

## Stakeholder Consultation

### **India-Bangladesh Bilateral Trade and Procedural Non-Tariff Barriers**

*May 31, 2012, Kolkata, West Bengal*

#### A Report

### **1. Introduction**

1.1 Since 2005, bilateral trade between India and Bangladesh has grown at an average annual rate of about 6 per cent. This is mainly on account of lower preferential tariff rates to each other under the South Asian Free Trade Agreement. However, this growth in bilateral trade is far below expectation as there are evidences for huge unrealised trade potential between the two neighbours. While tariffs are getting gradually reduced, non-tariff barriers to trade are hindering trade potentiality. A host of NTBs, particularly procedural NTBs on account of inadequate/ineffective trade logistics and trade finance, are increasing the costs of doing cross-border trade. But they are not getting adequate attention of policy-makers.

1.2 Given this context, CUTS International organised a Stakeholder Consultation on India-Bangladesh Bilateral Trade and Procedural Non-Tariff Barriers. The purpose was to elicit the views and concerns of the business community and other stakeholders about procedural NTBs affecting cross-border trade and to prepare an advocacy agenda for the removal of such NTBs. The event was supported by Friedrich Ebert Stiftung, Germany.

1.3 More than 30 participants representing government, business associations, export promotion agencies, exporters, consumer and other civil society groups, research institutions and media took part in a day-long deliberation on why procedural non-tariff barriers affecting India-Bangladesh trade should be addressed on priority.

### **2. Opening**

Chair: Bipul Chatterjee, Deputy Executive Director, CUTS International, Jaipur

#### *Speakers*

- Joseph George, Assistant Policy Analyst, CUTS International, Jaipur
- Prabir De, Fellow, Research and Information System for Developing Countries, New Delhi
- Sunil Mitra, former Revenue Secretary, Government of India
- Manzur Ahmed, Adviser, Federation of Bangladesh Chambers of Commerce & Industry, Dhaka
- Agneshwar Sen, Joint Director General of Foreign Trade, Office of the Directorate General of Foreign Trade, Kolkata

2.1 Bipul Chatterjee welcomed the participants and acknowledged the support that CUTS has been receiving from FES, Germany since 1995. He posed a question: who killed tariffs? The answer is modern trade. Tariffs have been brought down across the world and it is being increasingly realised that NTBs are threatening to disrupt cross-border trade. About 85 to 90 per cent of trade costs are on account of NTBs and a significant part of it is due to procedural reasons.

2.2 Joseph George briefly introduced the content and objective of CUTS initiatives on issues related to economic cooperation in South Asia. CUTS has addressed both tariff and non-tariff barriers to intra-regional trade and has achieved some success in bringing about incremental progress by involving relevant stakeholders in the identification of problematic areas, in formulating solutions and in tackling issues through evidence-based policy advocacy. He cited the example of CUTS initiatives to attract the attention of policy-makers toward improvement in trade infrastructure along the border shared by Indian state of Tripura and Bangladesh which have brought some positive results.

2.3 Explaining the need to address NTBs, he said that as tariffs are being reduced NTBs are becoming more visible. However, institutions and forums responsible for the removal and/or harmonisation of NTBs affecting trade within South Asia have been slow in responding to the needs of producers and exporters, making it all the more important to complement Track-2 initiatives with the Track-1 agenda of trade reforms. He said that the opportunity cost of not addressing NTBs is very high. Quoting the results of a recent study done by CUTS titled 'Cost of Economic Non-cooperation for Consumers in South Asia', he showed that untapped potential of Indo-Bangla trade was 48 per cent of the total value of current trade and the cost of NTBs was more than 7 per cent of the value of Indo-Bangla trade in 2010.

2.4 He proceeded to draw inferences about incidence of NTBs in South Asia from secondary sources and official negotiations on NTBs under SAFTA. Country reports on trade facilitation by UNCTAD show high incidence of finance-related (lack of financial intermediation arrangements) and technical NTBs (standards, testing and labelling requirements). Notifications made by governmental bodies show that Bangladesh and India have mainly reported testing and certification costs of quality standards. Identifying excessive trade financing costs and logistic costs as the main procedural NTBs which can be tackled by short and medium term reforms, he said that stakeholder consultations will help to collect primary data on trade costs, to prioritise issues related to NTB and to do evidence-based policy advocacy in an effective manner. He concluded by stating CUTS' objective and plan of using stakeholder consultations for policy and practice changes in the area of trade facilitation in South Asia.

