Nepal-Bangladesh merchandise trade: opportunities and challenges

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South Asia Watch on Trade, Economics and Environment (SAWTEE)
1 September 2023
Nepal’s regional trade

**Nepal's SAARC/SAFTA trade**

- **SAARC/SAFTA in Nepal's export**
- **SAARC/SAFTA in Nepal's import**

**Nepal's SAARC/SAFTA trade (minus India)**

- **SAARC/SAFTA (minus India) in Nepal's export**
- **SAARC/SAFTA (minus India) in Nepal's import**

**Nepal's BIMSTEC trade**

- **BIMSTEC in Nepal's export**
- **BIMSTEC in Nepal's import**

**Nepal's BIMSTEC (minus India) trade**

- **BIMSTEC (minus India) in Nepal's export**
- **BIMSTEC (minus India) in Nepal's import**

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

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

- Share in Nepal's exports (in %)
- Share in Nepal's imports (in %)
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
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

Number of identified potential products

- Minerals and metals: 25
- Textiles: 20
- Chemicals: 17
- Clothing: 11
- Other agricultural products: 10
- Oilseeds, fats and oils: 10
- Wood, paper, etc.: 8
- Leather, footwear, etc.: 4
- manufactures, not elsewhere...: 4
- Fruit, vegetables, plants: 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...
- Cereals and preparations
- Animal products
- Non-electrical machinery
- Dairy products

Agricultural products: 26
Non-agricultural products: 77

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 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

### 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>46</td>
<td>46</td>
<td>84</td>
</tr>
</tbody>
</table>

- **Number of tariff lines (MFN)**
- **Number of tariff lines (applied/SAFTA)**

### 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%.
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: 29
- Non-agricultural products: 46

Trade summary of products in the request list

- Nepal's average total global export: 999.8
- Nepal's total average export to Bangladesh: 299.2
- Nepal's total average export (request list): 8.0

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

Customs Duty ranges for Nepal’s request list

<table>
<thead>
<tr>
<th>Duty range</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duty-free</td>
<td>2</td>
</tr>
<tr>
<td>0&lt;=5</td>
<td>4</td>
</tr>
<tr>
<td>5&lt;=10</td>
<td>24</td>
</tr>
<tr>
<td>15&lt;=25</td>
<td>67</td>
</tr>
<tr>
<td>NAV</td>
<td>99</td>
</tr>
<tr>
<td></td>
<td>41</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**: 27
- **Bangladesh's offer**: 130

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

- **Nepal's total average trade (request list)**: 113.9
- **Bangladesh's offer (by value)**: 299.2

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

<table>
<thead>
<tr>
<th>Duty</th>
<th>Number of tariff lines (applied)</th>
<th>Number of tariff lines brought down to zero duty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duty-free</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>0&lt;=5</td>
<td>2</td>
<td>12</td>
</tr>
<tr>
<td>5&lt;=10</td>
<td>16</td>
<td>4</td>
</tr>
<tr>
<td>15&lt;=25</td>
<td>67</td>
<td>20</td>
</tr>
<tr>
<td>NAV</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

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<thead>
<tr>
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<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>
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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: 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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