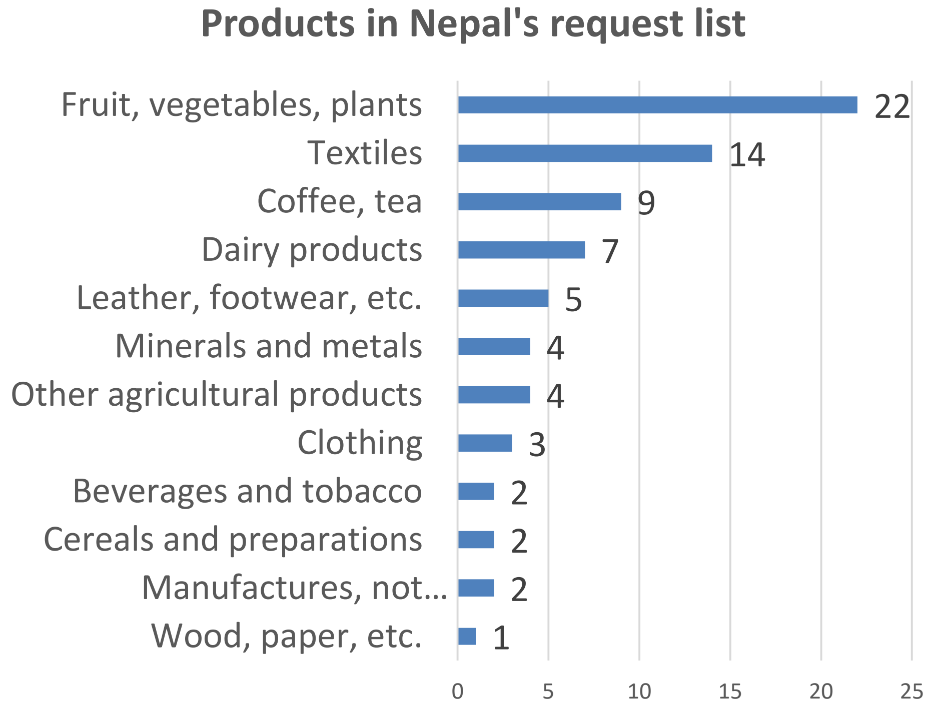
- PTA could enhance Nepal –Bangladesh trade (including currently dismal Nepal's exports to Bangladesh) against the backdrop of high tariffs and para-tariff barriers

