

Chapter 5: Reconciling the trade statistics

A component of the project is a paper which provides detailed comparisons of the Indian and Bangladesh statistics of bilateral trade⁴⁷. One purpose of this study was to check whether there were any major discrepancies as to the general level of, and trends in, the total trade. Secondly, by making detailed comparisons, the object was to throw some light on the scale and scope of overinvoicing, underinvoicing, and similar practices, the likely products involved, and more broadly the potential scale of “technical smuggling”.

There are a number of well known problems that have to be allowed for in making comparisons of this kind, before much can be inferred on these two questions. They include in particular:

- a. Freight and insurance which increase cif values above fob values
- b. Time lags between the fob stage in the exporting country and the cif stage in the importing country⁴⁸
- c. Differences in the reporting periods of the statistics
- d. Differing valuation practices at the Customs services

In the case of the India-Bangladesh trade, *a priori*, differences attributable to (a) and (b) should be minor relative to trade with countries outside the South Asia region, certainly for the land border trade⁴⁹, and to a lesser extent for the sea trade, given the proximity of the Indian and Bangladesh ports. As regards (c), the Indian published trade statistics are for its April-March fiscal year, whereas the Bangladesh statistics are for its July-June fiscal year. As a spot check on how important this period difference might be, the Bangladesh import data over three years was reassembled into two Indian fiscal years, 1999/2000 and 2000/2001 for detailed comparison with Indian export data for the same periods. But (d) was a problem in 1999/2000 and before, in that during this period Bangladesh Customs was still using a predetermined list of “tariff values” as the base for Customs and other import duties on number of products, and these values, not invoice values, were entering the import statistics.⁵⁰ However, except for petroleum it was decided that this was probably not on its own a major source of discrepancies between the Indian and the Bangladesh data, on the grounds that the committee that was deciding on the tariff values was looking at international prices each three months and was fixing tariff values that would not have differed very greatly from normal cif prices in international trade⁵¹.

A more serious problem than these is that the Bangladesh NBR trade database does not record “back to back L/C” imports i.e. imports of duty free intermediate inputs used by Bangladesh bonded warehouse exporters, and so these are recorded in the Indian export statistics but omitted altogether from the corresponding Bangladesh NBR import statistics. As India is an important supplier of these inputs—mainly textile yarns and fabrics for Bangladesh’s garment exporters—this is the source of large discrepancies between the Indian export statistics and Bangladesh’s import statistics, both in the aggregate and when disaggregated.

⁴⁷ Rajesh Mehta (2004) *An Overview and Analysis of India’s Trade with Bangladesh*

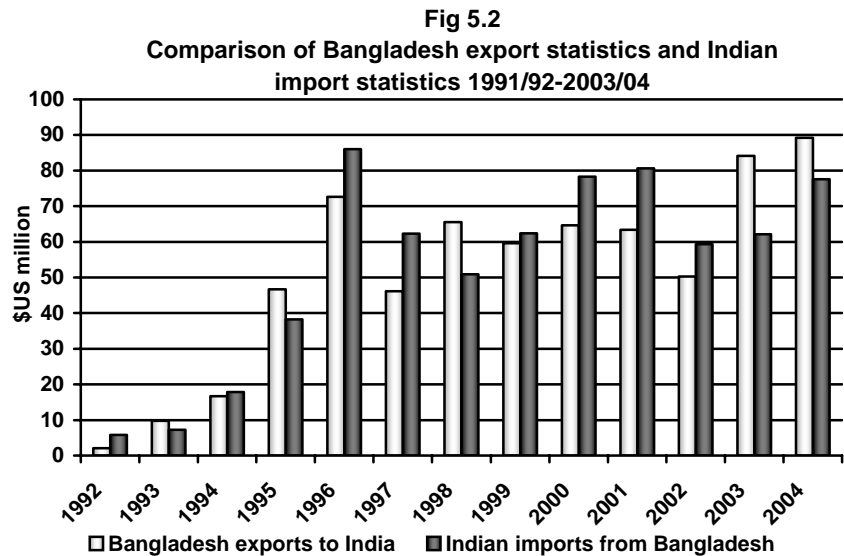
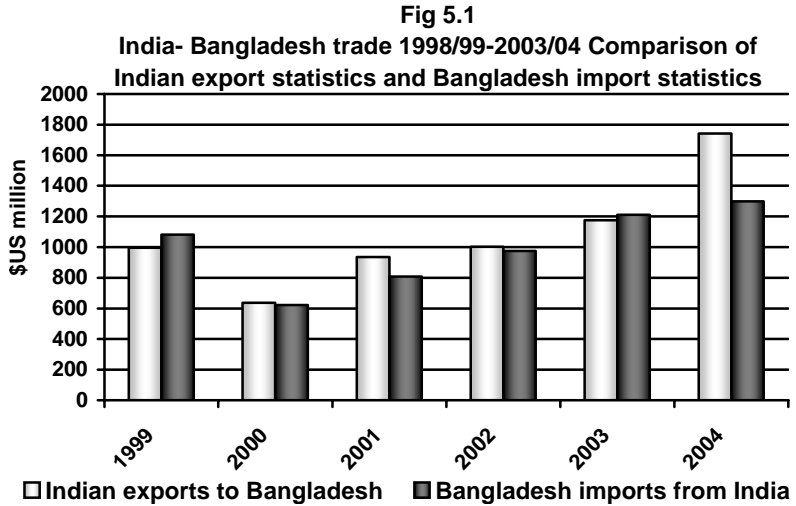
⁴⁸ This may place a given shipment in a later statistical period (e.g. fiscal year) in the importing country, and may affect the exchange rate at which the shipment is valued.