2.5 Prabir De began his presentation by giving empirical evidences on growing trade between India and Bangladesh as well as on the existence of huge untapped potential. He said, lack of trade complementarities between the two countries and lack of interest on the part of Indian service providers and Bangladeshi investors to do business with each other are myths. On the contrary, there are strong commercial interests for cross-border investment which can narrow the development gaps between India and Bangladesh. Using numerical data, he showed that bilateral trade between Bangladesh and India shows higher trade complementarities and intra-industry trade opportunities, and high potential for vertical trade integration by developing production networks along the value chain in a number of product categories such as edible fruits, vegetables, fertilisers, textile items.

2.6 Coming to trade costs restricting both countries from realising full benefits of more open trade, he mentioned that benefits of tariff reductions are getting offset by rising incidence of NTBs, which are on account of testing and compliance with certification requirements labelling, marking and packaging, requirements, traceability requirements, tolerance limits for residues and contaminants or restricted use of certain substances, etc.

2.7 Citing some results from one of his recent studies, he added that estimates suggest a 10 per cent reduction in trade-related documentation, reduction in inefficiency of clearance process by border control agencies and improvement in quality of trade-related transport infrastructure could jointly result in 13 per cent increase in trade between India and Bangladesh.

2.8 According to him, tariff reform should continue in parallel with NTB reforms, wherein Bangladesh should reciprocate to India by significantly reducing its sensitive list of products under SAFTA. Main areas of reforms in Indo-Bangla trade are subsidies, visa regimes, air, road and rail travel, shipping and banking services. He also called for prohibiting technical barriers to trade which will bring down trade costs considerably. In conclusion, his main recommendations were:

- India-Bangladesh-Nepal-Bhutan transit and transshipment project to transform the eastern sub-region of South Asia into a highly integrated region
- Develop sub-regional economic corridors by allowing goods and passenger transit
- Install the necessary software in land customs stations for improving of trade transit facilities
- Strengthen and harmonise trade-related rules, regulations, and standards
- Simplify processes and procedures in trade transactions through paperless trade and single window clearance
- Mutual opening of banking subsidiaries (branches) consistent with foreign banking regulation
- Liberalise trade in services, provide work permit to Bangladeshi citizens working in India and vice versa
- Create Indo-Bangla Free Trade Zones in border areas

2.9 Sunil Mitra said that given the geo-strategic significance of trade liberalisation with Bangladesh, India should take proactive steps towards development of trade infrastructure along the border and Bangladesh should reciprocate by channelling investments to modernise land customs stations. India does not have much concern on revenue aspects of trade and there are ways in which Bangladesh can address its concerns on revenue loss. Diversification of bilateral trade and widening trade baskets will help in this regard. Infrastructure development, mutual recognition of standards and reciprocity in addressing technical barriers to trade, pre-transshipment and transshipment requirements, inland water transport are major issues which are to be resolved.

2.10 Manzur Ahmed agreed with other speakers on the main areas of trade facilitation needs and said that Bangladesh-India economic cooperation agenda should implement cross-border trade infrastructure projects in a time-bound manner. He mentioned that a key step toward trade facilitation would be a bilateral cooperation agreement between the Bureau of Indian Standards and the Bangladesh Standards & Testing Institute, which should support building certification capacity in Bangladesh. Stressing on need for cooperation, he said Indo-Bangla trade transactions should be done in local currencies and there should be a sub-regional agreement on trade transit and energy trade among India, Bangladesh, Nepal and Bhutan.

2.11 Agneshwar Sen said that the most urgent area of improvement is documentation, wherein the number of documents to be furnished and their clearance time should be reduced. There is enough scope to reduce transaction costs by undertaking simple reforms in this area. He said that the official process of negotiations for gradual reduction in trade procedures should be supported and boosted by the involvement of non-state actors.

### 3. Discussion

#### *Moderators*

- Shashank Priya, Professor, Centre for WTO Studies, Indian Institute of Foreign Trade, New Delhi
- Rupa Chanda, Professor, Indian Institute of Management, Bangalore

3.1 At the outset, Shashank Priya referred to a recent study on trade facilitation gap analysis done by the Centre for WTO Studies, Indian Institute of Foreign Trade, New Delhi. While improvement of transport facilities through air and sea routes are important, development of facilities at land customs stations deserves special attention. Trade facilitation includes a long-term agenda of infrastructure development with which benefits of other facilitating measures are associated. Technological improvement for customs clearance by greater use of information technology on both sides of the border is also a priority. He said that participation of non-state actors is an important missing link in the process of trade facilitation and the Track-1 agenda should engage diverse stakeholder groups so as to get more benefits out of trade facilitation measures.