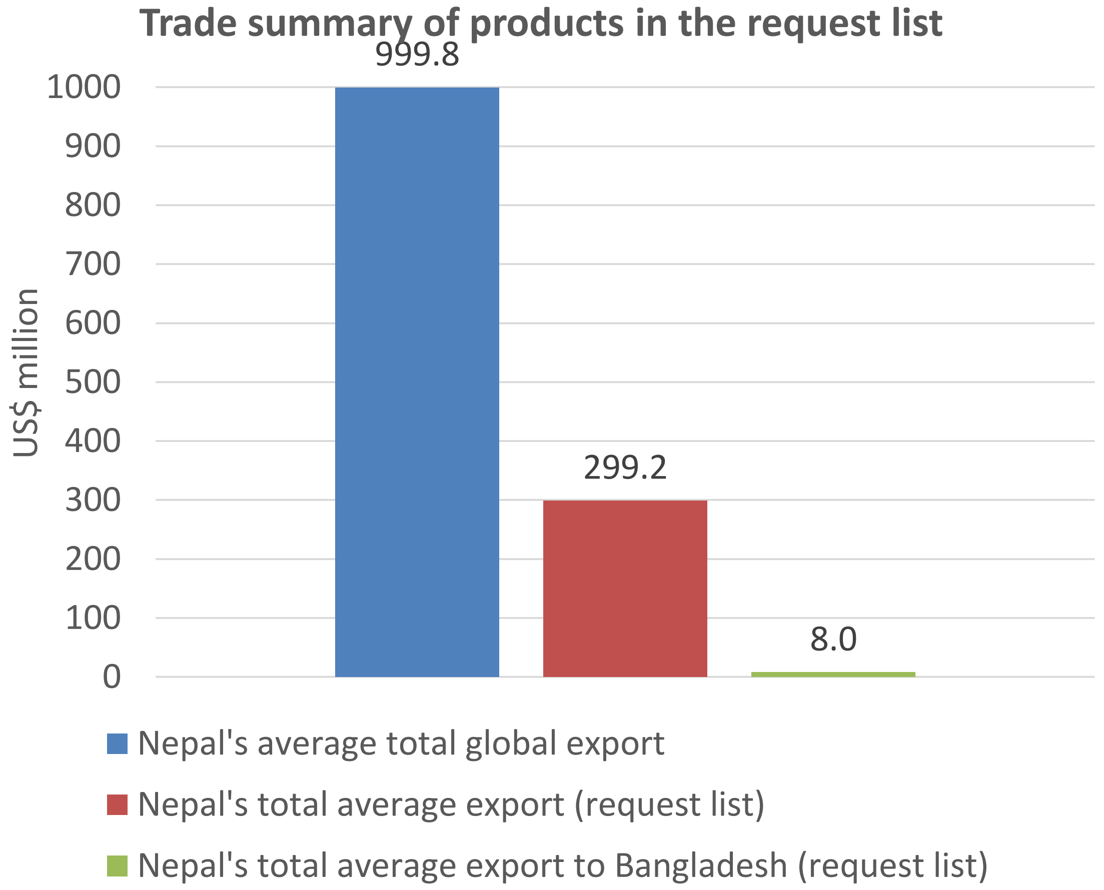
- Some challenges
  - Removal of not only tariff (custom duty) but also para-tariffs
  - Unconditional MFN treatment to India (Nepal-India trade treaty)