⁴⁹ This depends on the valuation practices at the land borders and how fob and cif prices are defined when all that is involved is crossing the border and transferring the goods from (say) an Indian truck to a Bangladesh truck.

⁵⁰ This practice was discontinued in FY 2001 for all products except POL (petroleum, oils and lubricants) and vessels imported for scrap.

⁵¹ In 1999/2000 854 8-digit HS products (about 13% of the total) were subject to tariff values

Fortunately payments under back-to-back LCs are recorded by Bangladesh Bank, although they are not disaggregated below 2-digit HS level and are not available before 1998/99. Even though the timing of these payments differs from Customs clearance times (which are the basis for the NBR import data), adding the totals to NBR's total import data, gives a very approximate correspondence between the general level of the two sets of data for the years 1998/99 to 2002/03. Both statistics also indicate similar year to year changes during this period (Table 5.1 and Fig 5.1). However there is a major discrepancy in 2003/04, when the recorded total Bangladesh imports are only about 75% of the value of recorded Indian exports. More generally, in four of the six years, recorded Bangladesh imports are less than recorded Indian exports, and over the six years total recorded Bangladesh imports are \$492 million (7.6%) less than total recorded Indian exports. Since the Indian exports are recorded



fob and the Bangladesh imports are or should be recorded cif, these differences are the opposite of expectations, even though the overall freight and insurance cost may not be very great owing to the trade that goes by the land border crossings. It is also unlikely that these discrepancies can be explained by timing differences, since the Bangladesh statistical year (July 1-June 30) lags the Indian statistical year (April 1-March 31) by three months and would should pick up most shipments from India that arrive in Bangladesh after the end of the Indian statistical year. Although data recording deficiencies and statistical errors may conceivably explain some of these differences, they are consistent with many reports of illegal practices at the Bangladesh Customs, especially at the Petrapole-Benapole land crossing, and with the large scale discrepancies between the Indian and Bangladesh data at product level, discussed below.

As regards the much smaller reverse trade from Bangladesh to India, the correspondence between Bangladesh's aggregate export statistics and the Indian import statistics is fairly close. Table 5.2 and Fig 5.2 show comparisons for the 13 years 1991/92 to 2003/04. For these comparisons there is no problem of unrecorded imports, since duty free imports for exporters are recorded by Indian Customs and included in India's import statistics, just as any other import. Differences between the statistics in individual years are substantial, including some years in which recorded imports in India are less than Bangladesh's exports, but for this trade the fiscal year difference between Bangladesh and India increases the likelihood that this

will happen, and timing differences of a few large shipments could create large proportionate discrepancies owing to the low volume of the total trade. Over the whole period, the difference between aggregate Indian imports and aggregate Bangladesh exports has the expected positive sign, and the positive margins (3.4% between 1992 and 1998, 2.2% between 1999 and 2004) correspond to the expectation that cost of freight and insurance is low. This does not mean there was no undervaluation or misclassification to avoid import duties occurring on the Indian side, only that it was not so egregious as to show up in the aggregate import statistics.

As well as comparing aggregates, the consultant study also compared the Indian export and Bangladesh import statistics for 1999/2000 and 2000/01 at HS 6-digit product level. The value differences were quite minor for most of the individual products that they analyzed –in 2000/01 within 10% (plus or minus) of the recorded Indian export values of 3013 products, out of a total of 3423 products that were recorded as being exported from India to Bangladesh⁵². However, when the study looked at a sample of products that had high values in either the Indian export statistics or the Bangladesh import statistics, large discrepancies were discovered, predominantly cases with lower values in the Bangladesh import statistics than in the Indian export statistics, but also the reverse i.e. where the recorded import values in Bangladesh considerably exceed the export values in India. The study then calculated the total discrepancy for textile products⁵³, and found that about three quarters of the aggregate discrepancy over all tariff lines was attributable to these products, and therefore probably simply reflected the fact that duty free “back to back L/C” exports to Bangladesh are not included in Bangladesh’s import statistics. However, it also pointed out and gave examples⁵⁴ of large discrepancies for many high value non-textile products.