3.2 Rupa Chanda said that a large part of Indo-Bangla trade is localised and the specifics of trade transactions should be examined to understand the requirements for the removal and/or harmonisation of procedural NTBs. Investments and predictability of investment regimes become important in promoting production networks. As can be seen from the experience of negotiations on India-Sri Lanka comprehensive economic cooperation agreement, the overall business climate is to be considered for trade liberalisation to be more effective and for that to happen liberalisation of trade in services is crucial. Domestic preparedness and policy reforms at the national level play a key role in this regard.

3.3 In the ensuing discussions many suggestions were put forward. It was agreed that trade in services and other areas of economic cooperation should progress simultaneously with the liberalisation of trade in goods. Visiting card system for movement of people across border, documentation of investment barriers, report card or stocktaking of trade facilitation needs etc. were suggested.

3.4 Mostafa Abid Khan, Joint Chief of the Bangladesh Tariff Commission urged for additional measures for easing testing requirements. He stressed on the need for harmonising directives issued by various authorities in India on standards and certification. Harmonisation of product codes for better and easier conduct of trade is another area of importance. In addition, linking of cross-border investment with rules of origin for transparency and predictability can be explored, he added.

3.5 The following are some urgent and important requirements for trade facilitation between India and Bangladesh:

- Improvement in infrastructure such as better road connectivity, better warehouses and modern facilities at Land Customs Stations
- Technological improvement for customs clearance by greater use of information Technology to expedite processes such as electronic transfer of test reports and certificates of origin
- Harmonise HS Codes at 8-digit level – this will reduce disputes on classification and will also provide the basis for establishing a system of seamless exchange of data between the customs authorities of importing and exporting countries

- Synergy between trade in goods and services – services negotiation should also focus on trade facilitation component with emphasis on visa liberalisation, improvement in rail, road and air connectivity and other trade logistic facilities
- Develop viable supply chain networks – domestic reforms aimed at improving investment climate are important in this regard
- Need to study the reasons for informal trade and to make recommendations to bring informal trade into the formal channel
- Testing laboratories should be part of integrated land customs stations, at least to cater to testing requirements of more commonly traded products. There should also be mutual accreditation of testing laboratories and test report from such accredited laboratories should be accepted by the customs administration of the importing country without further checks.
- There is a need to share knowledge and experience between South Asian countries. Funds from donor agencies should be used to facilitate capacity building programmes in South Asian region by using resource persons from the region.
- Indian Foreign Trade Policy should contain listing of all import-related requirements for each tariff line. Presently some of these requirements were applied on the basis of notifications issued by the relevant ministries like the Ministry of Health, Agriculture, etc and there is a lack of coordination between various agencies and coherent application of notifications.
- Private sector should be included in the Committee of Experts on Non-Tariff Barrier.
- The process of fund transfer between India and Bangladesh is to be improved. Reliable financial instruments and mutual recognition of instruments issued by domestic banks are required.
- They are problems of valuation because of arbitrary price fixation for exporting fruits, food grains and such commodities. Sometimes permissible export prices were much lower than market prices. This practice encourages informal trade.
- Sudden export ban upsets export plan. There should be a mechanism to prevent the imposition of sudden export ban.

#### **4. Conclusion**

4.1 Participants agreed that main areas requiring the attention of policy-makers are infrastructural deficiencies and procedural NTBs including difficulty in documentation and compliance with standards and testing requirements. It was also noted that there is a wider consensus on areas of reforms and modalities but implementation failure is a persistent problem. Therefore, it is important to understand implementation issues of cross-border trade facilitation.

4.2 The meeting concluded that it would be prudent to adopt an incremental approach toward trade facilitation reforms by making progress in areas like harmonisation of HS code at 8-digit level, mutual accreditation of laboratories and recognition of standards, simplification and harmonisation of documents through a consultative process involving non-state actors.

4.3 Taking into account the problems and remedial measures put forward by the participants and with the involvement and support of stakeholders, CUTS was urged to take the initiative to push for an India-Bangladesh agreement on trade facilitation which will be equipped with the need for addressing the removal and/or harmonisation of procedural NTBs for facilitating cross-border trade between the two neighbour.