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

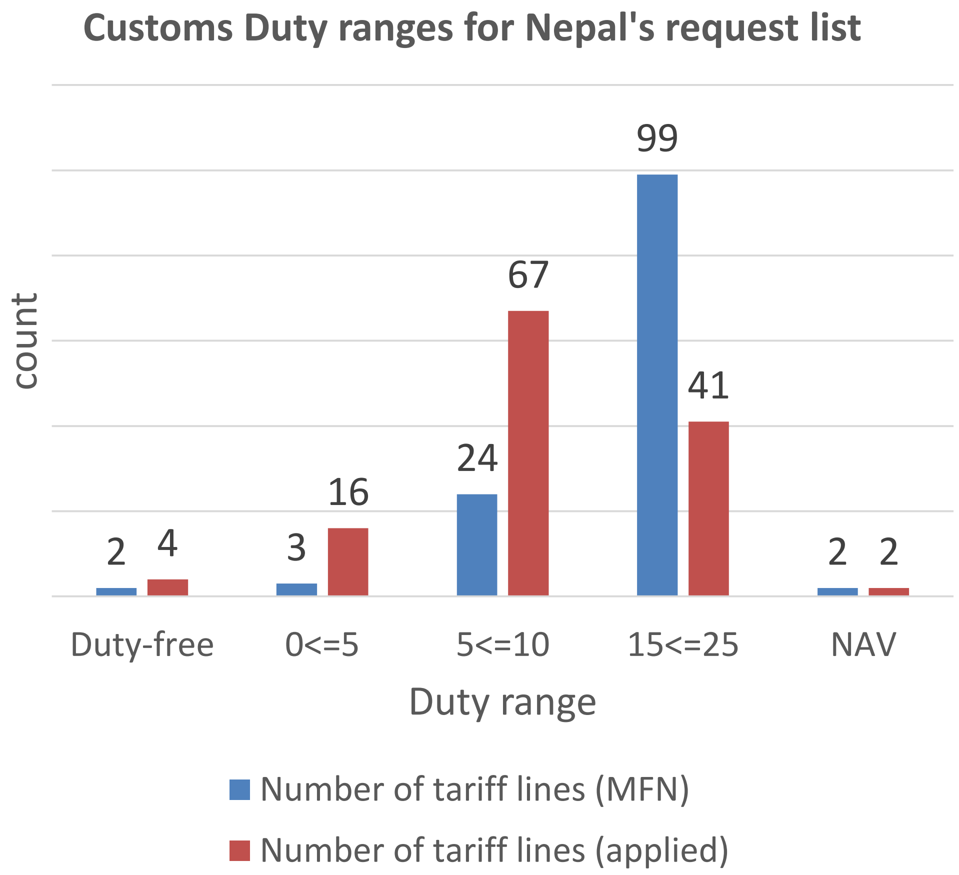


	Bangladesh's share in Nepal's export of request list items (%)
Agricultural products	6.431
Non-agricultural products	0.005