For this synthesis report, a brief further analysis was undertaken of the data for the 50 products (defined as HS 6-digit level) with the largest absolute discrepancies in 2000/01. Textile products and a petroleum product were removed, leaving 41 products altogether which accounted for about half the total recorded Indian exports (net of textile exports) to Bangladesh in that year. The results are striking:

<i>41 major non-textile products exported from India to Bangladesh in 2000/01 (Indian fiscal year): Differences between Indian and Bangladesh trade statistics</i>					
	No of products (HS 6-digit)	Value fob in Indian trade statistics \$US million	Value cif in Bangladesh trade statistics \$US million	Difference \$US million	Difference as % of Indian fob value
All products	41	355	238	-117	-33%
Bangladesh value < Indian value	21	286	82	-203	-71%
Bangladesh value > Indian value	20	69	156	+87	+126%

The following examples give a better feel for what may lie behind these aggregates. Other examples are given in the consultant study. For nearly all the products there were similar differences in the same direction during 1999/2000.

There are many possible mundane reasons for these discrepancies, including timing differences⁵⁵ and simple classification or other mistakes at the Indian or Bangladesh Customs. However, four of the

⁵² See Mehta, op.cit, Table IV.3

⁵³ Ibid Table IV.6

⁵⁴ Ibid Table IV.4

⁵⁵ Comparisons over longer time periods for products with large discrepancies would provide a useful check on the likely importance of timing differences.

project consultant studies independently reported that “well informed sources” generally agree that illegal practices are widespread at Petrapole-Benapole, which is the by far the most important land-border crossing for India-Bangladesh trade. These reports mainly emphasize under-invoicing and misclassification to reduce Bangladesh import duties, and point out that in most cases the benefits of overinvoicing on the Indian side in order to obtain higher export incentives are far less than the extra import duties that would need to be paid in Bangladesh, assuming the export valuations are actually used at Bangladesh Customs. In this regard it should be noted that underinvoicing by Indian exporters in order to reduce Customs duties for Bangladesh importers, on its own does not explain lower import values for the same goods in Bangladesh import statistics: for that some of the shipments would have to be not recorded at all in Bangladesh, or recorded differently from the values provided to the Indian Customs.

		<i>Value fob in Indian trade statistics \$US million</i>	<i>Value cif in Bangladesh trade statistics \$US million</i>	<i>Difference \$US million</i>	<i>Difference as % of Indian fob value</i>
Products with Bdesb value< Indian value					
070310	Onions & shallots	8.3	3.1	-5.2	-63
100630	Milled rice	65.1	23.3	-41.8	-64
270119	Other coal (bituminous)	29.9	3.3	-26.6	-89
879600	Chassis fitted with engines (for buses, cars, three wheelers and trucks)	26.5	0.01	-26.5	-100
Product with Bdesb value> Indian value					
401120	New tyres used on buses/lorries rim size>15	6.3	13.5	+7.3	+115
841182	Gas turbines	nil	24.0	+24.0	+
845522	Rolling mills-cold	1.4	12.0	+10.6	+757
870210	Motor vehicles, diesel engine public transport type (=buses?)	0.8	10.0	+9.2	+1150

An interesting outcome of the trade statistics comparison which was not expected in advance, is the importance of substantially higher values of some Indian exports in Bangladesh than the export values of the same products in India. These differences in individual products seem to far exceed likely transport costs, and some products were simply not recorded at all in the Indian export statistics. In 2000/01 these cases were offsetting about half of the total apparent undervaluation in Bangladesh, and were thereby cancelling out a good part of the aggregate discrepancy between the two sets of trade statistics.

Leaving aside freight and insurance, recording mistakes and timing differences, apart from import duty evasion, there are also obvious income tax evasion motivations which could give rise to differences such as these. On the exporting side, Indian exporters might underinvoice or otherwise understate the value of their exports in order to reduce their income tax liabilities, and conversely Bangladesh importers might overstate the cost to them of imports in order to reduce their income tax liabilities. For overinvoicing in Bangladesh to be worthwhile, import duties would need to be zero or quite low, and the most likely candidates are therefore duty free intermediate inputs and capital equipment used by exporters. Imported intermediate inputs used by exporters are routinely exempt from import duties, and as pointed out in section 4 above, most machines imported by exporters are free of all import duties including the AIT (advance income tax) and VAT, by virtue of the special “capital machinery” tariff provisions for exporters. However it is also possible that in some cases it may pay to overinvoice products subject to positive but low import duties e.g. machines subject to the general “capital machinery” protective tariff of 7.5%.

