

Stakeholder Consultation on India-Bangladesh Bilateral Trade and Procedural NTBs

May 31, 2012, Kolkata, West Bengal

Objective

To elicit the views and concerns of a multiple set of stakeholders, particularly those of the business community on non-tariff barriers including procedural NTBs hindering trade between India and Bangladesh and prepare an advocacy agenda for the removal/harmonisation of procedural NTBs

Context

Though trade between India and Bangladesh forms only a small part of their total trade, enhancing bilateral trade is of high importance to both countries. For India, increase in trade with Bangladesh would help to address many concerns of economic isolation of its backward north eastern states. For Bangladesh, wider areas of cooperation, investment and allied development opportunities will be thrown open with greater trade openness with India. Moreover, both India and Bangladesh has long-standing commitments toward regional economic cooperation in South Asia, of which their bilateral trade is a significant part.

Since the signing of the South Asian Free Trade Agreement, some significant progress has been made on tariff liberalisation. Since 2005 bilateral trade has grown at an average annual rate of about 6 per cent as India and Bangladesh extended lower preferential tariff rates to each other. While India's exports to Bangladesh (chiefly raw cotton, yarn, transport equipment, iron & steel, cereals) was more than US\$ 3 billion in 2010-11, India's imports from Bangladesh was close to US\$ 0.4 billion. Readymade garments being the major item in Bangladesh's export basket. Duty-free market access granted by India on most items of readymade garments is set to boost Indo-Bangla trade.

However, various non-tariff barriers to trade are becoming more and more visible as tariffs are getting gradually reduced. A host of NTBs including procedural NTBs are undesirably increasing trade costs and are not getting adequate attention of policy-makers. Deficiency in trade infrastructure and procedural difficulties are causing disturbance to trade flows and there is an increasing realisation that without accompanying trade facilitation measures, mere reduction of tariff rates is insufficient for trade to grow and have a positive impact on economic growth and other socio-economic indicators. Citing the grossly inadequate state of transport infrastructure along the Indo-Bangla border, a World Bank report states: "If the required investments are not made, congestion will increase with the general growth of trade, and would largely cancel or offset economic benefits that would otherwise occur". (India-Bangladesh Trade, Trade Policies and Potential Free Trade Agreement, World Bank, 2008)

While widening of negative trade balance of Bangladesh with India may suggest higher NTBs facing Bangladesh exports to India than otherwise, evidence of huge informal trade from India to Bangladesh suggests that NTBs facing Indian exports are equally important. In reality, there is an immense scope for improvement of trade facilitation measures on both sides of the border and they are mainly on two counts;

- improvement of transport and transit facilities; and
- improvement of customs clearance procedures.

Most procedural NTBs can be removed/harmonised specific measures are taken on these two areas. As regard the first, there should be a long-term agenda wherein investment in trade and trade-related infrastructure are to be attracted to fulfil several proposed and progressing projects such as trans-shipment facilities through the river port of Ashuganj and the sea port of Chittagong in Bangladesh for products from north-eastern states of India, increase in number and modernization of land customs stations. It has been noted by the World Bank study as well as trade facilitation needs assessment study by CUTS that such investments would bring down costs of doing trade in many products originating from India's north-east. (Trade Facilitation Needs Assessment in South Asia: A Case Study of Eastern Sub-Region, CUTS, 2007; <http://www.cuts-citee.org/PDF/TF-RRReport.pdf>)

In case of procedural NTBs, the areas of improvement are wider and are to be targeted through short- and medium-term reforms. Out of the procedural NTBs, the most prominently cited barriers in case of Indo-Bangla trade, is laboratory test for every consignment of food products, cosmetics, leather and textile products and delay in getting test results. Non-harmonisation in packaging requirements as well as cumbersome financial documentations are also cited as major procedural barriers.

In other words and in short, major procedural NTBs hindering Indo-Bangla trade falls into two categories:

- Excessive logistic costs (including transportation and documentation) – expenditure in excess of what is normally required in the delivery and clearance process, especially time delays at border clearance through excessive documentation
- Excessive trade financing costs – there is lack of proper financial instruments to facilitate trade and reduce foreign exchange risks

The 2008 World Bank study notes that the requirement of letter of credit deemed as compulsory by the Bangladesh Bank is prohibitively expensive for most Bangladesh importers and do not provide working capital to the Indian exporters as they are hard to get at discounted rates.

One of the most crucial aspects of trade facilitation is mutual consultation and consensus among the trading communities and other stakeholders in framing and implementation of reform measures. This is because improvement made on one side of the border would be rendered useless if matching facilitative reforms are not implemented on the other side. The immediate step for addressing procedural NTBs hindering Indo-Bangla trade is to streamline and improve trade administration at border posts in a coordinated manner.

The proposed stakeholder consultation, with particular representation of trade communities from both India and Bangladesh, will provide a platform to discuss and list down procedural NTBs hindering Indo-Bangla trade which are to be tackled on a priority basis and formulate strategies to tackle them.

As an outcome of this consultation, CUTS and its partners will prepare an advocacy agenda for the removal/harmonisation of procedural NTBs hindering Indo-Bangla trade.