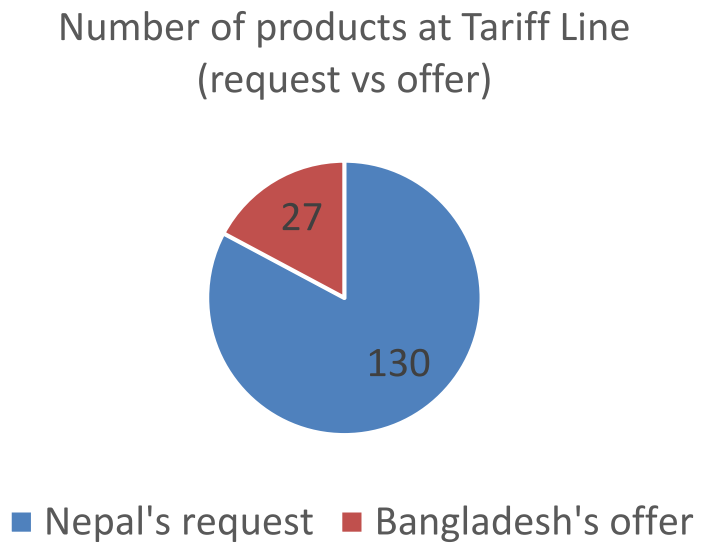


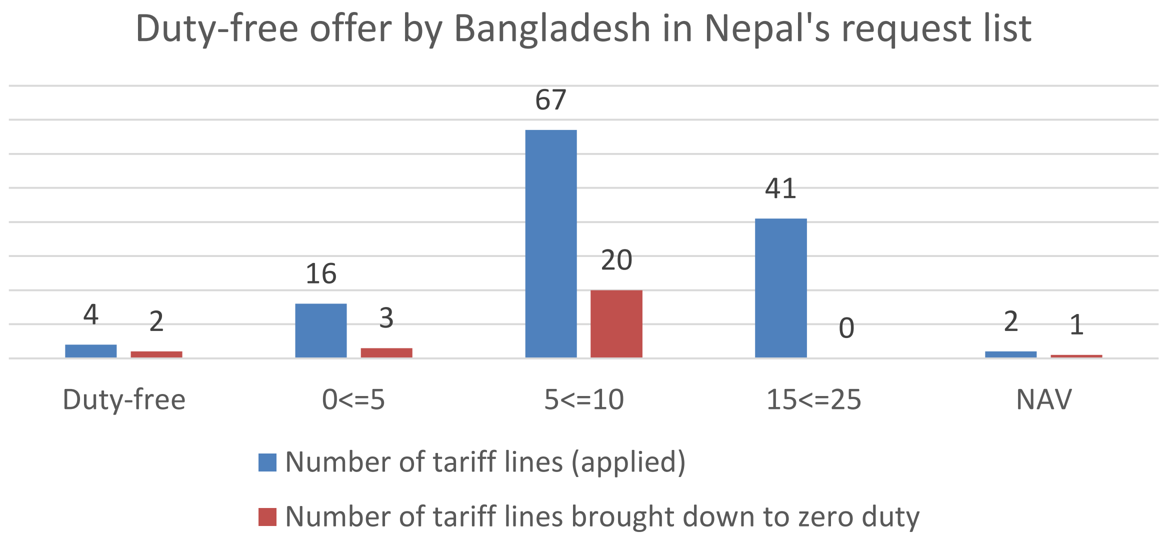
Nepal’s request list: tariff profile

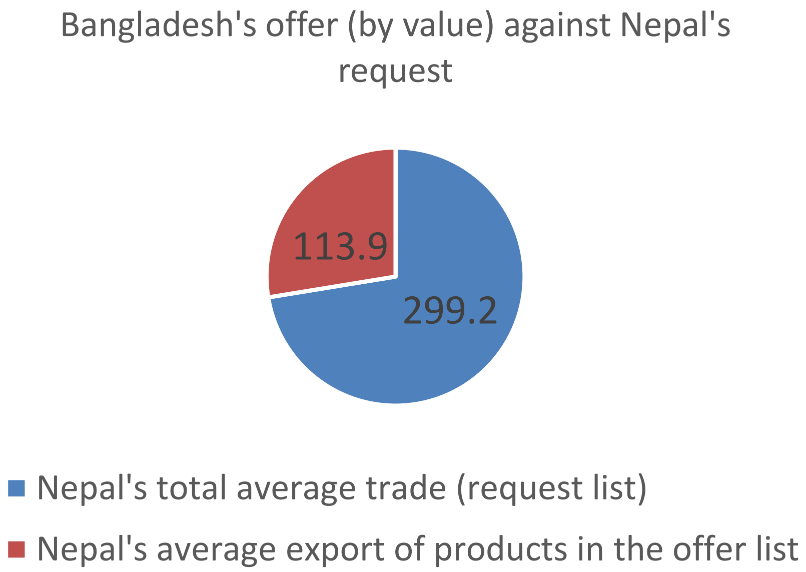


Import taxes summary (%)				
	Min	**Median**	**Mean**	**Max**
Customs Duty	0.00	25.00	21.33	25.00
Customs Duty (Nepal/SAFTA)	0.00	5.00	11.37	25.00
Total tax incidence (Nepal/SAFTA)	0.00	58.60	58.45	289.00

Bangladesh’s offer: perhaps not substantial





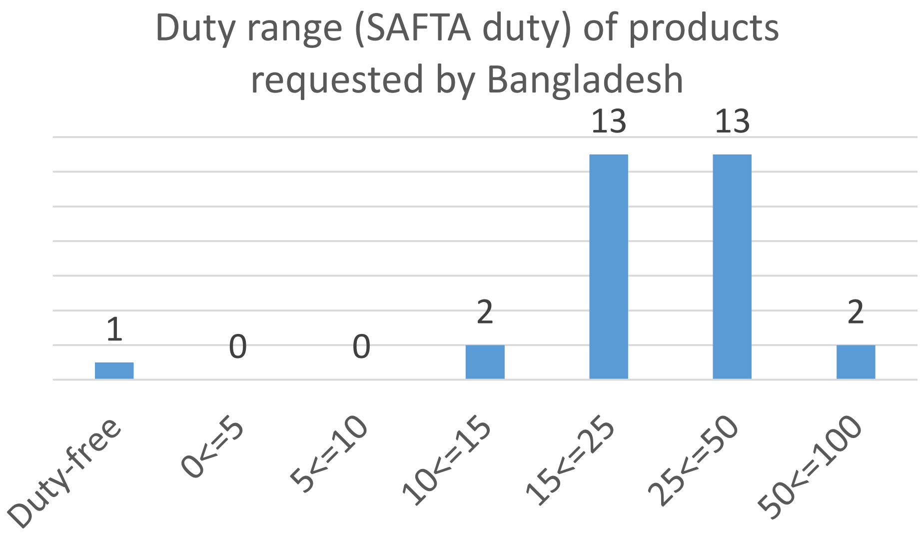


	Min	**Median**	**Mean**	**Max**
Customs Duty (before)	0	5	11.37	25
Customs Duty (after)	0	5	10.42	25

	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: 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?)

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

Thank You!

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