In addition to income tax evasion, some researchers in Bangladesh (e.g. Muinul Islam ⁵⁶) have suggested that overinvoicing-especially of capital equipment imports- is used to accumulate unrecorded foreign exchange outside the country, which in turn finances illegal imports or is used to profit from free market premia on the official exchange rate. For a number of years free market foreign exchange premia for the Taka have been very small, but tax evasion and the various advantages of holding black money outside Bangladesh could still be relevant motivations and may explain some of these observed differences between the Indian and Bangladesh statistics.

These and other indications of widespread illegal Customs practices, especially at the Petrapole–Benapole crossing, are despite a number of Bangladesh government initiatives to reduce them. These initiatives include pre-shipment inspection (compulsory since 1999) of Indian consignments to Bangladesh by PSI inspectors in India⁵⁷, the use of new computers and software in Bangladesh to speed up clearance and reduce Customs official discretion⁵⁸, and the Bangladesh Bank’s requirement that to be cleared all imports require a letter of credit from a Bangladesh bank. It is possible that these measures may have reduced the scope and scale of illegal practices, but the project studies indicate that there are still many problems. In particular, it is reported that containers are tampered with between the factories or warehouses at which the PSI inspections take place and Petrapole⁵⁹, that PSI valuations are not always being recognised by Bangladesh Customs officials, and that LCs are being issued to meet formal requirements, but are not in practice being used to finance most Bangladesh land border imports from India⁶⁰. All of these issues would warrant further investigation, ideally by a coordinated joint effort involving both the Indian and the Bangladesh Customs services and other relevant organisations in both countries. A useful first step would be to systematically compare the Indian export and Bangladesh import statistics in more detail and for a longer period than was done for the project consultant study, focussing on products such as those mentioned above for which there are indications of large disparities.

Table 5.1: Comparison of Indian export statistics with Bangladesh import statistics 1998/99-2003/04

	Indian	Bangladesh import statistics			Difference (M-X)	Difference % of X
	exports statistics (X)	NBR database	Back to back LCs	Total (M)		
	\$ million	\$ million	\$ million	\$ million	\$ million	
1999	996	951	131	1082	86	8.7
2000	636	446	176	622	-14	-2.2
2001	935	629	178	807	-128	-13.7
2002	1002	839	136	974	-28	-2.8
2003	1176	1115	95	1210	34	2.9
2004	1741	1186	112	1298	-443	-25.4
1999-2004	6486	5166	827	5994	-492	-7.6

⁵⁶ This has been a theme in the writing of Muinul Islam e.g. in his chapter (pp 125-127) in Jayanta Kumar Ray and Prabir De (eds): *Promotion of Trade and Investment in the Eastern South Asian Subregion*. Bookwell, New Delhi 2003.

⁵⁷ There is a note on the operations of the Bangladesh PSI inspectors in India in Arun Goyal’s study of trade financing (pp 18-20). Arun Goyal (2004, October). *Study on Financing of India-Bangladesh Trade*.

⁵⁸ This contrasts with Customs clearance on the Indian side at the Petrapole-Benapole crossing, which is still being done by hand

⁵⁹ In 2004 one knowledgeable person interviewed in Kolkata said that better enforcement of the PSI system is deterred by an atmosphere of intimidation (including physical violence) in and around Petrapole.

⁶⁰ This topic is discussed in Goyal’s trade financing study

Table 5.2: Comparison of Bangladesh export statistics and Indian import statistics 1991/92-2003/04

	Bdesh stats Exports to India \$m	Indian stats Imports from Bdesh \$m	Indian M minus Bdesh X \$m	Diff as % of Bdesh M %
1992	2.1	5.8	3.7	180.2
1993	9.8	7.3	-2.5	-25.3
1994	16.7	17.9	1.2	6.9
1995	46.7	38.2	-8.5	-18.2
1996	72.6	86.0	13.4	18.5
1997	46.1	62.3	16.2	35.1
1998	65.5	50.9	-14.6	-22.3
1999	59.6	62.4	2.8	4.7
2000	64.6	78.3	13.7	21.2
2001	63.4	80.6	17.2	27.1
2002	50.3	59.3	9.0	17.9
2003	84.1	62.1	-22.0	-26.2
2004	89.2	77.6	-11.6	-13.0
1992- 1998	259.5	268.4	8.9	3.4
1999- 2004	411.2	420.3	9.1	2.2